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Big Mac's local flavor

Once vilified for pushing America on the world, McDonald's lets countries invent their own buns, bags, and business practices. Now some ideas are making their way back home.

By Peter Gumbel, Europe Editor

(Fortune Magazine) -- The next time you're in Brazil, say, or Italy or Portugal, and feeling like a taste of Americana, stop off at a local McDonald's restaurant and order a Big Tasty burger. As the name suggests, it's a giant sandwich consisting of a 5.5-ounce beef patty slathered in smoky barbecue sauce. Once you include the square-chopped lettuce, tomatoes, and three slices of cheese, it all adds up to a whopping 840 calories.

Just don't try looking for the Big Tasty in the United States, McDonald's home territory. It's not on sale there. In fact, there's precious little about the burger that's American at all, other than the fact that it's sold by McDonald's. It was dreamed up in a test kitchen in Germany and then tweaked, trialed, and launched in Sweden in August 2003. It proved so successful there - "It's one of our biggest sellers ever," says Susanne Rydjer, a Swedish McDonald's marketing executive - that restaurants in other parts of Europe quickly picked it up. Latin America and Australia followed suit. (It is no relation to the American Big N' Tasty, which is smaller and less successful.)

On its path to becoming a hit, the Big Tasty has become something much larger than a giant burger: It is a prime example of how, in this era of global business, the tail can end up wagging the dog. McDonald's worldwide operations are now far bigger than its U.S. domestic business, and they are growing substantially faster. And as the world has become the principal revenue engine for the company, it has turned this iconic American brand upside down, transforming the way it does business.

These days new ideas can - and frequently do- come from anywhere. The Big Tasty didn't make it to the United States (more about that later), but plenty of other things that originated thousands of miles away from Oak Brook, Ill., where the company is based, have either already done so or are about to.

Fortune has learned that later this year McDonald's (MCD, Fortune 500) will roll out new wrappers, boxes, and bags in its U.S. restaurants that will tout the quality of its products. The company's head of European operations
had the idea and pushed hard to implement it, and his designers had a big hand in the final outcome. Also on their way across the Atlantic are "artisan breads" - baguette-style sandwich rolls long used by McDonald's in France and Italy that the company will promote in the United States as a premium product. Then there's coffee. While McDonald's in North America has only recently started trying to steal business from Starbucks (SBUX, Fortune 500), the roots of its coffee strategy are to be found in Australia, which began serving premium coffee years ago and has since become the company's global coffee laboratory.

Three-legged stool

McDonald's has never been a rigidly hierarchical organization. Founder Ray Kroc liked to describe it as a "three-legged stool" consisting of the company itself, its suppliers, and its franchisees, who run the majority of restaurants. Still, says McDonald's president Ralph Alvarez, "when we first started to grow internationally, we were really just replicating what we had in the U.S., and for years it served us well." He recalls the way the company at one point even used to export American tiles to countries like Spain and Italy that are world famous for their own ceramics. For years senior management overseas was predictably composed of expatriate Americans. And if anything new was invented, it was done at a warehouse in Oak Brook that remains McDonald's main R&D center.

Then, like many others whose global operations have reached critical mass, McDonald's discovered that its old way of doing things just wasn't adequate for the new challenges. In some prime overseas markets, including France and Britain, the brand was faltering badly and losing an image battle. It wasn't doing brilliantly in the United States either. So McDonald's changed tack. In came a new mantra - "freedom within a framework" - which gives regional and national McDonald's far more leeway to make their own decisions. "We decentralized our business model," Alvarez says. "Now you'll find very few Americans running the business except in the U.S. Instead, we're leveraging the power of that decentralized model."

