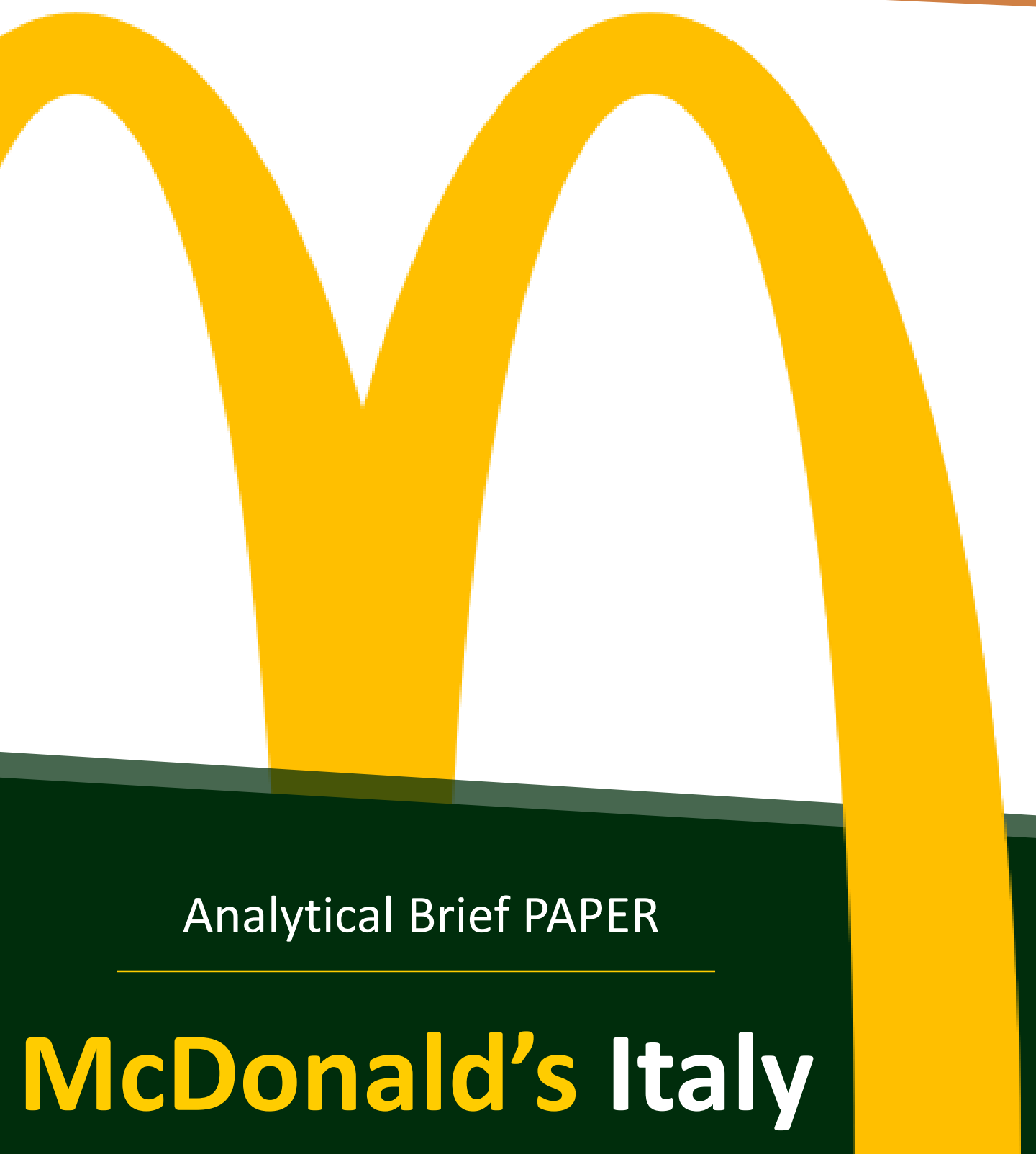




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Analytical Brief PAPER

McDonald's Italy

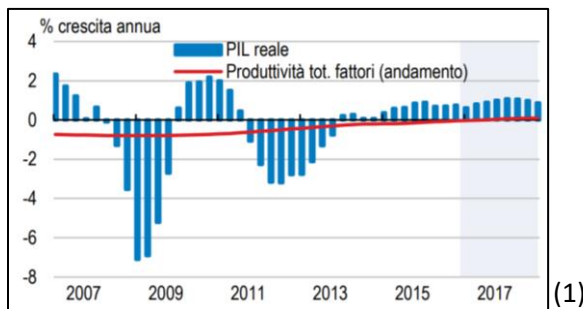
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Introduction

33 years of history, **700,000** meals served daily, **20,000** employees and **550** stores. These are the numbers of the success of **McDonald's** in Italy. The American colossus landed in the *bel paese* in **1985**, and against all expectations has achieved huge success thanks to three key advantages: the diversification of products which characterizes its global franchise strategy, an ability to expertly analyze and react to market developments, and the brilliant insights of its Italian CEO, Roberto Masi. It is important to examine the success of McDonalds in Italy, because it has managed to transplant the philosophy of fast food to a locale where the gastronomic culture is vastly different and closely linked to ancient traditions emphasizing the quality and freshness of ingredients in its cuisine. These practices have been passed down from generation to generation over centuries, giving way to eating habits that are profoundly different from American ones. Yet despite all of this, the *Golden Arches* have overcome these differences, and have attained commercial success while also employing thousands of Italians in a country where recessions are common and doing business is challenging.

Italian Economic Political and Social Situation

After a long and difficult recession brought on by the global economic crisis that began in 2007, Italy is on its way to recovery thanks to a series of macroeconomic measures taken by the governments of the last 10 years. Chief among these are structural reforms, as well as monetary and budgetary policies that have led to an improved Italian labor market witnessed by higher employment and consumption levels. However, the recovery as a whole has been weak, and productivity continues to decline. Since the beginning of the crisis, Real GDP per capita has fallen by around **10%**, and extreme poverty has almost doubled compared to levels measured before 2007. Those who are worse affected by this crisis are mainly young adults and children.



