

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

MANAGEMENT DECISIONS

The authors prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. Although based on real events and despite occasional references to actual companies, this case is fictitious and any resemblance to actual persons or entities is coincidental.

McDonald's Japan's Decisions and Outcomes

The series of food security incidents has resulted in the loss of customers' trust in McDonald's Japan (hereafter McDonald's). It certainly worsened the already declining sales and led to plummeting sales numbers and deteriorating financial performance. McDonald's Japan was at the verge of losing it all in the corporation's second biggest operation in the world. The dire situation was testing Management's wisdom: How they can cope with reputation crisis and rise again from it? To tackle the crisis, first of all, McDonald's Japan took immediate actions by changing suppliers to stop the aftermath of the scandal. They then adapted an authentic approach that lived up to the local cultural expectation throughout the whole reputation restoring process. They implemented a business revitalization plan focusing on customer-focused initiatives with an objective to regain customers' confidence and improve financial performance. In order to achieve the aim, several campaigns were carried out successfully during 2015 - 2017. In 2017, McDonald reported a record profit of 15 billion yen in less than three years. Their actions are to be explained in more details in following sections.

Immediate change of supplier

When the expired food scandal was discovered in 2014, to minimize the aftermath of the news, McDonald's Japan immediately announced that they would stop importing raw materials from Chinese suppliers, and its restaurants also ceased selling the products using materials from Shanghai Husi Food. Furthermore, McDonald's Japan made a decision that they would start sourcing all its chicken from Thailand in order to address the amplifying concerns of its customers. "We made this decision in view of the growing concern over McDonald's chicken products made in China," the CEO of McDonald's Japan Sarah Casanova, said.

Authentic apology for the crisis

In the Japanese culture, making an authentic apology in public right after the crisis occurs is an extremely important first step for any firm that would like to regain its reputation a trust among its stakeholders. Realizing the significance of a culturally accepted apology, the foreign CEO of McDonald's Japan adapted to the culture and began her the statement of apology with a Japanese bow in a press meeting in 5th February 2015 (see Exhibit. 1).

"I would like to sincerely apologize, once again, for all of the great anxiety and concern that the recent reports of food-related foreign objects have caused our customers," Casanova said, before a deep five-second bow.

This action was interpreted by local media as a message that McDonald's Japan was sincerely sorry for the concerns caused by a string of food security issues,

and was ready to move on restoring its reputation. The authentic approach, apart from this apology, was to be seen in several following actions, which would be discussed respectively.

Listening to customers

The primary focuses were on regaining the trust of customers and rebuilding relationship with customers. To this end, McDonald's Japan started creating various contact points to interact with active customers as well as potential ones. The first and most significant action was workshops held around the country with local customers and staff in order to hear directly from them their expectation from McDonald's Japan. The CEO of McDonald's Japan, Sarah Casanova, personally visited 47 prefectures, having conversations with 350 local mothers, the ones who make dining decisions in the family. As their principal goal was to bring families back to McDonald's Japan, by going out and listening to customers needs and wants, they not only acquired profound insights from but also had the opportunity to put them into actions afterward.

The feedback from the workshops suggested that, interestingly, customers expected McDonald's Japan to be the original one that they love and trust, and in the meantime provide transparent information regarding food production and ingredients. With customers' input, McDonald's Japan was then able to sit down and draft the business revitalization plan that focused on customers anticipation.

Food information transparency

From the workshops with customers, McDonald's Japan realized that in order to restore the trustworthiness seriously damaged by the scandals, they have to provide transparent and complete information on their food for customers. McDonald's Japan took the opportunity to launch "Mieru McDonald's quality" campaign in which a website that contained everything customers wanted to know about their food, including the production process, suppliers, and origin of the food provided. Apart from being transparent, they also created easier access to those information by putting QR codes on packaging as well as social media. Hence, this set of initiatives aimed to restore the damaged reputation and consumers' trust by talking authentic, communicating visible changes, providing clear knowledge of food and improving trustworthiness under four heading: "food safety and quality," "value proposition," "service" and their "digital footprint."

