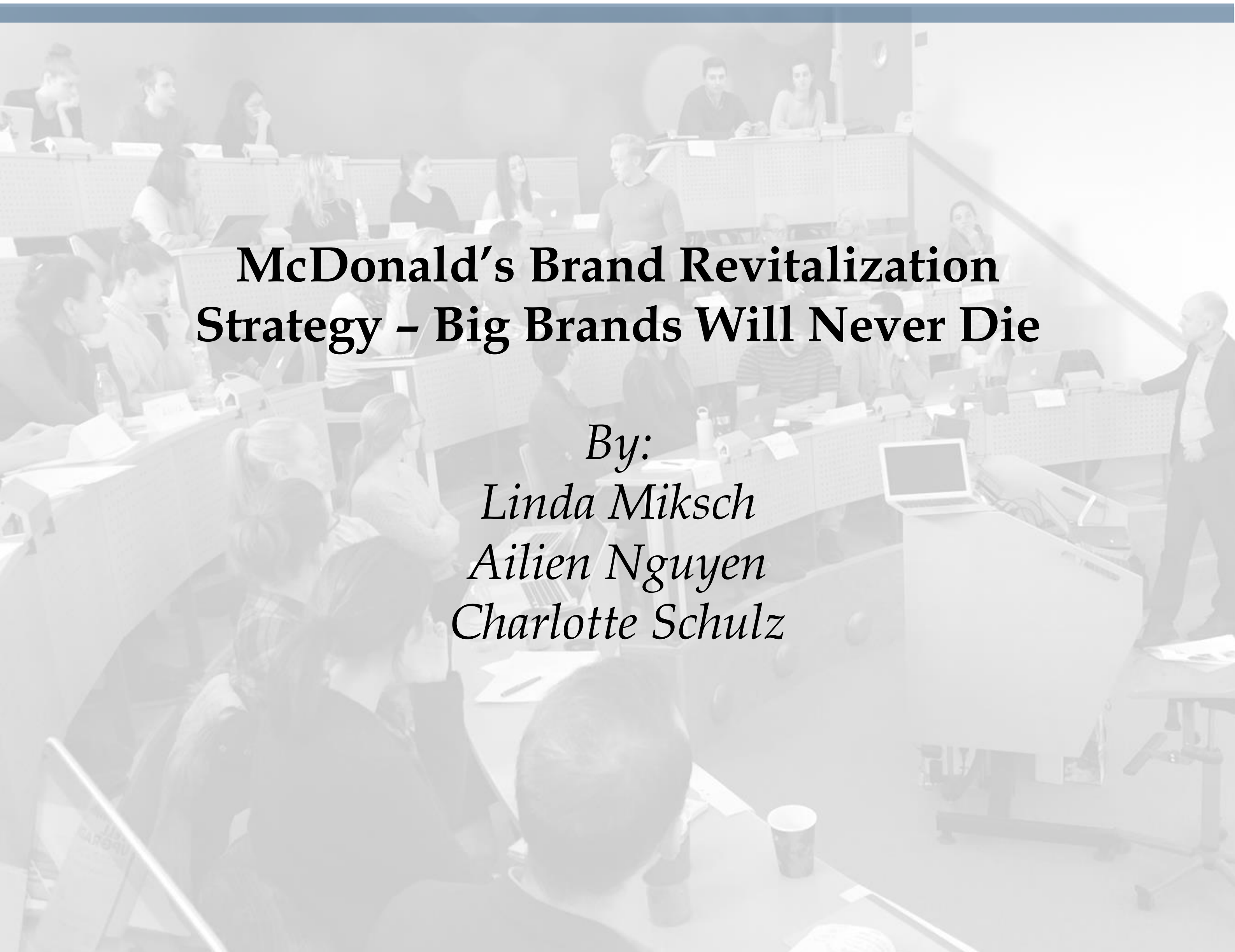
CORPORATE BRAND MANAGEMENT AND REPUTATION

MASTER CASES



McDonald's Brand Revitalization Strategy – Big Brands Will Never Die

By:
Linda Miksch
Ailien Nguyen
Charlotte Schulz

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Corporate Brand Management and Reputation: Master's Cases

