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KISHORE DASH

McDONALD'S IN INDIA

I do not see anything wrong with McDonald's doing business in India. After all, it is not McDonaldization that we know of; it is a Big MaCcommodation.

A Senior Bureaucrat in New Delhi

In October 1996, McDonald's opened its first Indian outlet in Vasant Vihar, an affluent residential colony in India's capital, New Delhi. As of November 2004, McDonald's has opened a total of 58 restaurants, mostly in the northern and western part of India (Exhibit 1).[1] While McDonald's opened 34 restaurants in five years (by 2001), 58 restaurants in eight years (by 2004), it is now planning to add more than 90 new restaurants in the next three years.[2] Although the initial scenes of crowds lining up for days outside the McDonald's restaurants in Delhi and Mumbai are no longer seen, Indian consumer response to McDonald's products still remains very strong.

The ten McDonald's I visited in Mumbai and Delhi were packed with young people, children, and young parents enjoying ice creams, spicy potato wedges (instead of the usual french fries), and Happy Meals. The growth of McDonald's in India is not as rapid as in China (Exhibit 4). But its growth is nevertheless impressive. How did McDonald's do it? How did a hamburger chain become so prominent in a cultural zone dominated by non-beef, non-pork, vegetarian, and regional foods such as *chola bhatura, kababs, bhaji, samosa, dosa, vada, sambar, bhelpuri,* and rice? The answer to this question lies in McDonald's carefully planned entry and expansion strategy in accordance with India's changing political, economic, and cultural landscape in the 1990s.

The Indian Food Service Industry

With more than five thousand ethnic communities represented, India has a very diverse population. Each region and subregion in India has distinct food traditions and preferences. Indian consumers typically maintain their distinct food habits even after migrating to different parts of the country. In large cities and metropolitan areas, some restaurants serve only specialty regional foods. Some regional fast foods such as *samosa, kababs, chola bhatura, pakoda, aloo-paratha, poori-bhaji, dosa,* and *sambar-vada* are popular among Indian consumers and are available in both specialty and multi-cuisine restaurants throughout India.

Most Indians prefer to eat home-cooked foods and take immense pride in the varieties of food cooked at home. For most Indians, home-cooked foods are considered fresh, healthy, and inexpensive. Given the distinct dietary habits and food preference of Indian consumers, it is not surprising that until the early 1990s Western fast food chains had largely ignored Indian markets. As a result, Nirulas, the only notable Indian fast food chain, has been able to dominate the Indian market in fast food service sales.

[1] In November 2004, McDonald's entered the southern part of India with its first restaurant in Bangalore, the so-called Silicon Valley of India.
[2] "McDonald's to Open 90 Outlets in Three Years," *Business Standard*, June 24, 2005.

There are approximately 22,000 registered restaurants in India. In addition, there are more than 100,000 *dhabas* (small roadside food stalls) that sell a variety of foods in cities and on highways. By 1998, there were approximately 1,568 registered hotels in India, half of which have their own restaurants.[3] In addition, large to medium-range canteens serve the food needs of various institutions such as hospitals, prisons, defense establishments, schools, colleges and universities, railways, airlines, government establishments, and private companies.

Since 1994, India's food imports have been growing more than 37% per year. Half of India's food imports are agricultural items such as cereals, vegetables, fruits, wheat, and nuts. One of the significant problems of the Indian food industry is an inefficient food chain between farmers and consumers. About 20% of India's food production is wasted because of too many intermediaries, poor infrastructure, and poor transportation facilities. Considerable inefficiency in the food distribution system cuts farmers' income while raising consumer food prices. Although India is the world's third largest food producer, its processing industry is very small compared to other countries in Asia, Europe, and the United States. Despite the lack of a well-developed food processing industry, India's imports of processed consumer foods have traditionally remained low.

