

CORPORATE BRAND MANAGEMENT AND REPUTATION

MASTER CASES



When the Golden Arches Lose their Shine: McDonald's Japan Food Scandal

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First Edition
Student Case Papers

2018

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.

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When the Golden Arches Lose their Shine: McDonald's Japan Food Scandal

WRITTEN CASE

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When the Golden Arches Lose their Shine: McDonald's Japan Food Scandal

The objective of this master case is to provide an elaboration on corporate crisis management and is intended to help the participants of case discussion gain insights into the analysis of crisis and recovery plan. The chosen case concerns corporate reputation management and business turnaround of McDonald's Holdings Japan (hereafter McDonald's Japan). In 2014, the reputation of McDonald's Japan took a major setback due to the food contamination scandal in which their supplier produced products with expired raw materials. To make the matter worse, in 2015, a customer was reported injured by the plastic shards found in beverage. As consumers lost their trust and confidence in McDonald's Japan, the shine of the golden arches seemed to fade as well. This case will firstly introduce the background about McDonald's operation in Japan and the food security issue. Furthermore, management questions will be raised for the discussion in class as the participants take the role of management team within McDonald's Japan. The presented case and its management decisions have particular theoretical application regarding corporate crisis management theory (Greyser, 2009).

Background and history

McDonald's was founded in 1940 with a single drive-in store in southern California. Over the years, with its American ambiance, consistency in quality and innovation, the company has gained wide popularity around the globe and formed a network of more than 35,000 locations in over 100 countries. Nowadays, the brand is the biggest among the global fast food chains.

In 1971, McDonald's was introduced to Japan's fast food market with 5 restaurants and a \$1.3 million investment during economic boom in Japan. In the same year of its inauguration, McDonald's Japan was ranked number one in total sales among Japan's fast-food companies. McDonald's Japan has proved itself a remarkable success since its appearance in the Japanese Market. By the year of the 2013, McDonald's Japan has expanded to 3,164 restaurants, with annual sales amounting to 260 billion yen. From a business of 5 restaurants, McDonald's Japan

made a huge leap and became the fast food chain's second-largest restaurant network after the United States.

Commonly associated with American culture in Japanese consumers' mind, McDonald's Japan preserves the original McDonald's concept by including standard menus. Nevertheless, in an attempt to increase sales, it did apply adjustments to its strategy in order to comply with Japanese taste. For instance, McDonald's Japan presented localized menu by introducing the Rice Burger and Green Tea ice-cream among other modified products. Furthermore, different from suburban approach in the U.S., McDonald's Japan adopted a strategy to locate its stores in areas with high real estate value and major train stations in order to obtain high convenience for consumers (Ohnuki-Tierney, 1997).

Over the years, McDonald's Japan has been occupying the top seat in the fast food industry in terms of sales in Japan. However, in recent years, the decline of sales seemed to signal a sign of struggle for the Fast food giant when challenged by tough competition by its rivals as well as local convenience stores. According to McDonald's annual report, the sales has maintained a downward trend since 2009 with an average 8.4% decrease in sales annually from 2009 to 2013 (McDonald's Holdings Japan, 2017). To reverse the decline, A new CEO, Sarah, Casanova, was appointed in March 2014 in the hope that she could restore the appeal of the golden arch again.

The reputation crisis

In July, 2014, McDonald's Japan faced a severe incident in its history in Japanese market. It was reportedly serving chicken nuggets made by expired meat to its consumers. The issue started as a Chinese processed food provider, Shanghai Husi Food, was discovered violating food safety practices. According to the local media, the factory workers dealt with meat with their bare hands and mixed fresh and expired meat during the production process. After the news, McDonald's Japan announced that they obtained one fifth of its supply used in their products from Shanghai Husi Food and ordered a prompt stop to selling the items involved such as Big Macs and chicken nuggets and in Japan. A decision to change supplier was also enacted almost immediately.

Despite the immediate actions taken, the scandal has seriously shaken the confidence of consumers for the famous fast food chain. it has led to "negative impact on sales and consumer confidence," the company's Japanese unit said in a statement. "Our sales and profit expectations have been reduced."

To make the matters worse, a series of food safety issues happened after the scandal further tarnished the golden arches. In January, 2015, McDonald's Japan was confronted by yet another crisis when a piece of blue vinyl several centimeters in size was discovered in an order of Chicken McNuggets at an Aomori location in Tokyo. The contaminated nuggets were recalled back to its Tokyo headquarters for investigation. Furthermore, in the same year, the company received a customer complaint in Osaka arguing that a human tooth was found in an order of French

fries. McDonald's Japan issued an apology, but was unable to determine the source of the contamination.

A string of food safety scandals has put McDonald's Japan in a reputation crisis that impacted not only on the confidence of consumers towards the enterprise, but also on the financial performance of the corporation. Since the scandals in 2014, sales in the country have dropped more than 10% every month compared to the same period last year. At the end of 2014, McDonald's Japan reported a net loss of 21.8 billion yen—the first annual loss in 11 years. The massive financial loss continued in 2015 when the company lost 34.9 billion yen, the worst performance since going public 15 years ago. **Exhibit 1** demonstrates McDonald's Japan's financial performance from 2012 to 2015.

In spite of the contingent actions taken for each scandal, apparently it is not enough for bringing customers back. The management team of McDonald's Japan was looking at the sales numbers and wondering which actions to take in order to restore customers' trust and confidence in the golden arches that once shined in the Japanese fast food market.

Management questions

McDonald's Japan is faced with a situation where they had to regain its reputation in the Japanese Market after finding themselves caught in the aftermath of a string of food scandals. Take the role as the management team of McDonald's Japan. How would you go about answering the following questions?

- What should McDonald's Japan do in order to regain its corporate reputation in Japan?
 - **Who are McDonald's Japan's key stakeholders in the situation?**
 - **What are the key issues in the incident?**
 - **What are the key actions to take, how? and when?**

Exhibit 1 McDonald's Japan Sales & Net Profit between 2012 and 2015. Source: McDonald's Holdings Japan (2017)