Customer engagement campaigns

As customers expected McDonald's Japan to be the one they used to love and trust, they realized that the way to get closer to customers was indeed to restore the values of McDonald's by being "fun" again. It was through interactive and digitized campaigns in a Japanese way that McDonald's Japan sought to engage customers

more. First of all, McDonald's Japan developed McDonald's JP app as an interactive platform where coupons, food information, menus could be found. It turned out to be one of the most successful app in Japan market, reaching nearly 25% of the population in terms of download times. Secondly, they initiated interactive marketing campaigns such as "Name it Burger" where customers were invited to name a new burger on the menu and a million entries were registered in two days. What followed was another campaign "Burger election" in an attempt to revitalize customers' awareness and passion for the existing menu they offered (Exhibit 2 shows a picture from the campaign). These campaigns received extensive media coverage and customer engagement. Importantly, the overall sales were six times higher than forecast. Thirdly, in 2016, McDonald's Japan caught the trend to collaborate with Pokémon Go to bring customers back to stores. McDonald's Japan became the first company to partner with Pokémon Go during the height of that craze, making every restaurant an important stop in the smartphone game. McDonald's Japan also created Pokémon McFlurry Menu to trigger more interests from the participants (Exhibit 3 shows McFlurry Menu). These appealing initiatives drove to the regain of customers' confidence, which then translated to McDonalds' stocks reaching the highest level since 2001 (Exhibit 4 demonstrates stock price of McDonald's JP).

Restart motivations and reputation

Facing a crisis does not only affect the reputation of a corporation and, as an almost inevitable consequence, its financial revenues, but it also drives the morale of its employees down. That's one of the main reasons why, McDonald's Japan CEO, Sarah Casanova, stressed the importance of rebuilding the morale of the company's employees. Employees resulted to be unhappy about the way the organization was structured, complaining about the lack of proactivity and empowerment towards customers. They felt as not being part of the team; therefore, the perception the CEO had was that the team was not working as so The CEO together with her team invested much effort in redacting a "Revitalization Plan" which was, indeed, not only focused on rebuilding trust among customers, but also on rebuilding employees' morale. McDonald's Japan went through several changes during its "Revitalization Plan" and in order to make it successful, changes were anchored to the organization's culture. Sarah Casanova felt the urgency of getting everyone on the same page working for the achievement of the same goals through sharing the company's new vision. For this reason, when launching new programs such as the "Quality, Service and Cleanliness" one, employees were trained and provided with material to make them aware and complicit in the change. Indeed, according to Kotter (2007), the only way to make changes stick and survive throughout the time in the corporation is to make them completely integrated in the organizational culture. The CEO admitted of having completely revised the internal communication to drive teamwork. However, McDonald's Japan did not concentrate only on the existing employees, but it invested also in recruiting new personnel. In order to make it more appealing, the company developed an anime about working at McDonald's and it

turned out to be extremely successful as the job applications boosted and the media appreciated it.

Result: A strong comeback of McDonald's Japan

All the changes implemented by McDonald's Japan generated outstanding results from both a financial and reputational point of view. In 2017, McDonald's Japan reached a record 15 billions of YEN profit after the endeavor they invested in the changes over the past three years. Furthermore the stock price hit a record high in the same year (Exhibit 4 & 5 shows the financial performance after 2015). Sarah Casanova publicly admitted that it was the result of an internal hard work in terms of reorganization that led to the comeback of the corporation. All the strategies implemented by the company, such as workshops with the mothers, drove to an ascent towards trustworthiness. According to the Corporate Brand Identity and Reputation Matrix (Urde & Greyser, 2016), there is a vertical interaction between relationships and trustworthiness. Therefore, McDonald's Japan authentically addressed the concerns of customers regarding food security and corporate reputation by establishing stronger connection with customers in terms of information sharing and extensive interaction. By doing so, the brand regained trust around food safety and quality and communicated such changes within engaging interactions. Hence, as for rebuilding customer satisfaction in Japan, McDonald's used localized communicative strategy to navigate loyal customers and potential consumers along a new journey from listening to their demands, to achieve expectations, to get attention, to trigger interest, to motivate action and to gain a loyalty loop again.