Since the early 1990s, India's food service sales have significantly increased. India's processed and fast food markets have shown considerable potential for growth. A number of factors have driven increased processed and fast food sales:

- Growing Income

The long-term growth trend in India is improving. The past three decades have seen a steady acceleration. Average annual growth in GDP per head climbed from 1.2% in the 1970s to 3% in the 1980s and 4% in the 1990s. From 1972 to 1982, GDP growth averaged 3.5% a year—the so-called "Hindu rate of growth." As a result of India's decade-long liberalization of economic policies, the growth rate climbed to 6% from 1992-2002 and is likely to reach 7% by 2010.[4] If this rate is maintained, GDP per person will double in only 18 years. However, high GDP growth is confined to only the few states with coastal access and high levels of urbanization. The fastest-growing Indian states in 1991-2001 were Delhi, Maharashtra, Karnataka, West Bengal, and Gujrat. These states enjoyed annual average economic growth of 6-8%, which is comparable to East Asian economies during the same period. But the economies of poor states like Bihar, Uttar Pradesh, Madhya Pradesh, Orissa, and Assam grew by a dismal annual average of 2% over the same period.[5]

Not surprisingly, income distribution is highly skewed in India. Just 20% of the richest Indians share more than 40% of the national income (Exhibit 2). Exhibit 3A gives a profile of average annual household income distribution in India. According to a study by National Applied Economic Research (2004), the number of households with an annual income over Indian Rupees (Rs.) 1 crore (US $228,351) has grown by 26% since 1995-96 to 20, 000 in 2001-02. By 2009-10, it will increase more than seven times to 1,40,000 households. In the Rs. 50 lakh (US $114,180) to Rs. 1 crore (US $228, 351) bracket,[6] the number of households is expected to increase from 40,000 in 2001-02 to over 250,000 in 2009-10.

Exhibit 3B describes the change in average annual household income distribution of low, lower, and high middle class in India's urban and rural areas from 1989-90 to 2001-02. It also provides a projection in income distribution of low, lower, and high middle class for the year 2009-10. In the 11 years following 1989-90, the total number of households increased by 32%, although the average size of

[3] *USDA Foreign Agricultural Service GAIN Report #IN9082*, U.S. Embassy, New Delhi, November 14, 1999, pp. 2-3.
[4] Dani Rodrik and Arvind Subramanian, "Why India Can Grow at 7 Percent a Year or More: Projections and Reflections," IMF Working Paper, July 2004.
[5] EIU, Business India Intelligence, January 26, 2005, Vol. 12, No. 2, p. 5.

Indian households has declined from 5.9 people per household in 1990 to 5.2 in 2001. What is important is that the number of low-income urban households has been approximately halved, from 14.9 million households in 1989-90 to 7.6 million in 2001-02. The number of low-income rural households has also declined from 69 million in 1989-90 to 58 million in 2001-02. The growth in incomes in the top band has been experienced by both urban and rural households, both of which have roughly doubled as a share of the total population over the 1990s.[7] The members of these households have higher disposable income and have shown greater propensity to spend on fast foods.

- Population Growth and Urbanization

According to the 2001 census, India's population grew at a rate of around 2% a year during the previous decade. This was a marked decline from earlier decades of population growth of around 3% annually. Nevertheless, India added 181 million people between 1990-2001, more than the total population of Brazil.[8] According to the forecast of Goldman Sachs (an American investment bank), the reason why India is expected to outperform Brazil, Russia, and China, as well as the "rich world" (i.e., United States, Canada, France, Germany, United Kingdom), is that it is the only country where the population will continue to grow for the next 50 years and where the proportion of working-age people will increase well into the 2020s.[9]

The percentage of urban population in India has increased from 21% in 1975 to more than 28% in 2004 (Exhibit 2). It is likely to increase to 36% in 2025.[10] Most high-income Indians prefer to live in urban areas. Over 70% of affluent urban Indian consumers live in the ten most populated and cosmopolitan cities in India: Mumbai, Delhi, Kolkata, Pune, Chennai, Hyderabad, Bangalore, Ahmedabad, Ludhiana, and Nagpur. The number of dual income households, where both husband and wife work, is slowly increasing in urban areas. Like their husbands, full-time working women spend most of their time away from home. As a result, there has been a dramatic change in the way Indian working wives shop and organize family meals. Packaged rice, prepared yoghurt, packets of flour, frozen chickens, and marinated mutton (goat or lamb meat) are fast replacing curdling, grinding, and handling of market-bought fowls and haunches of mutton. Not surprisingly, even some Indian consumers have started opting for meals away from home on working days. The growing popularity of Delhi's Waiters on Wheels (WOW), a supply agency delivering meals to people's doorsteps from 30 different restaurants at the same price as one would pay in the restaurants, is an example of India's changing food service landscape.[11]

High income and growing urbanization have also contributed to a shift in the traditional Indian food habits. High-income urban dwellers are seeking variety in their choice of foods and are willing to spend more on international cuisine, including fast foods. Consequently, a growing number of domestic fast food outlets, home delivery, take-away restaurants, and American restaurant chains, such as Kentucky Fried Chicken (KFC), TGI Friday's, Domino's Pizza, Pizza Hut, McDonald's, and Baskin Robbins, have opened in the last few years.

