

McDonalds russia essay



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Introduction: George Cohon was a young lawyer in 1968 when Ray Croc, the founder of McDonald's, offered him exclusive perpetual rights to McDonalds in eastern Canada. Just eight years later at the Montreal Olympic Games, Cohon decided to bring McDonald's to Russia. It took him 14 years to open up the first store in the heart of Moscow's Pushkin Square. The opening of the store was a grand affair and was covered in the international news. Cohon eventually opened up another 25 stores in Russia before the Ruble crisis.

This paper deals with the entry of McDonald's into the Russian market and the prevailing economic environment in Russia at the time. It will briefly outline the steps taken by the team to ensure a successful establishment in Russia and discuss the problems faced by McDonald's during the 1998 Ruble crisis. A brief background – Russia: The restaurant facilities in Russia were not diversified in the 1970's. It consisted of formal dining room restaurants or informal cafes. The formal dining rooms were incredibly rigid with a strict Russian menu. The service was inferior and waiters were lazy.

The atmosphere with the white table cloth and cutlery was gloomy. A two to three hour leisurely lunch, served by lazy waiters was a common scene at these restaurants. The informal cafes on the other hand, were the complete opposite. The menu was again Russian and consisted primarily of soups and coffee. There were no seats for the guests and they ate while standing around small table. The entire set up was very unsanitary. Looking at the restaurant structure and the kind of food the Russians consumed (meat, potatoes and bread) Cohon realized the massive potential for McDonalds to expand into Russia.

The bureaucracy during the Cold war era in the Russian was overwhelming. Russia was called the “ Evil Empire”. Cohon kept travelling to Russia to meet with and persuade the officials, but little came off it. Later in 1980’s, Russia saw the dawn of the glasnost (openness) and the revolutionary ideas of Perestroika (economic restructuring). This brought a change in the way the businesses functioned in Russia. Finally, in 1987, a new law on joint ventures was passed. This was the opportunity McDonalds needed to enter into the Russian market.

A deal was signed and 20 restaurants were set to be open in Moscow. It was decided that a 100, 000 sqft. flagship store will be opened in Pushkin square, just blocks away from the famous Lenin’s tomb. Although, McDonalds doesn’t get into partnership with governments, they had to accept the 49% ownership because the law states the city control all services in the city. Setting up issues: The real work for McDonalds began with the approval for entry into the Russian market. It was entering a country where the concept of a burger was not only foreign but also alien.

Cohon was warned by several industry analysts, competitors and even friends about the tough road ahead. One of the most threatening problems facing the project was the lack of suppliers. The farming techniques used in Russia were outdated and highly inefficient. McDonalds needed special quality of produce for the food they served but the Russian farmers were unable to understand that. To deal with this problem, Cohon decided to set up training centers where their specialty farmers from around the world would train their Russian counterparts.

The Russian farmers were granted loans to purchase modern farming equipment which would help them boost their productivity along with the quality. As a result the farmers were able to increase the output by up to 500%. McDonalds had solved its supply problems by strategic thinking and aligning its interests with local parameters that it could control. The second problem McDonald's had to deal with was quality control. McDonalds has a famous brand and it is imperative to its success that food all over the world has to taste the same.

This led them to opening food production facility where breads, buns, burger patties and pies were produced on a daily basis. The whole project cost \$45 million and took two whole years to complete. Cohon had predicted some difficulty in finding the right employees for the store. But, this seemed to be an easy task. Just one advertisement in the newspaper, and Cohon had a choice among 27, 000 written responses. Surprisingly most of the applicants had university degrees and saw this as a step-up in their respective careers.

Ironically, the new McDonald's had the highest university graduate percentage of any other McDonald's in the world. The most important and significant decision that Cohon had to make was what currency to use. In the Soviet Union, in 1990, two types of currency were used; the soft non-convertible currency (Rubles) and the hard convertible currency (Dollars and German Marks). The decision was a big one, because it was illegal for the people of Russia to hold hard currency. Most restaurants and shops in Russia had two different sets of rules for hard and soft currency.

