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Global Expansion of U.S. Fast Food Restaurants : A Case Study of McDonald's in Italy

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HONORS SENIOR THESIS:

Global Expansion of U.S. Fast Food Restaurants – A Case Study of McDonald's in Italy

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Section I: Major Expansive Companies

Walking through the streets of Italy in the morning, you will notice the smell of coffee, croissants, and pastries. You will see Italians reading the local newspaper, slowly waking up before going home to work in their shop. You will walk by tobacco stands selling cigarettes, papers, more coffee, stamps, and bus tickets. You will see store owners opening their small shops by themselves, content to open and close for the day whenever they feel like it. One thing you will not see is the daily American life you would recognize. You won't see the hustle and bustle, the honking and speeding, the bright orange and pink double D's, the daily chaos that is the 8:45 am of many Americans, hurrying to make it to work on time in traffic. You won't even see the comforting Starbucks logo as you decide to get away from the drive-thru for that extra 10-minute treat of Grande Vanilla Chai latte you love so much. There is one thing you may recognize, however, towering over the Italian landscape. Oh yes, the Golden Arches are ever-present. Why, you may ask? How could McDonald's, practically a symbol of American gluttony and imperialism, succeed over American coffee chains that seem so much better a fit for the café culture of Italy? I hope to address this question in a broader sense throughout this paper.

There are success stories like that nearly everywhere you look. We'll start somewhere else in the world to begin our exploration of global business expansion. Surprisingly enough, Yum Brands (which operates KFC, Pizza Hut, and a few other smaller chains) has 4,500 restaurants in China alone, with sales rising 19% in some quarters.¹ The firm entered the Chinese market in 1987 and now has far more stores there than either McDonald's or Starbucks; 40% of

the entire company's profits come from its Chinese operation. China has proven to be a fertile ground for Starbucks as well. CEO Howard Shultz recently announced that China is the company's second-largest market, behind only the United States. Starbucks operates over five hundred outlets in China, and each outlet is significantly more profitable than the Starbucks stores back in the United States. This is despite sales revenues that are a fraction of those in the U.S. Starbucks accomplishes this with higher-priced drinks, a comfortable restaurant atmosphere in a place where air conditioning is sometimes rare, and products tailored to local customer tastes.

Instead of selling many different chocolate-flavored drinks as in the United States, Starbucks created special green tea beverages for its Chinese market.² Schultz recognized that Asian consumers generally don't like sweets, and prefer to drink tea with its bitter flavor. Drinking Starbucks is also seen as highly fashionable for the rising middle-class in China, and executives use the comfortable, classy place for meetings over pricey coffee. This positive view of their business has been invaluable in helping Starbucks to grow its brand overseas, and has allowed Starbucks to maintain its high price point and quality-oriented approach. Being able to adapt to Chinese preferences while still maintaining a high profit margin has thus far proved tremendously successful for Starbucks in China.

Elsewhere, in India, McDonald's operates 210 stores successfully with plans to expand to 450 within the next three years.³ While this is a modest number for a company with 32,000 individual stores (especially since they opened their first Indian store all the way back in 1996), the company has been operating at a steady profit here and is building momentum as they begin to better understand the Indian market. The managing director there is Indian, as is the manager

of every store. These leaders have the authority to change whatever they deem necessary at McDonald's, and are making the needed adjustments to adapt to the Indian market. Despite the fact that Hindus can't eat beef, McDonald's has been able to make a sizable impact on the Indian fast food landscape after some recent adjustments. They now offer more vegetarian options and much more chicken, and their "burgers" are patties made with potatoes and rice. Many of their products use Indian spices purchased locally, and they all use Indian ingredients produced domestically. With the foresight to hire only Indian managers, and the wisdom they then provided, McDonald's was able to completely shift their menu to take advantage of one of the fastest-growing markets in the world.

Likewise, McDonalds' foresight and smart strategy helped them in their successful expansion into China. In 1990, the company opened their first franchise in the communist state. There are now over eight hundred McDonald's in China, and an additional two hundred in Hong Kong alone. They are expanding quick enough to create several pockets of new stores at the same time. Their strategy is to pick underdeveloped areas that have shown recent rapid growth, and create several new stores in this same area. By grouping stores in this way, they can be more easily serviced and supplied by one truck, efficiently keeping costs down and keeping each other afloat. The McDonald's Corporation bets on up-and-coming growth regions, especially in China, and often hits a home run in this area.