Reacting to this crisis, the **Renzi government** took action and passed various legislative measures between 2014 and 2015, one of which was the **Jobs Act**. Primarily directed at reforming labor laws, its main goal was to boost employment, reduce job insecurity, and protect permanent labor contracts by reducing contributions to pension plans and taxes on workers. Although more jobs were created, the 2017 Italian historical survey estimated that **2.8 million** workers were 'precariously employed', and that unemployed has remained at 11% for the past 6 years (since 2012). Furthermore, the youth unemployment rate (ages 15-24) currently sits at **35.7%**, which is very concerning, especially considering that it continues to increase at 0.6 percentage points on average per month (principally in the southern regions of the country).

Despite ambitious reforms, doing business remains a huge problem for local and foreign entrepreneurs. In recent years, many Italian companies have relocated abroad due to the inefficiency of the public sector, excessive bureaucracy, and above all **excessive taxation**, which puts a strain on the country's most sensitive inhabitants such as women and new workers. Italy takes the cake as the country with the highest tax burden on companies in all of Europe. While the European average of worker taxation is 11%, in Italy it is **15%** (Ireland is 14.8% and Belgium 13%). In such an environment, innovative start-ups and small and medium-sized enterprises are particularly disadvantaged because they have difficulty accessing bank financing and thus struggle to reduce their tax burden, which in turn decreases worker productivity and salaries. This excessive taxation has led to widespread systemic tax evasion within the entrepreneurial sector. Despite measures taken to lower taxes, past and future governments must come to terms with the huge public debt that weighs on the coffers of the state. The debt has reached a historic level of **2,297,286,000,000 Euros**, which puts Italy third among the most indebted countries in the world after Japan and Greece.