The Russians hated the special privileges the hard currency carriers got. Most of the high profile stores that catered to foreigners accepted only hard currency. But Cohon decided to open a 'Ruble only' McDonalds. The idea behind this was that he wanted to create an all-Russian company. The Marketing Plan: Marketing was the way for Cohon to introduce McDonald's to the Russian crowd. They used various strategies in promoting the brand. Network shows were especially popular because only one network existed in Russia at that time, which almost meant guaranteed viewership.

The team worked with the Russian media which helped them get great reviews when the store was opened. Another important decision was the menu, pricing and store design. It was decided that the menu remain the same as anywhere else in the world. The price was set using the Russian cafes as a benchmark. The store design was a very important factor for consideration. Majority of the Russian population had not stepped outside of Russia. The store was designed in a way to make people think that they could be anywhere in the world.

Finally, smoking, which was a part of the Russian culture, was banned in the new restaurant. McDonald's Russia finally opened its doors on January 31, 1990. It was the biggest store opening and McDonald's served 30, 000 people in a single day. The opening was broadcast live on international news. People were impressed with the way McDonald's staff handled the huge crowd. To show the Russian people how a burger is eaten, they gave out instructions with the menu. The Russians treated the instruction sheets as souvenirs. In all, it was a great day for McDonald's.

Russians were impressed with the 'Ruble only' rule. In fact the crowd cheered when people were told that the dollar was not accepted and there were no special privileges for being an American. Eventually, the team decided to open several other restaurants in and around Moscow. Cohon was extremely successful in portraying McDonald's as Russian company. With the change in Russian laws the new restaurants had a more relaxed partnership structure (80% McDonald's, 20% government). A McDonald's in a town was looked as a prestigious factor; it helped improve the local economy and draw foreign investment into the city. The Crisis begins: The Russian financial crisis (also called Ruble crisis") hit Russia on 17th August, 1998. It resulted in the Russian government devaluing the ruble and defaulting on its debt. The inability of the Russian government to implement a coherent set of economic reforms led to a severe erosion in investor confidence and a chain-reaction that can be likened to a run on the Central Bank. Investors fled the market by selling rubles and Russian assets (such as securities), which also put downward pressure on the ruble.

Inflation in 1998 reached 84% and peoples life time savings were worthless in no time. Foreign companies saw this as a huge problem and started preparations to leave the country. But, McDonald's which was viewed as a Russian company didn't consider this option. Khasbulatov was worried that the crisis would get worse. The team faced two extremely important decisions which would impact their future in Russia. Pricing: With the value of Ruble nose-diving, most businesses had raised their prices by up to 300%. Cohon was torn between the decisions of raising prices to cover the costs or to keep the prices low to build trust.

Menu: McDonald's had been very consistent with its menu throughout the world. However, considering the crisis, Cohon was contemplating adding a few Russian menu items. The main idea behind this was to keep the cost of production low and ultimately affordable to the Russian people in this tough time. Recommendations: Cohon should lead McDonald's through the difficult period by resolving to focus on the long-term viability of the investment McDonald's has made. The first essential strategy Cohon should focus on is to navigate the turmoil and to keep price increases to a minimum.

This will keep most of McDonald's regular customers coming back and make the price of McDonald's food one of the few things that could be counted on during a time when inflation is skyrocketing. Keeping the prices at the minimum, especially in such a volatile economy, is one of the most important tactics that McDonald's can employ to build up a long-term customer base. Also, to support this strategy several low-cost local menu items, such as potato wedges, cabbage soup and potato pie (that are a staple of the Russian diet) should be added to the menu.

This will keep the cost of procuring the items at the very minimum and also it will bring on goodwill towards McDonald's. It is imperative for any business operating in a foreign country to be mindful of the local customs, especially during troubled times as this earns the company a lot of long-term goodwill. In this case, incorporating local menu items will project an image that McDonald's cares about the tastes of the Russian people and wants to comfort them in these tough times. Lastly, Cohon should focus on reaching out to as many Russians as possible at this time.

By increasing the traffic to the restaurants, he will ensure that the McDonald's brand is not forgotten when the whole crisis is over. This can be done by offering various food based promotions which will help the Russians get back to eating at McDonald's and also it will help McDonald's with positive publicity at this time of crisis. McDonald's steadfast commitment to its workers and the community through this time period will build a trust that will enable the company to flourish after the crisis has waned.