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[7] NCAER (National Council of Applied Economic Research) survey report, March 9, 2004.
[8] "Looking on the Bright Side: India's Economy Is Revving Up," *The Economist*, February 21, 2004, p. 13.
[9] In a widely circulated report on the growth prospects of BRIC (Brazil, Russia, India, China), Goldman Sachs predicted that over the next half century growth will slow sharply in the world's six big rich countries and in Brazil, Russia, and China. But India will continue to experience an annual average growth of more than 5%, and by 2032 its GDP will be bigger than Japan's. By 2050, India's national income per head in dollar terms will have multiplied 35-fold. Goldman Sachs, *Global Economic Paper No 99: Dreaming with BRICs: The Path to 2050*, October 2003, http://www.gs.com/insight/research/reports/report6.html. Also see the follow-up report by Goldman Sachs, *Global Economic Paper No 112: The G8: Time for a Change*, June 2004, http://www.gs.com/insight/research/reports/report15.html.
[10] Tim Dyson, Robert Cassen, and Leela Visaria, *Twenty-First Century India: Population, Economy, Human Development and the Environment*, Oxford University Press, 2004.
[11] See Adirupa Sengupta, "Living Up to the Choices Offered by the Free Market," *India Abroad*, August 29,

India's Economic Liberalization

The effort of McDonald's to enter India commenced in earnest in the early 1990s after it successfully opened outlets in China.[12] Exhibit 4 provides some facts about McDonald's entry and growth into select countries. India's wide range of economic reforms in the 1990s, coupled with a potentially large consumer market (with 300 million consumers, almost as big as China), provided enough incentives for McDonald's to enter into the Indian market. Executives at McDonald's were aware of India's deep suspicion of foreign companies. After all, India's colonization by the British for over three centuries started with the East India Company's trade linkages. Not surprisingly, after its independence in 1947, Indian political leaders propounded vigorously the *swadeshi mantra* (preference for national products). Accordingly, they pursued policies of economic nationalism in which heavy state intervention in economic matters and preference for domestic companies continued until the late 1980s. India's sensitivity to cultural imperialism, the so-called Western cultural domination over Indian values, traditions, religious beliefs, customs, and food habits, made the entry of foreign multinational corporations (MNCs), particularly in the food industry, difficult.

Until late 1980s, India continued to pursue a *dirigiste* (state control over economic matters) and *autarkic* (self-sufficient) development strategy. Under this strategy, public sector-led economic growth was given critical importance. Government control over the economy was maintained through protective trade policies; price control; licensing requirements for companies to relocate existing facilities, establish new plants, expand production, and introduce new technology or new product lines; severe constraints on the in-flow of foreign capital and technology; and extensive regulatory intervention on market activities. Companies were forced to import at the government-fixed exchange rate. The inefficiency of the public sector and the government's policy to support loss-making public firms by budget outlays and loans from nationalized banks led to a considerable slowing down of the Indian economy. Such strategies produced a low economic growth rate (the so-called Hindu rate of growth) of 3.5% between 1965 and 1980.

By the late 1980s, India began to borrow heavily from both commercial sources and the World Bank and Asian Development Bank to finance its growing budget deficits. The major portion of the government's fiscal deficit was incurred by its inability to control the expansion of public sector employment, subsidies, military expenditure, and interest payments. By 1990, India's economic situation was in a critical stage. In June 1991, India faced a severe balance of payment crisis as its foreign exchange reserve plummeted to an all-time low of $1.2 billion, barely sufficient to pay for two weeks of vital imports. Besides, by 1991 the central government's budget deficits reached a record high of 8.4% of GDP. The inflation rate, which for most of the 1970s and 1980s remained at a single digit, went up to 17%; external debt increased from $21 billion in 1980 to over $ 71 billion; and the debt-to-service ratio increased to an unmanageable 32% of GDP.[13]

In response to this severe macroeconomic crisis, India's newly formed government, under the leadership of Prime Minister Narasimha Rao of the Congress (I) party, introduced a series of economic reforms designed to decrease government control in the economy and move toward an increasingly market-based economy. Exhibit 5 outlines some of the major policy reforms of 1991. India's economic liberalization policies were designed to create a market-friendly environment to attract MNCs and foreign direct investment.