While we can see that the tax situation is clearly not ideal, recent studies examining the overall well-being of Italian citizens have presented conflicting results. On the positive side, Italy ranks first in terms of **daily quality of life** among all European countries. Additionally, between 2013 and 2017, household consumption grew by a total of € 42.4 billion (+ 4% in the three years), representing a strong recovery following 2008's great recession. Despite the recovery, there are 1.6 million families living in conditions of extreme poverty, and the unabated wave of immigration from North African countries seems like it will further add to this poverty. Regarding the immigration crisis, this foreign population has transformed into the new Italian working class, and they have begun to involve themselves in illicit work within the underground economy. As a result of these issues, in recent years the Italian birth rate has drastically dropped and the number of Italians who have moved abroad has increased by **15%**.

The economic and social uncertainty within the country has led to a gradual withdrawal of the Italian population from the political sphere. About 85% of Italians do not have faith in the country's political system – namely due to the poor quality of the services delivered by the public sector and the government's inability to involve its constituents in political dialogue. Italy's situation reflects a common global sentiment of dissatisfaction that has spurred the creation of populist movements, as in the case of the USA with the election of Donald Trump and of Britain with **Brexit**. The latter has increased the political and economic uncertainty within Europe, decreasing the propensity of foreign entrepreneurs to invest in European States.

1. <https://www.oecd.org/eco/surveys/italy-2017-OECD-economic-survey-overview-italian.pdf>
2. <http://www.lastampa.it/2018/03/04/italia/cronache/debito-record-ora-litalia-la-sorvegliata-speciale-bx4Cu4eFi0cDDwzv39IV5M/pagina.html>
3. <https://www.ilfattoquotidiano.it/2017/12/01/rapporto-censis-italia-cresce-ma-blocco-della-mobilita-sociale-crea-rancore-oltre-15-milioni-di-famiglie-in-poverta-assoluta/4012875/>

McDonald's Italia

McDonald's opened its first restaurant in Italy on **October 15, 1985** in the Walther von der Vogelweide square in Bolzano, and the second (9007th in the world) on July 4, 1999 in the famous Piazza di Spagna in Rome. The arrival of the famous American chain had been welcomed with particular enthusiasm by Italians, and most of all by teenagers and lovers of U.S. culture. McDonald's was not simply one of the biggest global brands, it was symbolic of a new era – one of modernity where the American dream that Italians had witnessed on television or in the cinema reigned supreme.

However, public opinion began to change rapidly. There was fear that this new model of restaurant would profoundly change peoples' eating habits and negatively impact the country's rich gastronomic culture and traditions. The Italians were not willing to replace the Mediterranean diet, known long throughout the country's history for emphasizing quality products and keeping the populace healthy, with fattening burgers, greasy fries and sugary drinks. Moreover, the enormous *Golden Arches* that were once so iconic had gone from being a symbol of modernity to being a symbol of **globalization** – people saw them as a representation of American culture trying to appropriate the culture of the *bel paese*. In fact, in 1999 the McDonald's restaurant in Bolzano closed its doors, and a plaque was placed in the location of the restaurant at the Piazza di Spagna in Rome, with the following caption: "The first McDonald's restaurant in Italy". However, the reality is that Bolzano was not the only restaurant to fail- many were forced to close their doors because of low customer turnout, as the Italians opted to eat at other restaurants serving food consistent with the Mediterranean diet or places that had gourmet burgers.