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *"A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class."*

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *"to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice."*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

Editor

Mats Urde
Associate Professor
mats.urde@fek.lu.se

Head of master's course Corporate Brand Management (BUSN35), part of the master's program International Marketing and Brand Management.
Lund School of Economics and Management

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LINDA MIKSCH

AILIEN NGUYEN

CHARLOTTE SCHULZ

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Opening Scene: A Sunny Day in Melbourne

Larry Light, Chief Executive Officer (CEO) of the marketing consultancy Arcature, was appointed to advise McDonald's brand strategy from 2002 to 2006. While he was working for Nissan's brand turnaround in Japan in 2000 in the field of brand revitalization, McDonald's reported its first financial loss.

On a sunny day in 2001, Larry was sitting in the first-ever McCafé in Melbourne, Australia, and was talking to his old friend Charlie Bell, current president of McDonald's in Australia. Together, they were reflecting on the fluctuations within the marketing world, where demographic changes and ever-changing customer preferences and choices were only some of these issues. The discussion comprises the hard times McDonald's was facing, including dropping sales, loss in market share and negative publicity due to low brand perception of people. During their discussion, Charlie has offered Larry to join him and the McDonald's turnaround team to plan and execute a new brand revitalization strategy. At that moment, Larry has declined that offer due to the instantaneous weak decentralized organizational culture of McDonald's and with the reasoning that he did not see any future perspective for a successful revitalization at this time.

A few months later in December 2002, the whole management board of McDonald's faced a giant turnaround, and suddenly, Charlie Bell has become the new Chief Operating Officer (COO) worldwide and the former CEO was replaced by Jim Cantalupo. This is when Larry has started to rethink his decision. Charlie has finally convinced him to join the company for their three-year revitalization program and Larry became the first global Chief Marketing Officer (CMO) at McDonald's.

Background & History: McDonald's Fairytale

Globally known for its hamburgers, the American fast food chain McDonald's is one of the leading fast food companies in the world. The brand was established by the two brothers Dick and Mac Donald in 1940, when they first started selling hot dogs in San Bernardino, California. However, in 1948, they became very successful as they closed the restaurant and reopened it again to sell hamburgers, french fries and milkshakes. The brothers decided to franchise McDonald's in 1954. Several franchisees were following. As the brothers were searching for a new agent, Ray Kroc took the chance and gave birth to the present McDonald's corporation and opened the first franchised restaurant in 1955. Six years later, Kroc has bought the exclusive rights to the McDonald's name. Already in 1958, 100 million hamburgers have been sold. Koc's philosophy was to build the world's most famous restaurant which provides food of consistently high quality and uniform methods of preparation. His goal was to serve products that taste the same in every location. McDonald's initial success is also due to its positioning as a children-welcoming restaurant.

The brand constitutes the image of being a family restaurant which offers entertaining playing areas and a Ronald McDonald, the worldwide known mascot, who speaks 20 languages. The golden arches (**Exhibit 1**) stand for the same menu, *Quality*, *Service*, *Cleanliness* and *Value* in every restaurant. From the beginning, it was one of the top leading companies in the fast food industry. The company has expanded to over 700 restaurants in the USA by 1965 and aggressively expanded overseas in the 1980's. Almost 2000 restaurants are opened every year. Keeping the four core principles in mind, McDonald's has worked hard and expanded their business to build a big brand with a revenue of about 15.4 million USD in about 31000 restaurants in 2002. McDonald's stores occupy premium locations like at airports, shopping streets, theme parks or shopping centers.

As Larry Light agreed to work on McDonald's turnaround in 2002, it was already an established brand with a worldwide known reputation in the fast food sector. In 2002, McDonald's was ranked among the best global brands with a brand value of about 26 million USD, according to an Interbrand measuring (**Exhibit 2**).