In 2005, McDonald's opened their first drive-thru here, recognizing the quickly rising middle class and the rapid growth in the car market that accompanies this phenomenon. Not only was this McDonald's first drive-thru, it was the first drive-thru EVER in China, anywhere in the country. Anecdotally, McDonald's had to hire someone to stand outside and direct the many customers who didn't know how to operate it. Now there are 26 McDonald's drive-thrus and

counting, and this addition is seen as a breakthrough success. A year later, in 2006, McDonald's announced a partnership with Sinopec, China's huge state-owned oil company with over 30,000 gas stations throughout China.⁴ McDonald's now has the ability to build a store adjacent to any of these gas stations – a tremendous win for the company. Using a very similar menu (as China has largely taken to American food and drink), McDonald's had the savvy to expand intelligently across the region, and one can expect to see the red-and-gold more and more frequently in Beijing, Shanghai, Shenzhen, and surrounding provinces.

Overseas success such as this is not easy to obtain, however. For every star in the global fast food industry, there are several more flops. Take the big coffee chains and their forays into Italy, for example. Starbucks and Dunkin Donuts are nowhere to be found in the streets of Florence, Rome, or Venice. Despite Howard Shultz getting the “grand idea” of Starbucks from Italy⁵, he and his company have yet to enter the Italian market. Only recently have they announced possible plans to expand into Europe, including creating a few stores in Italy.⁶ Perhaps in his wisdom, Shultz felt it was foolish to bring Italian-style American coffee into a market where Italian-style coffee is THE coffee. The espresso bar idea from which Starbucks as we know it was created would not be anything special in Italy. They would be a fraud, a fake, an over-priced American intruder. With this knowledge, Starbucks has thus far been able to avoid the mistake of transplanting an American coffee shop into Italy. Dunkin Donuts was not so lucky, however. Seeing an untapped opportunity in a country that drinks even more coffee than the U.S.⁷, they entered the Italian market in 1998, full steam ahead, and were brought to a

screeching halt as Italians weren't interested in their coffee, donuts, and cheap pastries. They eventually left the country in 2002 with their tail between their legs.

Burger King has also struggled with some of its global expansions. In both Italy and China, while they do operate a good number of stores, they are being beaten out by other competitors, including American firms who have adapted their businesses to better suit the foreign markets. While in Italy, I ate at Burger King a few times, because I was curious as to why McDonald's was doing so much better. Back in the U.S. these two restaurants are generally seen as being comparable in tastes and options, although McDonald's clearly wins in terms of sales volume and number of locations.⁸ I wanted to experience the difference between the two in Italy firsthand; the Burger Kings I saw there were hardly changed from those in the United States. They were small, dingy, dirty, and hard to locate. They seemed to be an afterthought, crammed into the side of an unused office space. They were a far cry from the bright, cheery, modern McDonald's establishments I'd seen throughout the country.

Burger King served exactly the same menu with no variations, the only changes being the conversion from English to Italian and the dollar to the Euro. I saw immediately in which areas they seemed to fail where McDonald's succeeded. They tried to transplant a poor, over-Americanized Burger King model into Italy while McDonald's had really worked hard to adapt their restaurant model. One can see based on this example alone how some successful companies operate in foreign markets, while others fall flat. Those who are successful adapt to the local culture and are willing to drastically alter their business model to match cultural preferences.

Based on the cases explored above, one sees a wide variety of business ventures. They range from vast successes where overseas operations are the new focal point of a company's business transactions, to more modest outcomes where foreign operations are still a small but

growing section of a firm's revenues. Failures also range from struggling businesses trying to find footholds in a competitive market to total flops that put the entire firm on the edge of bankruptcy. Where do these companies go wrong, and where do other companies go right? Certainly, global expansion is necessary for these huge corporations to maintain healthy profitability and growth; they can't afford to be stagnant with so many waiting customers and competitors. How can this expansion be achieved without sacrificing the overall health of the company? I aim to examine in detail throughout this paper how global firms may adapt their business practices in order to find success. McDonald's triumph in Italy is a good jumping point from whose lens one is able to see a solid and tangible example of how companies can be successful, even in unfamiliar foreign markets. I will use McDonald's Corporation as a case study in order to provide strategic recommendations to other firms in attempting to answer the main issue of this study. I will explore the question: Why are some fast-food restaurant chains successful expanding overseas while others suffer huge losses?