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[12] For background information about McDonald's and its history, see *McDonald's: Behind the Arches* by John F. Love (New York: Bantam Books, 1995); *Grinding it Out: The Making of McDonald's* (Chicago: H. Regnery, 1977) written by McDonald's Corporation founder Ray Kroc with Robert Anderson; *Big Mac: The Unauthorized Story of McDonald's* (New York: Dutton, 1976) by Max Boas and Steve Chain; and the McDonald's Web site.

[13] See Montek Singh Ahluwalia's commentary on India's Reform, *Columbia Journal of Business*, 29:1 (Spring 1994), p. 7.

While a number of U.S.-based fast food chains like KFC and Pizza Hut rushed to the Indian market in the early 1990s as result of the Indian government's liberalization policies, McDonald's did not enter the Indian market until 1996. Instead, it spent about six years in planning, extensively researching Indian consumer tastes, product development, and supply chain arrangement before opening its first outlet in 1996.

McDonald's Road Map for India

Emphasis on Local Management

McDonald's has given the adage of "think global, act local" a concrete shape in India. The company's localization strategy is clearly manifest in the critical area of management. McDonald's decided to set up two joint ventures on a 50:50 basis with two local entrepreneurs in Mumbai and Delhi. In Mumbai, Amit Jatia's company, Hardcastle Restaurants Private Limited, was selected to own and manage McDonald's restaurants in the western region. In Delhi, Vikram Bakshi's Connaught Plaza Restaurants Private Limited was chosen to own and manage McDonald's restaurants in the northern region. Both Vikram Bakshi and Amit Jatia are responsible for running McDonald's in India. Vikram Bakshi has extensive background in real estate development in Delhi, while Amit Jatia, a vegetarian, has a chemicals and textile business background in Mumbai. It was not their backgrounds, however, that won the confidence of the Big Mac's management. Rather, it was their business plan emphasizing India-centric management strategies and their easy access to bureaucracy so critical to effective government relations building.

"Politically Correct" Strategy

In the beginning, McDonald's was faced with two challenges of the Indian market: (1) how to avoid hurting religious sensibilities of Indian consumers; and (2) how to avoid political confrontation with Indian government and political activists. McDonald's managers were well aware of the fact that political activists can create trouble for foreign-based fast food chains, as demonstrated in the case of politically organized agitation against KFC in Bangalore in January 1996. With two local managing directors (Bakshi and Jatia) playing critical roles, McDonald's took a series of politically correct strategies to deal with the initial challenges of the Indian market. Since India's majority Hindus (80% of India's population) revere cows as sacred and 150 million of Indian Muslims do not eat pork, beef and pork have been a "complete no-no" from the start. Instead, McDonald's introduced a mutton-based "Maharaja Mac" in India, as opposed to its flagship beef-based Big Mac elsewhere.[14] Other items—such as the tantalizing McAloo Tikki Burger (breaded potato and pea pattie)—were added to the menu to lure India's middle class. Approximately 75% of the menu available in McDonald's in India is Indianized and specifically designed to woo Indian customers (Exhibit 6).

Employment Opportunity

India has come a long way from opposing the entry of MNCs to encouraging them to expand their business operations in India. Today, every expansion move McDonald's makes is received well by government officials. An important reason for this shift in attitude is the ability of the company to generate quality and long-term employment opportunities for Indians. McDonald's typically employs local people, and the average McDonald's restaurant in India employs more than 100 people in all kinds of positions—cashiers, cooks, managers, etc. Besides, every expansion also brings additional income and employment opportunities to India's agricultural work force, which is very pleasing to government officials. As Devinder Singh, a post-graduate economics student of Delhi School of Economics in Delhi University, put it: "McDonald's is now seen as a small- or medium-scale industry and is thus considered

[14] Maharaja Mac is made of two all-lamb patties, special sauce, lettuce, cheese, pickles, onions on a sesame seed bun.

as useful for generating additional employment opportunities. As long as McDonald's serves this purpose, government support will follow."[15]

Green Sensitivity

In India, there is a vocal group of environmental and animal activists who oppose the entry of fast-food chains like KFC and McDonald's. Maneka Gandhi, former environment minister in the central government, and Dr. Vandana Shiva, director of the Research Foundation for Science, Technology and Ecology, are the prominent leaders of this group. According to this group's campaign, junk food chains like McDonald's and KFC destroy ecological balance and cause severe behavioral disorders because of their fatty and unhealthy foods, which have excessive levels of monosodium glutamate (MSG). Besides, they also campaign that these food chains are anti-poor and cater only to the rich segment of the Indian society.