Exhibit 1. Sarah Casanova made an apology in a press meeting in 2015, Source: Naharnet.com (2015)

 A promotional poster for McDonald's Japan's "Burger Election Campaign". The title "第1回 マクドナルド 総選挙" (1st McDonald's General Election) is written in large red characters. On the left, a man in a grey suit strikes a confident pose. On the right, a woman in a light blue dress strikes a similar pose. In the center, a tree diagram shows various McDonald's burgers as candidates. Below the diagram, a red button says "投票する" (Vote) with a hand icon. A white box indicates "1回戦 投票締切まで あと10日" (1st round voting deadline in 10 days). At the bottom, a white box displays the current total number of votes: "76,557,525 pt".

第1回
マクドナルド
総選挙

ビンゴマック デブルチーズバーガー エグチ ベーコンレタスバーガー クレープ パウダーチーズ デリシャス マクドナルド マクバーガー

1回戦 投票締切まで
あと10日

投票する

現在の総投票ポイント数 (2017/01/15 16:00更新)
76,557,525 pt

Exhibit 2: Burger election campaign from McDonald's Japan

MANAGEMENT DECISIONS



Exhibit 3. Pokémon McFlurry—each Pocket Monster matches each flavor.



Exhibit 4. Stock price of McDonald's Japan from 2015 to 2017, Source: Bloomberg Market (2017)