The Incident: Big Brand in Big Trouble

McDonald's was sliding down in terms of earnings and reputation. In 2002, it reported its first ever financial loss since it went public 37 years before with same-store sales down globally. McDonald's stock price was down to $17.60 in September 2002 from a high of $45.31 in March 1999 (**Exhibit 3**). In December 2002, after McDonald's stock declined 60% over three years, the board of directors was replaced by Jim Cantalupo as the new CEO, Charlie Bell as COO and Larry Light as the first global CMO.

Not only was McDonald's sales in decline but also market share was shrinking, franchisees were frustrated, employee morale was low, and customer satisfaction had become even lower. Its brand image suffered too. The only picture costumers had of McDonald's during those times are unhappy faces when dining there:

> *"A mother walks into McDonald's holding her little 5-year old in her hands and orders a happy meal for her kid. She for herself does not buy anything except a cup of coffee. While watching her kid eating a happy meal, she gets hungry herself and steals some fries from her kid's meal. Suddenly, the kid starts to cry and both of them show unhappy faces. This is not a happy meal."*

McDonald's failed to continuously improve its brand experience by ignoring these three criticalities: renovation, innovation, and marketing. McDonald's focused on cost reduction instead of quality growth of the top line.

After the turnaround of the management board, the new management team tried to identify what the organizational focus of McDonald's was and noticed that McDonald's had consistent products but an inconsistent brand. The brand image of McDonald's has become old-fashioned and lacked organizational focus in core essence of brand's image. During those times, it was also known that McDonald's was losing huge transactions, the lines in-store were becoming shorter, and customers rather preferred the drive-through queue. In the United States, 70% of sales stemmed from drive-in counters. Before, the pressure of buyers for healthy consumption had led McDonald's to focus on their offerings and meals to make customers eat in-store. Therefore, McDonald's started to sell healthy products to first, target people who did not want to eat fast-food and second, to create a healthy food image. Instead of soft drinks they started to serve water. Instead of french fries, they served carrot sticks. During this time, the management board decided to tackle all the different challenges by re-focusing their strategy. Ray Kroc, founder of McDonald's, emphasized his vision for McDonald's that *"it is not a hamburger chain. A lot of people were making hamburgers before McDonald's. Hamburgers will not differentiate McDonald's from its competitors. Anybody can make hamburgers; anybody can make french fries or soft drinks."*

Consequently, CMO Larry Light asked himself what makes McDonald's special because every brand needs to have something which makes it special. He remembered Ray Kroc's words back in the days: *"McDonald's is a happy place."* The core attribute of McDonald's had always been the happy meal to make McDonald's a happy place for kids. This had been forgotten before the new management board has been elected. In 2002, CMO Larry Light joined the new management board of McDonald's and received the responsibility of managing the brand revitalization and brand turnaround from 2002 to 2005. **Taking the role of the executive team of McDonald's, the following question arises:**

> ***How should McDonald's undergo the revitalization process of its brand image in order to manage a brand turnaround successfully?***

Exhibit 1 The McDonald's Logo 1992-2006

Exhibit 2 Top 10 Most Valuable Global Brands 2002-2003

Rank	Brand	Brand Value 2003 $ millions	% change	Brand Value 2002	Country of Origin
1	Coca-Cola	70,453	1%	69,637	USA
2	Microsoft	65,174	2%	64,091	USA
3	IBM	51,767	1%	51,188	USA
4	GE	42,340	2%	41,311	USA
5	Intel	31,112	1%	30,861	USA
6	Nokia	29,440	-2%	29,970	Finland
7	Disney	28,036	-4%	29,256	USA
8	McDonald's	24,699	-6%	26,375	USA
9	Marlboro	22,183	-8%	24,151	USA
10	Mercedes	21,371	2%	21,010	Germany

Exhibit 3 McDonald's Share Price Drop from 1999 to Early 2003