So, how is it possible that McD's in Italy has today reached 550 restaurants and serves 700,000 meals a day? A major turning point of McDonald's Italia was the arrival, in 2007, of the new CEO **Roberto Masi**. This brilliant Italian has profoundly altered the landscape of fast food restaurants operating in Italy through employing a dedicated strategy of product differentiation, adaptation to local tastes, and strict attention to the provenance and quality of raw materials. This results in him often coming into conflict with the company's leadership located at the Chicago (USA) headquarters. In an interview with *Linkiesta*, an independent Italian online newspaper of investigative journalism, Masi explained the three fundamental phases of his revolution:

1. Changing the structure and decreasing the number of point of sale terminals inside the location in an attempt to portray a more spacious, comfortable, cozy and pleasant restaurant, rather than looking like a typical fast food franchise location. This restructuring was not favored by the Chicago headquarter, who thought this action would reduce customer turnover and lower the number of meals the location could serve each day. However, the renovation of the interior structure has succeeded in attracting different customer segments aside from just teenagers and children, which before represented the majority of the McDonald's clientele. In addition, special attention was paid to the eco-sustainability of the premises, through the use of eco-materials to reduce pollutants, a system for eliminating cooking odors, recyclable materials for packaging, and reductions of electrical and water waste.
2. The key obstacle that needed to be overcome in order for McDonalds' restaurants to have success in Italy was the concept of the food's nature and origins. Although McD's has always promoted quality standards and been



transparent on matters of their products' food safety, the Italians were not eager to consumer the *Golden Arches* burgers because the raw material origins were unknown and the prices seemed too low for the ingredients to be of good quality. Noting the Italian people's distaste for unsourced material and perceived 'low-quality' & junk ingredients, Masi made an essential decision to negotiate supply contracts with local farmers and ranchers in order to gain supply chain visibility and thus win back credibility from picky Italian customers. This policy proved to be a huge success, as can be seen through the example of switching to **Parmigiano Reggiano cheese** (of Italian origin) for McD's sandwiches – a decision which resulted in a substantial increase in customers. While in the U.S. the main thing that matters is the quality / price ratio, in Italy a product's local origin is absolutely essential. Until 2007, only 10% of the products used in McDonald's restaurants were sourced locally. Today 85% of McD's Italia suppliers are Italian, and the meat is 100% sourced from Italian farms. Another fundamental aspect that marked a turning point in the company's Italian business was the enabling the traceability of the operation's value chain. This means that all production and quality controls for raw materials used by McDonald's (meat, bread, potatoes, salads, fruit, cheese, etc.) are documented and can be consulted. Furthermore, McD's participates in the European **HACCP** (*Hazard Analysis and Critical Control Point*) program, which involves analyzing risks and managing critical points in the value chain (with daily visualization and tracking of the entire supply chain, from receipt of goods to sale). The goal is to always be in control of the value chain, which in turn will guarantee the customer a healthy, damage-free, and satisfying product.



3. "Restoring relevance to the habits of Italians". Another one of Masi's ingenious ideas was to adapt McDonalds' restaurants to the habits and patterns of common Italians, especially in regard to breakfast and the consumption of espresso coffee. This revelation gave way to the birth of **McCaffé**, which was a real café inside the restaurant itself that sold coffee, cappuccino, croissants and muffins at the counter. This idea boosted sales by an estimated **20%**, as coffee for Italians increases familiarity with a place and in their words "even makes the BigMac taste better".



Conclusion

The success of McDonald's in Italy is a testament to the company's ability to adapt its core business in a strikingly different environment; successfully overcoming political, economic, and cultural barriers. As noted throughout this analysis, McD's winning strategy has been its product and restaurant differentiation according to the host country environment. In fact, the massive expansion of the *Golden Arches* around the world strikes a major resemblance to the Roman Empire's conquest and rule for many centuries. Just as the Romans used to adapt their religion (Roman mythology) to mesh better with that of conquered peoples (instead of imposing it on them), McDonald's has dedicated itself to altering its product mix and restaurants instead of imposing its same American offering on global customers.

In Italy, this cutting-edge strategy worked to perfection despite a historically deep-rooted gastronomic culture that strongly favors the Mediterranean diet. While McDonald's will surely continue to be criticized by a large number of 'traditionalists' within the country, they cannot deny the remarkable success that the company has had in penetrating the market, employing its fellow countrymen, and showing respect for the quality and superiority of Italian-sourced raw materials and ingredients.