To counter such negative campaigns, McDonald's has instituted a special fund to support green movements in Delhi. In Mumbai, in addition to financial contributions, it sponsors various community-related activities—such as "keep your city clean"—to promote environmental consciousness. In some of its restaurants in Delhi's residential areas like Vasant Vihar and Noida, McDonald's has put up pro-environment advertisements like "We Love Green." As a part of its attempt to increase awareness for an active and healthy lifestyle, McDonald's has sponsored and promoted several highly visible sports-related activities, including the recently concluded and very well attended "Olympic Day Run" in June 2005 in Vadodara in the state of Gujrat. Besides, McDonald's is currently focusing on fine tuning its fast food image by adding health food options to its product lists in terms of offering more baked or toasted options as opposed to fried patties. McCurry Pan, introduced in 2003, was the first baked dish option, and many more are being developed.

Corporate Citizenship: Giving Back Is Good Business

The executives of McDonald's understand it well that giving back to society is not just a one-way street (benefiting the recipients of corporate volunteerism). It is also a critical element of a company's brand and reputation. Giving back to the community brings benefits that far exceed any costs—whether it's in terms of strengthening the brand name or generating positive political capital that translates into more official support for company's expansion strategy. Thus, as a part of its corporate citizenship strategy, McDonald's has been involved in many community-related projects in India. Most of its projects are, however, directed toward children. One of its most popular community programs in Mumbai is called McDonald's Spotlight, which is an annual interschool performing arts competition. This competition is open to all secondary schools (standards 5th to 10th). The popularity of McDonald's Spotlight is evident from the number of schools participating in it. From 28 schools in 1998, the figures have increased to 120 schools in 2003.

Since 2002, McDonald's has been participating in World Children's Day on November 20 that coincides with United Nations' Universal Children's Day. On this day, McDonald's restaurants all over the world come together to raise funds for a charity of their choice. Since India has already been celebrating Children's Day on November 14 (that coincides with the birthday of India's first Prime Minister, Jawaharlal Nehru), McDonald's thought it appropriate to link these two days in India to create what is known as World Children's Week. Thus, instead of World Children's Day, McDonald's celebrates World Children's Week from November 14-20 in all its restaurants in India, during which funds are raised to finance various educational programs for children. One such popular initiative by McDonald's in Mumbai is known as the *Blue Dot* initiative that supports educational programs for the girl-child. In the Indian society, where the girl-child is always less favored than a boy, such an initiative by McDonald's has generated a lot of goodwill among Mumbai's politicians and community organizations that are working toward improving the status of the girl-child.

[15] Interview, New Delhi, May 17, 2004.

Another successful program sponsored by McDonald's is the Pulse Polio program that aims to make India polio-free by the year 2005. Partnering with the Rotary Club and local health organizations in Mumbai, McDonald's has been setting up inoculation booths outside its restaurants in Mumbai since 2001 to provide free polio vaccine to the children up to the age of five years during the polio eradication drive week once a year. McDonald's has also sponsored such popular children programs as the Millennium Pune Festival, Millennium Dreamers Global Recognition program (a talent search program for children between 8 to 15 years) in collaboration with UNESCO and Disney World Resort in Florida, and Interschool Science Quiz contest (where more than 180 schools from Mumbai participate every year) in collaboration with the Nehru Science Center, Mumbai. Needless to say, such community-related programs have earned official support for McDonald's and have helped its brand and reputation.

Pricing

Much of the McDonald's growth in India can be attributed to its pricing strategy. Since, on an average, each household spends about 50% of income on food and beverages in India, food prices are always a sensitive issue (Exhibit 7). Even the Indian middle class, despite their much improved income level, remains very price sensitive. Accordingly, McDonald's has pursued what Amit Jatia, the company's managing director in the Western region, calls "purchasing power pricing" or the customer's ability to pay. The adoption of such a pricing strategy in India offers a useful country-specific insight on possible price differences of the company's products on the basis of purchasing power parity (PPP) calculations across countries as provided by the so-called Big Mac Index (Exhibits 8 and 9).