Section II: McDonald's in Italy - A Case Study

McDonald's has grown from a small hamburger diner owned by two brothers to a multinational conglomerate. The roots of the company were in a traditional California drive-thru, serving fifteen-cent hamburgers along with fries and milkshakes. Bus boys (mostly girls, actually) brought out food quickly to their waiting customers, Sonic-style as we know it today. From these modest beginnings and just one family-owned store, McDonald's has become the massively successful restaurant chain we all know today – “billions and billions served”. This success is attributed to the efforts of Ray Kroc, the innovator who took over from the McDonald brothers and ran the operation in the 1960's and 70's, including its IPO in 1965. His motto was quality, service, and cleanliness: the tenets that McDonald's strives to live up to today.⁹ He wanted good food served fast, accompanied by friendly service and a reasonable price.

After extensive franchising efforts (over 2,400 different people own and operate a branch in the U.S. alone¹⁰), McDonald's now has stores in 115 countries and serves 51 million people each day.¹¹ Their 13,000+ U.S. restaurants have expanded menus to include salads, smoothies, sundaes, and fruit. McDonald's is known worldwide for its brand image, its familiar red-and-yellow colors and logos, and as a symbol of global expansion and marketing power. Its golden arches have made the trip overseas to Europe, and have expanded into even Rome and Milan.

During my short four-week visit to Italy, I saw over twenty McDonald's restaurants. Easily eighty percent of these restaurants were in close proximity to my entry and exit points to the cities I visited. In Venice, my initial stop, the first sight I see getting off the train is nothing

but a McDonald's nestled in among the small shops of the station platform. Similar sights greeted me in Florence, Rome, and Milan. Around the corner from the great cathedrals and ancient art of Florence sat a McDonald's restaurant. In Rome, I personally counted six separate stores. Even so, I only encountered a small fraction of the approximately 290 golden arches that exist in Italy, ranking tenth in the world in number of McDonald's restaurants by country.¹² Yes, American fast food has reached even the most sacred of places: Italy, known worldwide for its fine cuisine. Stranger still than their mere prevalence is how popular these McDonald's actually are. They seem to fit right in as another dining option for Italians to choose from, mixing somewhat awkwardly yet successfully with coffee and pastry shops, tobacco and newspaper stands, gelato carts and home-owned Panini cafés.

Throughout its successful global expansion, McDonald's has positioned itself to succeed. Instead of attempting to compete with upscale Italian restaurants or popular family pizzerias, they have snuck into areas where consumers were lacking hearty meal choices. You can find a McDonald's in nearly every train station, bus station, and airport in Italy. They are catering to those who need a quick meal but won't be satisfied simply by a pastry and a coffee. The easy-in, easy-out strategy employed by McDonald's in the United States is seen here in Italy as well—customers can grab a quick meal to-go on their way to or from their train with no hassle and little cost. McDonald's restaurants that are not located directly within or nearby transportation centers are found strategically operating in busy tourist areas among city centers. These restaurants cater much more to foreign tourists who welcome a familiar relief from the constant battering of pizza, pasta, pastries, and espresso. They also provide a bit of a novelty option for those wishing simply to try McDonald's in a foreign country (perhaps for the first time). By reaching consumer

segments ranging from busy Italians to homesick tourists, McDonald's has done a remarkable job ingratiating itself into the European way of life.