MANAGEMENT DECISIONS

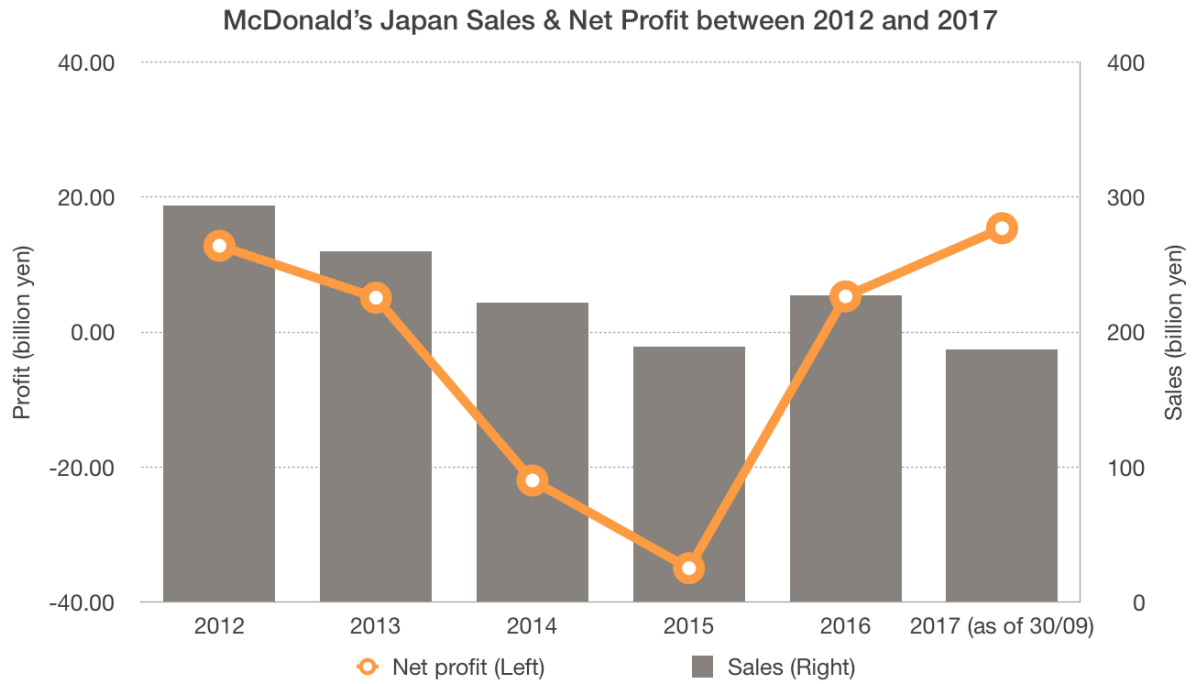


Exhibit 5. Financial performance of McDonald's Japan from 2012 to 2017



メニュー キャンペーン ファミリー 見える、マクドナルド品質 お店・サービス

2018年2月19日付の情報です。

チーズバーガー

まるやかでクリーミーなチーズと香ばしく焼き上げた100%ビーフパティが楽しめるマクドナルドの人気メニュー。



原産国情報	アレルギー情報	栄養情報
主要原料原産国・最終加工国		
パンズ 食材の道のり ▶ 主要原料：小麦粉/アメリカ、カナダ、オーストラリア 最終加工国：日本	パンズ 日本で焼き上げた、食感にまでこだわったパンズ。 	
ビーフパティ 食材の道のり ▶ 主要原料：牛肉/オーストラリア、ニュージーランド 最終加工国：日本	ビーフパティ 100% ビーフを使ったジューシーなパティ。 	
オニオン 主要原料：玉ねぎ/アメリカ 最終加工国：アメリカ		
ピクルス 主要原料：きゅうり/インド、スリランカ、トルコ 最終加工国：日本、スリランカ、トルコ		
スライスチーズ 食材の道のり ▶ 主要原料：チーズ/ニュージーランド、オーストラリア、日本、アメリカ 最終加工国：日本、ニュージーランド	スライスチーズ ハンバーガーに最も合う特付けに仕上げた特製チーズ。 	
<small>※「主要原料原産国」は、農林水産省が公表した「外食における原産地表示に関するガイドライン」に準拠しております。また、「最終加工国」及び「主要原料原産国」は、原材料事象などによって追加変更される場合があります。</small>		
<small>※常に最新情報を掲載するようにしております。 ※各データは随時更新されます。 ※こちらの情報に関しては、「お問い合わせ」ページよりお問い合わせください。</small>		



Exhibit 6. Official McDonald's Japan Website

References

Advertisingweek.com. (2018). McDonald's Business Turnaround & Customer Engagement in Japan Events: Asia 2017 | Calendar / Advertising Week. [online] Available at: <http://www.advertisingweek.com/events/as/2017/calendar/-asia-2017-06-01-mcdonalds-business-turnaround-customer-engagement-in-japan> [Accessed 5 Mar. 2018].

Blaster, M. (2018). McDonald's Japan holds first-ever General Election, winning burger upgraded at no extra cost. [online] SoraNews24. Available at: <https://soraneews24.com/2017/01/10/mcdonalds-japan-to-hold-first-ever-general-election-winning-burger-will-be-upgraded-at-no-extra-charge/> [Accessed 5 Mar. 2018].

Du, M. (2017). *McDonald's Japan Moves Past Food Scandals*. [online] Bloomberg.com. Available at: <https://www.bloomberg.com/news/articles/2017-08-08/investors-lovin-it-as-mcdonalds-japan-moves-past-food-scandals> [Accessed 5 Mar. 2018]

Kotter, J. P. (2007). Leading Change: Why Transformation Efforts Fail, *Harvard Business Review*, Vol. 85, no. 1, pp.96-103

McDonald's Japan. (2018). マクドナルド公式サイト | *McDonald's Japan*. [online] Available at: <http://www.mcdonalds.co.jp> [Accessed 5 Mar. 2018].

McGee, O. (2018). Pokémon McFlurry coming to McDonald's Japan for a limited time. [online] SoraNews24. Available at: <https://soraneews24.com/2017/07/07/pokemon-mcflurry-coming-to-mcdonalds-japan-for-a-limited-time/> [Accessed 5 Mar. 2018].

Naharnet Newsdesk (2015). Art of the Japanese Company Apology: It's All in the Bow, *Naharnet.com*, 29 April, Available online: <http://www.naharnet.com/stories/en/177176> [Accessed 22 Feb. 2018].