Worldwide, McDonald's has achieved success by tapping middle-class households. But in India, while McDonald's has been able to get a larger share of rich and upper-middleclass population, it has not been as successful at effectively tapping the middle-class and lower middle-class segments. Capturing the latter segment is critical as McDonald's starts entering into smaller cities. But this section has mainly stayed away because of a widely prevailed perception that McDonald's is expensive. This is the reason why the company cut prices on its vegetable nuggets from Rs 29 to Rs 19, and the soft service ice cream cone from Rs 15 to Rs 7 in 1997.[16] In September 2001, McDonald's offered its enormously popular *shudh shakahari* (pure vegetarian) Veg Surprise (a veggie burger) for Rs 17. With this price, McDonald's was able to sell the veggie burger 40% more than what it expected within a month between September and October of 2001.[17] In March 2004, McDonald's launched a Happy Price menu under which it sells four of its burger products at Rs20 each. This has led to a 25% increase in customers.[18] Clearly, the McDonald's strategy has been to increase sales volume of its products by making its products available at an affordable price.

McDonald's has been offering value meals in a range of prices—Rs 29, Rs 39, Rs 49, Rs 59, Rs 79, and Rs 89. McDonald's has employed this value-ladder strategy to ensure affordability and thus attract the widest section of customers. As Vikram Bakshi, McDonald's managing director of the Northern region in India, explains, "Our clear strategy is to bring the customers in initially and provide a range of entry-level products so that they can try new items and graduate to the higher rungs. Thus, if a customer starts with a McAloo Tikki Burger (breaded potato and pea pattie), what he graduates to finally is a vegetarian burger. Or, if a customer starts with a Chicken Kabab burger, what he graduates finally to is the McChicken." Such strategy has helped its volume business.

Another strategy that seems to have gone well with Indian customers is what the company calls the 80-20 menu board—80% visual and 20% descriptive. The main objective of the company is to make it easier for customers to understand what the 29, 39, 49, 59, 79, and 89 rupee options are. Coupled with the pricing range, McDonald's quick service, convenience, and no-tips environment have attracted many school- and college-going customers, as well as young middle-class families.

[16] Bhanu Pande and Aarti Dua, "Big Mac's Appetite for Growth," *Business Standard*, August 29, 2000, p. 4.
[17] Seema Shukla, "McIndia," *Business Today*, November 25, 2001, p. 58.

The most important reason for McDonald's pricing flexibility is its well-established supply chain arrangement, which ensures efficiency and speed in distribution. Besides, huge increases in volume sales and food processing technology have been helping the company to offset its cost.

Supply Chain Management

Another critical strategy was to set up a well-established supply chain in India in order to achieve three objectives: (1) to operationalize its globally practiced QSCV (quality, service, cleanliness, and value) principle; (2) to enjoy flexibility in pricing; and (3) to launch a new product when necessary. To achieve these three objectives, McDonald's often uses an outsourcing model in all its markets. In some cases, it also actively imports. But given India's relatively higher import duties and foreign exchange fluctuations, McDonald's decided early on to source its raw materials from the local suppliers to the maximum extent possible. Currently, McDonald's only imports the process control equipment that allows it to dish out burgers and other orders within its super-fast time frames. The company, however, sources 95% of its raw materials from 38 local suppliers.[19] Fresh lettuce comes from Delhi, Pune (Maharashtra), Nainital, and Ooty (Uttar Pradesh); cheese comes from Dynamix Dairies located in Baramati (Maharashtra); buns come from Cremica Industries in Phillur (Punjab) and Shah Bector and Sons in Khopoli (Maharashtra); pickles come from Global Green Company in Hyderabad (Andhra Pradesh); sauce comes from Bector Foods in Phillur (Punjab); and chicken patties, vegetable patties, pies, and pizza puffs come from Vista Processed Foods in Taloja (Maharashtra) (Exhibit 10). The entire supply distribution is the responsibility of AFL Logistics Ltd., a joint venture between Airfreight and Coughlin in the U.S., and Radhakrishna Foodland (P) Ltd. in Thane, Maharashtra.