This success was accomplished despite a rough beginning in Italy. Upon McDonald's initial entry into the country (in Rome: 1986), protests sprung up objecting to foreign food and perceived imperialism by one of the most well-known American companies. This series of demonstrations coalesced into a well-formed "Slow Food Movement", trumpeting the benefits of eating as a family and cooking a well-balanced meal with local ingredients at home.¹³ The movement's founder, Carlo Petrini, has made it his life's work to promote this kind of healthy, responsible eating. McDonald's greasy hamburgers and fatty French fries served in sixty seconds or less were exactly what pro-Italian nationals did not want to see. Italians are fiercely proud of their food culture, and claim to have the best food and wine in the world (and as a side note, I would tend to agree). The followers of the Slow Food Movement were set strongly against McDonald's entry into their home towns, and started a grassroots movement to protest each store opening and advertising campaign from the U.S. giant. While clearly not successfully in stopping the expansion of McDonald's, this movement gave corporate executives something to think about and plan for when deciding how best to approach new store openings.

Not surprisingly, based on what you may know about Italian dining, McDonald's did not succeed in Italy by simply transplanting a restaurant from the U.S. into the heart of Venice. They were able to change just enough to be accepted and liked by the Italian public over time, while maintaining their core business competencies. Walking into an Italian McDonald's for the first time, you immediately notice several key differences. You will see armchairs, wooden coffee tables, and dimmer lighting. The seating areas are arranged in small groups instead of row after row of metal tables under bright white surgical lights. There are quiet nooks and crannies to

relax, chat, and read. Every McDonald's is equipped with free Wi-Fi, and you will find many people reading the daily newspaper or working on their computer, giving these restaurants more of a coffeehouse feel. This meshes well with Italian culture, as bright, loud, overcrowded restaurants are nearly non-existent and are instead replaced by calming, charming cafés and homey pizzerias.

Other modern, unique amenities include two-level seating and automated trash cans. These small things give McDonald's stores in Italy a very different feel. The restaurants use the prevalence of Italian apartment buildings in the busy cities to their full extent. Traditionally, store owners have their shops on the ground floor and their housing units directly above on the second and third floors. This maximizes space in busy cities that are lacking 33-story skyscrapers. McDonald's uses these same city buildings but adds more seating above the counter on the second floor. This way they can seat many more people without it seeming overcrowded and can make efficient use of the existing structures. It also allows for a quieter feel, as the restaurant patrons are spread out over the space, and you aren't even able to see half of them as they are located above you. Another nice touch is the automatic trash cans: you simply put your tray on a stand above the garbage, while the trash can tips out the food and paper waste and neatly stacks your tray for you. This novelty provides a further sense of cleanliness, order, and modernity that otherwise doesn't often exist in United States' McDonald's restaurants.

One is also struck by how popular these restaurants are in Italy. You could imagine these establishments to be scorned by the public, looked down on by the local Italians as a foreign invasion. I almost expected only Americans and foreign tourists to be eating there, and to have the restaurant staffed by exchange students serving an all-American menu. However, this is not the case at all. While seeing a McDonald's in Venice is strange at first, it seems to be well-

received by the public. These restaurants always seemed busy and bustling. There are almost exclusively Italians working there, mostly younger people, just as one sees a lot of high school and college students working at McDonald's in the United States. There is nothing strange about an Italian eating at McDonald's, and one does not see the contempt and derision you might expect from them upon your initial entry into the country, assuming what most people do about perceived European "haughtiness" and self-importance.

There is a strange dichotomy between the all-Italian language menu, the prices in Euros, and the special Italian menu options, contrasted with the same McDonald's uniforms, logos, and brand image we are familiar with. The locals speaking Italian and exchanging Euros are wearing very similar outfits and bustling around the registers and kitchens just as the Americans do in local McDonald's. The electronic registers automatically record customers' choices for the burger chefs to put together the next order, exactly like one would see here in Connecticut. One can see that McDonald's didn't change everything. They maintained their company strengths – their brand image, their speed of service, and the brutal efficiency of their operation. I remember at one point having my meal come out in under thirty seconds (without any mistakes, I'd note) and being amazed. While the focus is for the customers to sit and enjoy their meal more slowly, this doesn't mean that the Italian employees also move slowly. McDonald's Italian operation is efficient and "Americanized" in the same ways that has made them successful in many other markets.