As it tries to adjust, McDonald's is in good company. It's one of a growing number of Fortune 500 companies whose primary source of growth and profitability is outside the United States. Exxon Mobil (XOM, Fortune 500), Intel (INTC, Fortune 500), Coca-Cola (KO, Fortune 500), IBM (IBM, Fortune 500), Procter & Gamble, Caterpillar, Ford, Pfizer - these and other American household names already derive substantially more than half their revenue from abroad. Indeed, at a time the U.S. economy is flagging, the dollar is plunging, and new markets are opening up around the world, this dependence on non-American business will probably grow even stronger. "There's real pressure for international sales to provide the growth, and that means there's a real focus on how to grow and expand internationally," says Mark Spelman, a global strategist at consulting firm Accenture in London.

Going 'glo-cal'

Yet, as McDonald's has been discovering, running a successful global company requires some pretty significant changes in corporate behavior. Going "glo-cal," as management consultants like to call it, requires striking a balance between managing a brand on a consistent worldwide basis and appealing to differing consumer tastes in dozens of markets. It means delegating authority and letting things happen; it is not a job for centralizing control freaks. At the same time, it requires some clear rules about where the limits lie.

At McDonald's, country managers run their own advertising campaigns but aren't allowed to fiddle with the corporate logo. Consumer companies have long understood the importance of tailoring products to local tastes. Google and Yahoo, for example, wouldn't have gotten off the ground abroad if they hadn't translated their services into local languages and provided country-specific content.
Big Mac's (cont.)

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What's hard is creating a culture, corporate structure, and work environment that foster innovation wherever it takes place. But executives also have to share the findings and best practices from around the world. That's the true secret of the Big Tasty's success: Even though it wasn't invented at corporate headquarters, word spread throughout McDonald's, and individual markets adopted it as they saw fit. "It takes a high degree of sophistication to do something like that," says Till Vestring, who runs the Singapore office for consultants Bain & Co.

McDonald's relies on both formal exchanges and frequent informal contact among its international managers. Peter Bush, president of the company's Australian operations, says the process at McDonald's is the opposite of the "not invented here" syndrome, which rejects ideas from outside. "There's a willingness of managers to steal the best ideas unashamedly."

Modernist Egg chairs

Walk out of London's Cannon Street Station and turn right, leaving St. Paul's Cathedral behind you, and you'll come across a restaurant with three giant, green swivel armchairs in the window that look like the modernist Egg chair created by the late Danish designer Arne Jacobsen. Inside, lime-green slats partition off several seating zones. The pillars are orange. Funky murals hang on the walls and, between them, green - and red-striped wallpaper. It's 4,000 miles from here to Chicago but light-years removed from the tired, red-and-white vinyl seats and Formica tabletops that have long served as McDonald's standard décor. If it wasn't for the golden arches over the door, you might not realize at first glance that it was a McDonald's restaurant at all.

In fact, the furnishings come from a catalog of different décor types that a team of McDonald's designers in Paris has worked up with the help of an architect named Philippe Avanzi, based in Grenoble, France. The Cannon Street look is known internally as the "less is more" décor, and McDonald's in Britain has been rolling it out rapidly across the country. In the past two years alone, it has refurbished no less than three-quarters of its restaurants in town centers, where most are located. "We were out of date," says Steve Easterbrook, who heads McDonald's British operations. "Now we're more edgy and urban."

It's not just the décor that varies. McDonald's in Britain last year added freshly ground fair-trade coffee to its menu, along with organic milk. It boasts that its eggs are free range. Naturally the Brits serve up McDonald's classics such as Big Macs, Happy Meals, and Double Cheeseburgers. But you can also order porridge for breakfast and a range of other items customized for British tastes, including a variant of a French chicken sandwich - with salsa dressing.

Where eating beef is taboo

Such variation has become the norm, belying McDonald's monolithic image as a big American corporation that serves standard fare around the world. In India, where eating beef is a religious taboo, the Big Mac equivalent is the Maharaja Mac, made from chicken, and there's a plethora of vegetarian dishes on the menu. And even some of the classics are now tweaked from market to market. In Germany less coriander is used in SouthWest salads, while Britain puts less salt on its Chicken McNuggets.

