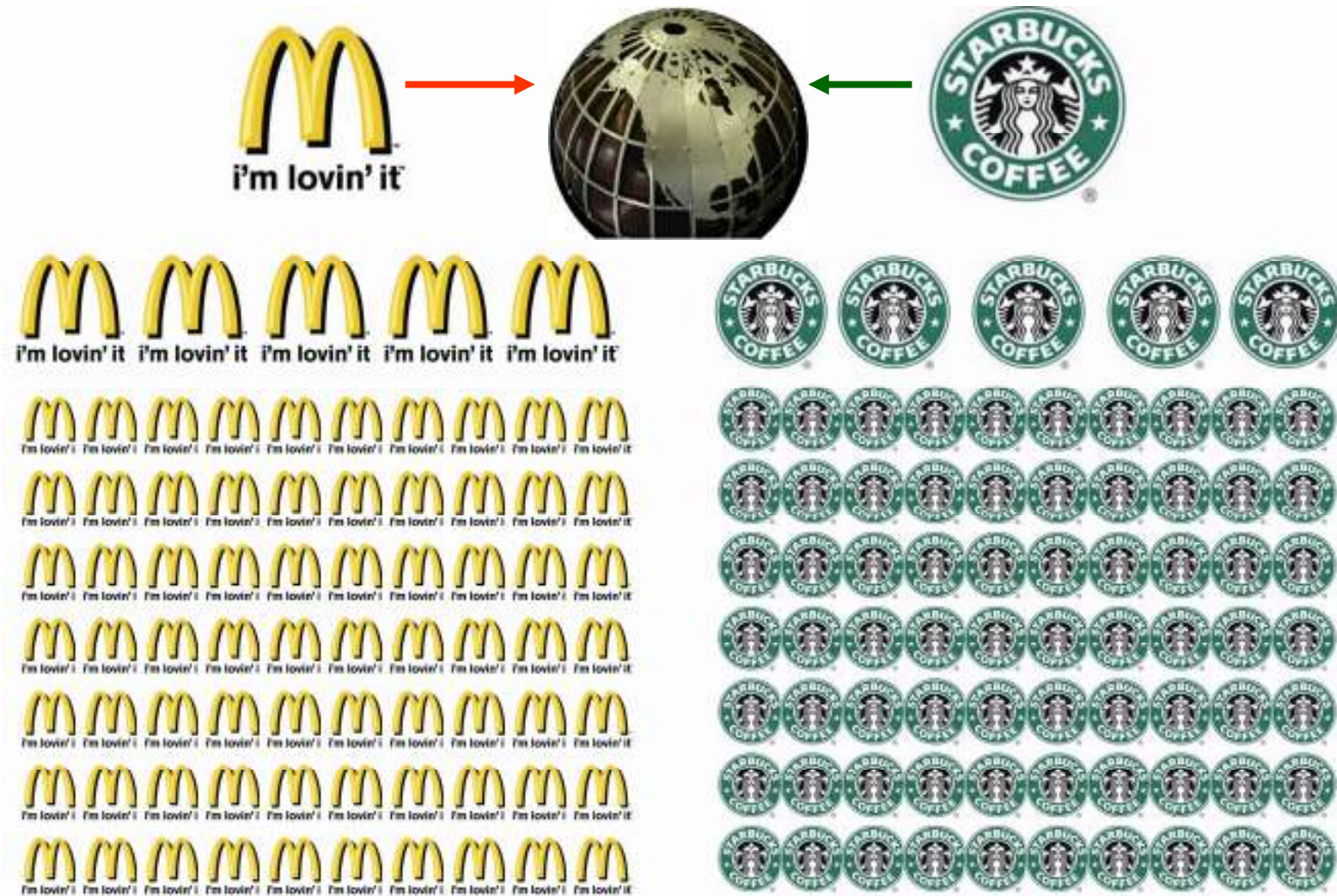


SUPERSIZE THE PLANET

An examination of McDonald's and Starbucks overseas expansion with MNEs theories



Agenda

- International expansion
- Applicability of other theories
- The “McDonald’s Approach”
- The “Starbucks Experience”
- Conclusion





V.S.



- American iconic brands
 - Symbol of American culture
 - Standardized products and services
 - Symbolic of problems posed by globalization
 - CEO's name
- Most recognizable U.S. companies
 - Efficient
 - Junk food & dirty water
 - Cultural and economic imperialism, health and environmental issues etc.
 - **James** Skinner & **James** Donald



Going Global

- Began to expand internationally in 1967 with the opening of restaurants in Canada
- Master franchisor (JV), followed by traditional franchises
- Operating in over 120 countries and regions, Europe being the second largest market

- Opened its first overseas location in Japan in 1996
- Company-owned operations, joint ventures
- Having presence in 37 countries, with Japan being the second largest market



Internalization theory

- B&C focus on firms internalisation which results from market transactional imperfections. When markets in intermediate products are imperfect there is an incentive for firms to bypass them by creating internal markets by means of establishing MNEs.

This explanation does not seem applicable to McD and Starbucks' practices since both firms resort to external and internal markets in their business model.

Theory can only explain the initial entry into a foreign market by these two firms.

Dunning

- D. paradigm seems more relevant in explaining McD and Starbucks strategies.
- Under specific circumstances Dunning's O.L.I. advantages could be viewed as determinants of McD and Starbucks' expansion strategy. It can be argued that both firms command sound ownership structure, recognised brand (O advantage); adapt their chain under local advantage considerations; and finally take full use of internalisation practices.

Main flaws:

- Silent on transfer of knowledge as a determinant of expansion.
- Deals mainly with international production rather than with services markets.



Replication, a familiar phenomenon sometimes referred to as the “McDonald’s approach”, entails the creation and operation of a large number of similar outlets that deliver a product or perform a service (Winter & Szulanski, 2001)



1955

Oak Brook headquarters



i'm lovin' it



McDonald's principles and experience - hard to codify and to transfer

1967

Canada



i'm lovin' it

1971

Netherlands



i'm lovin' it

1971

Japan



i'm lovin' it

1971

Germany



i'm lovin' it

1971

Australia



i'm lovin' it

1974

U.K.



i'm lovin' it

1985

Mexico



i'm lovin' it

1990

China



i'm lovin' it

1999

Georgia



i'm lovin' it



Master Franchisors

"How to run a McDonald's restaurant" - easy to codify in a written contract



1,304

220

3,891

1,211

726

1,229

261

546

2

Local Franchisees



“We have the most knowledgeable workforce in our industry,” Howard Schultz,
Chairman (Starbucks Company Profile, Nov., 2006).

Kogut (1988):

- Tacit nature of knowledge requires organizational vehicle to take effect the transfer.
- Hill, Hwang and Kim (1990); lost revenue and opportunity costs.



Kogut and Zander (1992) – organizing principles

Kogut and Zander (1993):

- “The relevant benchmark of whether a firm will transfer a technology internally is its efficiency in this respect [creation and transformation of knowledge] relative to other firms,” (p.517).
- “...experiences in internal transfers encourages more internal transfers in the future,” (p. 520).

Conclusion

- Transfer of organizing principles
- Replication pattern
- Explanation of both strategies
- Questions