More positives for McDonald's are the ease at which they can be found, their marketing strategies, and the general atmosphere of the place. There were signs and directionals everywhere in Italy, pointing you to the nearest McDonald's. There were billboards and other large advertisements that let you know where the closest one was and encouraging you to stop by

for a bit. They used their famed, highly visible golden arch logo to attract people, and their huge global size and resources to “outmarket” everybody else. Once they rope you in, you notice the restaurant itself is clean, neat, and well-kept. The floor plan is bright, cheery, and open, with seats along the walls and in private alcoves. They use the space they have efficiently, being able to fit a lot of patrons without making it seem forced and uncomfortable. The place is clean, without a lot of garbage around and without messy, sticky tables as one often finds in the States. McDonald’s seems to put a strong emphasis on cleanliness and on how pleasant the restaurant is. The atmosphere this creates is quite nice, and you don’t get the feeling you are entering a cheap, skuzzy place, but rather a nice, affordable, restaurant with a good reputation. The goal here is to move away from the image of “Dirty America” towards a better-kept, charming establishment. Their public brand image and marketing strategy has proved tremendously effective even abroad.

One of the most innovative and successful changes that McDonald’s made in Italy is the prevalence of the McCafé. Becoming more and more popular worldwide, this coffeehouse style McDonald’s has taken off in Italy. Knowing the Italians would much rather have coffee and pastries than burgers and fries, McCafés started to spring up everywhere. Some of these are stand-alone restaurants and others are attached to the side of a regular McDonald’s store. They have the feel of a Starbucks, and have a quieter, earthier theme in contrast to the bright colors of the standard McDonald’s stores. They are dark and calm, with brown tones in the seats, tables, menu, and even food. These cafés look like they’re made of coffee. They could even be confused for a chain coffee firm or a specialty coffee shop, as they really don’t seem like a McDonald’s at all.

The McCafés feature even more comfortable seating, armchairs in small groups or lounge chairs set up in solo arrangements, for those wishing to kick back for their morning brew while

reading the newspaper. The menu consists entirely of coffees, teas, pastries, croissants, snacks, and desserts, all in smallish portions priced very reasonably. You won't find burgers, nuggets, or fries here. Instead, they serve delicious cheesecake, cannolis, and Paninis, just to name a few. All the Italian pastry favorites are here. Walking into a McCafé, one does not feel like they have entered a McDonald's establishment, as almost nothing is familiar. It really does feel like an Italian coffee shop, but with the speed of service, convenience, and reasonable price one would expect from a successful American fast food chain.

In the same vein, McDonald's recently made some additions to their regular menu in Italian interest. To much fanfare, they introduced two different "McItaly" burgers on their menu.¹⁴ These burgers were a limited-time offer that was already over by the time I arrived, but was a brilliant business idea. The McItaly burgers helped McDonald's to capture the market for hamburgers, their biggest seller, by making them more of an Italian-style option and less American. These burgers were created with Italian ingredients (olive oil, pancetta, Asiago cheese, etc), catered to Italian tastes, and were thus a big success in Italian stores. The Italian government sponsored this effort, helping McDonald's with some serious financial backing.¹⁵ Government ministers promoted these burgers with advertisements and public appearances. Many Italians protested the idea of the government helping McDonald's do anything, especially since food is such a point of pride in Italy.¹⁶ They felt that the government's support was a betrayal of national values and an endorsement of a foreign invader.

Seemingly because of this national pride in fine cuisine, the McDonald's food in general was fresher, healthier, and tastier. Emphasis was clearly put on high-quality ingredients and fine cooking. The burgers and fries were less greasy and more substantial than their American

counterparts. Comparing nutrition facts, food at McDonald's Italy had fewer calories, less fat, and less sodium. Eating at an Italian McDonald's felt so much better than eating at one at home. You felt like what you were eating was not actually full of fat and cholesterol and was instead a solid, reasonable meal. Their burgers were thick and juicy, rather than flat greasy patties with crumbly old buns. The food was also smaller portioned, and the fries in particular were a more reasonable serving size. You could not order a super-size of anything, and amounts in general seemed much tamer. Higher food quality is another way McDonald's was able to modify their model for European eating habits, as Italians place special emphasis on healthy, fresh ingredients and well-cooked food.