Such alterations inevitably reduce the economies of scale that the company can exploit. So why bother with them? Because the business case for a more customized approach is overwhelming. Europe overtook the United States as McDonald's biggest source of revenue in 2004 and last year accounted for 39% of the company's total revenue of $22.8 billion. (The United States takes up 36% of the total.)
Moreover, while the domestic U.S. business grew 6%, revenues in Europe and the Asia-Pacific regions grew more than twice as much. Part of that was due to the falling dollar, but overall McDonald's is far more dynamic abroad than at home. Its domestic business still enjoys slightly higher margins, but last year operating income jumped 32% in Europe and a whopping 69% in Asia-Pacific, compared with a meager 7% rise in the United States.

Anti-American protests

The picture hasn't always been so bright, as Denis Hennequin knows all too well. He's the president of McDonald's Europe and a 23-year company veteran who ran the operations in France from 1996 to 2004. Those were turbulent years: A huge beef scare linked to an epidemic of mad cow disease panicked consumers, and no sooner was that over than the company became the high-profile target of anti-American and antiglobalization protests.

In 1999 a group led by a militant French farmer named José Bové ransacked a McDonald's in the southern French town of Millau shortly before it was due to open. Their protest, mainly against U.S. trade policy, landed Bové in jail for three months, but it turned him into an international folk hero.

Exasperated by this and other attacks, including criticism of McDonald's for the quality of its food and the way it treated its workforce, Hennequin responded in a classic French way: He wrote a book refuting the critics. It was the beginning of a policy of transparency, which included holding open days at restaurants, showing the public around kitchens, and fielding any and all questions people might have about the company. "Sometimes big brands can be paranoid," Hennequin says. "But we had to open up, because we are at the center of so many debates about obesity, about the environment, about jobs."

France is now one of McDonald's best-performing and busiest countries, and Hennequin has extended a culture of openness to the entire European operation. Not all the criticism has disappeared, of course. McDonald's is still a fast-food restaurant chain, even though Hennequin likes to talk about serving "good food fast." But even some of McDonald's long-standing ideological foes have toned down their remarks.

The environmental group Greenpeace, for example, targeted McDonald's in a European campaign in 2006 against the use of soybeans from illegally deforested areas of the Amazon rain forest. "Every time you buy a Chicken McNugget, you're taking a bite out of the Amazon," Greenpeace warned, and plastered many McDonald's restaurants in Britain with posters of Ronald McDonald wielding a chainsaw. Rather than take a bristlingly defensive stance, as McDonald's routinely did with environmental and other critics in the 1990s, the company turned the tables on Greenpeace: It acknowledged the problem and asked for help in fixing it. "We came to see a company that is not in any sense one-dimensional," says John Sauven, Greenpeace's executive director in Britain.

Better not bigger

McDonald's insiders say that the company's efforts to truly engage the world on its own terms date back to 2003, when CEO Jim Cantalupo shifted strategy to focus on better rather than bigger. He died a year later, and his two successors- Charlie Bell, an Australian who served for just seven months before dying of colon cancer, and the current CEO, Jim Skinner - both had broad international experience. Skinner spent the 1990s running McDonald's European and other worldwide operations. McDonald's top management today is American-heavy; Hennequin remains the exception.

Alvarez says, "Our plans are to have the best talent in the field, not to import them." But he insists there's far more diversity of thinking at the company than there ever was, and adds, "One thing we learned is that we would not have had the level of success if we had tried to scale from the center."

So if McDonald's is so open to embracing ideas hatched abroad, how come the Big Tasty hasn't made it to the United States. Alvarez says the U.S. operations of McDonald's took a serious look at it, including conducting extensive consumer tests, but eventually decided that it didn't quite fit on the domestic McDonald's menu.
The reason: While the Big Tasty scored high for its flavor, it's not all that easy to carry around in a car - and 70% of McDonald's customers in the U.S. come from drive-through. "It's a big, messy burger," Alvarez notes, "and it didn't score well for portability." All of this just goes to show that, as McDonald's and others have been discovering, accounting for local taste can be very lucrative, but it sure makes everything a lot more complicated.