Along with this higher quality comes a slight increase in price. Interestingly, McDonald's doesn't have a value menu like they do in the U.S., per say. Their value menu is priced at three Euros (instead of \$1), and includes similar options as those in the United States. The restaurant is definitely more upscale than the U.S. and because of this there is the perception that it is quite a bit more expensive as well. However, the meals and other popular options are about the same in Euros as they are in dollars here. For example, a meal package with a burger, fries, and a drink is about seven Euros, similar to the \$7 or so it costs here. However, with the exchange rate, this meal would run you around \$10, which is significantly more than one would expect to pay for a fast food meal here in the U.S. This doesn't seem to hamper the popularity of the restaurant though, as it seems the improved quality makes up for the increased price in the minds of many consumers.

While researching in the field for this paper, I ran into an interesting scenario which gave me a hint as to how McDonald's tries to hold onto their competitive edge. I noticed on multiple occasions that while trying to take pictures of various aspects of the restaurant, I had an

employee approach me and ask me (sometimes not-so-kindly) to stop taking pictures. I also ran into this issue while attempting to take menus, notes, and other souvenirs. Since I'm not able to speak Italian, I couldn't really ask them why this was not allowed, but it seemed like a company policy. I can only assume that McDonald's is carefully guarding their trade secrets from other companies that may want to match their business model. They are trying to do what they can to be unique for as long as possible by maintaining their current competitive edge. If Burger King or Wendy's, for example, copied everything McDonald's did, they would have a good chance to be successful as well. It seems as though McDonald's Corporation knows they have a good thing going and want to keep their advantage as long as they can, even if it means preventing the littlest things such as a student taking pictures of their restaurant's layout and menu.

Another wise business decision made by McDonald's executives is their close partnership with Coca-Cola, which has proved tremendously valuable in Italy. McDonald's gave away classic Coke glasses as gifts and there were Coke advertisements in McDonald's stores everywhere as well. Coca-Cola is a tremendously successful brand in Italy, and throughout Europe; I don't recall seeing Pepsi anywhere, there's only Coke. (An additional thesis could be written on Coca-Cola's successful global expansion and their business practices as well). Every restaurant in Italy offered Coke products, and Italians seemed to love them. Coca-Cola with lunch or dinner was regarded as a special treat. Being a well-liked American brand already established, Coke had been a major player in Europe for years, and it thus was smart for McDonald's to use this advantage in their favor when trying to ingratiate themselves into the country at first. Partnering with a pre-established brand name gave McDonald's an edge to get over the initial hump of being seen as an imperial power and far too "American". Using Coca-Cola's power and reputation, McDonald's connected with their customers very well. While we

were there, McDonald's was giving away commemorative Coke glasses as a thank-you to their patrons in celebration of a milestone sales marker in Italy. They had free toys in their meals as well as other giveaways, contests, and prizes galore, many of which were co-run by McDonald's and Coca-Cola. Both companies together were being sure to promote a fun, exciting, and generous brand image versus the perception of the cutthroat, brutal American company. McDonald's was smart to use another huge global marketer, Coca-Cola, as a close business partner when expanding in Italy.

One last success story of McDonald's abroad was a very interesting one I happened on in the school cafeteria on my study abroad trip. A friend of mine had recently come back from Croatia and was talking about the McDonald's he saw there. He noted that in the small city they stayed in, there were numerous restaurants, but nearly every single one was a pizza shop that looked just like the one next to it. They couldn't find any other type of restaurant in the area except, you guessed it, McDonald's.¹⁷ McDonald's had set up in an incredibly foreign backwater location in a small city in Croatia, with small pizzerias being the only other dining option. However, this underdevelopment also meant that their competitors were small and one-dimensional.

McDonald's could beat the local pizzerias unused to foreign competition by providing something only slightly different. The unique variety of food coupled with the fast and cheap service of McDonald's could carve out a profitable niche by itself. My friend noted that again their stores seemed quite busy, while the pizza shops seemed to be struggling. By establishing themselves in an area with very few other options or serious competitors, McDonald's had again done tremendously well. In this small Croatian city, one of the last places you'd expect to find any semblance of Americanization, there existed yet another popular McDonald's restaurant as

we know it, serving up hamburgers and French fries as one would expect. The business savvy required to create another successful branch here of all places is a marvel.

Smart planning of locations, an enhanced menu, huge advertising expenditures, intelligent partnerships, and a strong emphasis on improving the customer experience: these are a few of the aspects addressed which have made McDonald's a smashing success in Italy, and elsewhere abroad as well. The management of McDonald's Corporation was incredibly competent when planning their venture into Italy, and took into account many things that other companies may have overlooked. Italians' dining preferences, daily schedules, purchasing power, transportation habits, and cultural preferences were all considered when expanding McDonald's restaurants. By being extremely sensitive to how Italians perceived their stores, and being willing to adapt their business model, McDonald's has made Italy one of the brightest spots on their radar screen full of bright spots. This corporation has many successful outposts in countries worldwide, and they can count Italy as yet another achievement in the world of business. McDonald's Italy did it right while executing an expansion into a foreign arena.

Section III: Recommendations and Conclusions

The case of McDonald's success in Italy is only one such story of dozens of others among American fast food restaurants and their global expansions. Many other companies have found success overseas, while many more have failed. In this age of globalization, expansion into previously underdeveloped and unexplored markets is looming on the horizon, if not already on top of us. Companies must either sink or swim; standing pat is moving backwards while your competitors are progressing. If you don't aggressively expand to seize the newest market opportunity, someone else will beat you to it. McDonald's Corporation was able to take advantage of a previously unexplored market for fast food in Italy. They tackled the obstacles present, including dislike of American food, mistrust of Western capitalism, and a strong preference for personalized service and home-cooked meals. McDonald's was able to provide previously unheard-of convenience and speed, while maintaining an Italian-style store atmosphere complete with local favorites. This strategy allowed them to build a highly profitable business model and a positive reputation in Europe. Other companies would do well to use the lessons learned here by McDonald's in their own future endeavors abroad.

For example, Burger King could use some of McDonald's proven strategies to improve their own restaurants in Italy. They should attempt to make their outlets more recognizable and easier to spot. Following McDonald's lead, they should relocate themselves nearer popular walking areas and transportation hubs. It is sometimes difficult to see a Burger King until you are right next to it, unlike McDonald's, which you can see from a distance and can't help but walk right past. To this end, Burger King should put down sidewalk signs directing you to the nearest store, and hang large, bright signs above their restaurants. McDonald's visibility is

second to none, as they use their golden arch logo to draw in crowds familiar with their offerings. You will notice directional signs everywhere pointing you to the nearest McDonald's, even if it's quite a ways away and invisible from where you stand. It is easy to spot their large red and yellow store sign, whereas for Burger King their logo is less well-known and less pronounced, and thus much more difficult to spot. They would do well to make their restaurants more noticeable in this way to draw in patrons and create a buzz around their business; they currently come across as a bit dull and second-rate. They should use their corporate muscle to ramp up their marketing and promotional efforts.

Further improvements could be made in their store setup and menu. As I mentioned, Italian Burger King outlets seem like they are transplanted straight from the United States. They are small and cramped, and not particularly attractive. They have just a few metal tables crammed together, and that's all there is for seating. This style appeals much more to an American crowd who traditionally like to take fast food to-go, not bothering with sitting down to eat and certainly not caring about the décor of the place. Burger King seems to be encouraging customers to simply buy their food and get out, which works fine for their on-the-go U.S. customers, but doesn't work well in Italy. Italians, as discussed, like to eat slowly, enjoying their food and the company around the meal. In fact, their dinners can sometimes take four or five hours! These same people are not interested in eating a quick lunch and getting back to work, as Burger King seems to promote. They want to sit and chat with their friends, read the paper, and have a coffee over a light snack, all while enjoying their extended midday siesta.

BK offers Italians none of these amenities. Their seating is not comfortable or attractive and the store is not peaceful or relaxing at all. There are few good sitting areas, none of which are conducive to friendly chats or leisurely reading. Additionally, their menu is made for neither

lengthy, relaxing meals nor a small Italian snack. They don't serve coffee or pastries or other Italian treats; you won't find cheesecake, espresso, Paninis, or cannolis here as you might at McDonald's. Unlike the McCafé's, the Burger King menu in Italy is the Burger King menu in the United States. They serve hamburgers, chicken, and French fries. These are not very popular options for the Italian people wishing for a sit-down lunch break. McDonald's, on the other hand, offers the dining options that Burger King is lacking. The comfortable, secluded seating, the café lunch options apart from their more traditional menu, and their large, open restaurants with a relaxing atmosphere all contribute to a more positive customer experience in Italy.

Along the same lines, how can Dunkin Donuts and Starbucks, two coffee shops which are expanding globally at a tremendous rate, bring their success to Italy? As it is, both are virtually non-existent on the streets of Rome, Milan, and Pizza. Tens of thousands of coffee shops prosper in Italy already – is there room for the American giants? When planning an attack on these existing establishments, I'd recommend that these companies start on a small scale. They should create a few stores in the major cities of Italy and monitor their performance while attempting to adjust to Italian tastes. The locals generally drink strong coffee, especially espresso. Most Italians would not enjoy the various creamy, fruity, fun coffee-flavored drinks that Starbucks has to offer, or the standard bland American coffee and donuts from Dunkin.

When creating new stores, these companies should modify their traditional approach and simplify their product offerings towards Italian preferences. They should situate themselves in small spaces, providing a few comfortable nooks for discussions and quiet time. Starbucks does this well already, so they would need to focus more on store visibility and on honing their product line. They should market their company as an Italian-style shop, instead of an American version of one. Going hand in hand with this image is doing market research to determine what

drinks Italians would like to see at a Starbucks and which they could do without. This data would be tremendously valuable as Starbucks looks to expand further into Italy and to ensure that their product line would be successful in a foreign market, already experts in coffee. Dunkin Donuts, on the other hand, would need to change their reputation as a fast-food coffee and sweets provider, and slow down their operation to provide higher-quality coffee and espresso beverages. They do have an advantage over Starbucks with their various sweets and pastries that could be honed to Italian tastes. Dunkin would need to adapt their business model and service style significantly, though, in order to be accepted in Italy.

Both firms could have a large customer base abroad that would generate huge revenues, but they must tread carefully when first starting out. Starbucks and Dunkin Donuts both need to adapt their current practices if they have any real hope of success. I believe Starbucks has a better chance of being successful because it has always strived to be “Italian-style”, but success is nowhere near guaranteed. CEO Howard Shultz still needs to provide Italian coffee to his customers somehow better than the Italian coffee shops already do. These American coffee chains should move slowly, measuring how their products sit in Italian stomachs, before attempting to capture a large market share. They both face huge obstacles in the Italian arena and an uphill battle in their quest to penetrate one of the toughest coffee markets in the world.

An enormous opportunity for U.S. fast food companies lies in “3rd-world” developing countries and other underserved, underdeveloped markets. These markets are at the “bottom of the pyramid”; they have little buying power and generally low awareness of global brands. However, for the very same reasons that make it difficult to market to these regions, great opportunities for success exist for these American firms. These markets are so hard to tap into that those firms who are able to do so stand to profit immensely. Leveraging their vast resources,

capital, and brand value, McDonald's could head right for Africa. Utilizing a first-mover advantage, any firm that successfully penetrates these markets stands to gain huge market shares and generate large revenues. McDonald's, for example, should first set up in populous areas with an extremely low price point. If they could offer locally-adapted favorites for somewhere between fifty cents and one dollar, and are able to spread their brand name around the region in this way, they would be able to sell large volumes while ingratiating themselves in the new market at the same time. They would have to be sure, again, to consider local preferences when making their business decisions, and not simply transplant their restaurants from the U.S. into these foreign markets. They've had past success, as in Italy, by using this very same culturally-aware approach.

Using McDonald's as an example, one can see how American multinationals can be successful overseas by adapting a significant portion of their business to local culture while still maintaining their corporate identity and core competencies. The golden arches can be seen in Italy, China, India, Japan, and the world over. Who knows which country will be the next target? Other companies, such as Burger King, Dunkin Donuts, Pizza Hut, and Starbucks have been enthusiastic and driven in their efforts to expand internationally. They can point to some of my recommendations as possible areas for improvement in the future. These and other companies must be able to learn from their mistakes and approach each new market opportunity with a keen eye. Doing significant market research, starting on a small scale to feel the pulse of the country, and always being willing to adapt are good tenets to follow when entering new regions. The time is near for these American fast food giants to make waves in underserved markets where buying power may be low but opportunity is sky high. They must sink or swim to survive.

Section IV: Sources

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