Setting up a well-coordinated supply chain was not easy, given India's poor transportation and storage infrastructure, as well as its lower-quality agricultural products. Thus, six years prior to the opening of its first restaurant in India, McDonald's and its international suppliers worked together with local Indian companies to develop products that meet the rigorous quality standards McDonald's demands. An underlying principle in product development was to strictly adhere to the Indian government's regulation on food, health, and hygiene and to exceed the government's standards. To do so, McDonald's transferred its state-of-the-art food processing technology to India, enabling Indian businesses to grow by improving their ability to compete in today's international markets.

McDonald's has worked with local Indian suppliers to consistently improve the quality and increase greater yields of agricultural products. For instance, it helped farmers of Trikaya Agriculture Company to grow high-quality lettuce year round in Ooty, Pune, Delhi, and other regions. McDonald's shared with Trikaya advanced agricultural technology and expertise like utilization of drip irrigation systems that reduce overall water consumption and agricultural management practices. For quality control, Trikaya's post-harvest facilities now include a large cold storage facility, a cold chain consisting of a pre-cooling room to remove field heat and large refrigerated vans with humidity controls. To ensure standardization and higher quality, Vista International, which supplies the pies, nuggets, and vegetable and chicken patties, built a new facility in 1996 with help from McDonald's. This new facility has insulated panels, temperature control, and chill rooms. Vista International has obtained American Institute of Bakers and Hazard Analysis Critical Control Points (HACCP) certification for quality standards.[20]

In some cases, Indian companies like Dynamix Dairies had the technology but no market for their milk derivative products. By associating with McDonald's, Dynamix Dairies has seen a regularly grow-

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[18] Pooja Kothari, "Brand-Equity—Shaking It Up at McDonald's," *The Economic Times*, October 13, 2004.
[19] Seema Shukla, "McIndia," *Business Today*, November 25, 2001, p. 62.
[20] Hazard Analysis Critical Control Point (HACCP) is a systematic approach to food safety that emphasizes prevention of illness or presence of microbiological data within suppliers' facilities and restaurants rather than its detection through inspection. Based on HACCP guidelines, control points and critical control points for all McDonald's major food processing plants and restaurants in India have been identified. The HACCP verification is done at least twice a year and is certified.

ing expansion of its market. Now, it not only supplies products to McDonald's restaurants in India, but also has an export order of approximately US$12 million per year.

Radhakrishna Foodland (P) Ltd., which is responsible for getting products from various suppliers and delivering products to various McDonald's outlets, has earned an excellent reputation in maintaining a tight "delivery-on-time" schedule. This is possible because of the company's installation of enterprise resource planning (ERP) software, which provides data of what is selling where. This way, the company is able to anticipate demand in each retail outlet and place orders with producers accordingly. With the help of McDonald's, the company has set up a trucking fleet to move supplies to restaurants at short notice. Each of the company's delivery trucks has three degrees of refrigeration—a freezer section for meats, a cold refrigerator section for vegetables, and a nonrefrigerated section for paper cups, napkins, and plastic cutlery. This way, each truck delivers multiple items at one go and saves the company and restaurants a huge sum of transportation cost.

Radhakrishna Foodland distribution center also maintains high-quality standards in cleanliness, including personal hygiene for the drivers, packing, and checking temperatures of the food it transports to various restaurants. The company maintains detailed data logs to track the movement of each batch of food items. In case of a complaint about a food item at any McDonald's restaurants, the data logs help the company to identify the batch from which the particular food item came. Then the company issues a warning or decides to discontinue the batch from which the food item came.[21] This ensures a high-quality standard of food items delivered to each McDonald's outlet. Not surprisingly, the company has obtained American Institute of Bakers and HACCP certification for quality standards.

Such meticulous planning in setting up a well-coordinated supply chain system has paid rich dividends to the McDonald's operations in India. It has minimized costs, optimized quality control, and ensured higher customer satisfaction, which is so very essential for the company's growth. More critically, the improved transportation and food processing technology seems to have served as an important catalyst for increasing India's agricultural productivity while raising farmers' incomes. This has scored very well on the political front and won the government's goodwill.

Location

The initial openings of McDonald's outlets in Delhi and Mumbai were driven by affordability and brand recognition factors. Given the metropolitan culture and wide Western exposure of these two large cities, where most of India's rich and upper middle-class population live and are aware of McDonald's foods, it was logical for the company to open its initial outlets in these two cities. Besides, the inhabitants of both Mumbai and Delhi love to experiment with a wide variety of foods. This obviously suited McDonald's brand of foods. In addition, McDonald's has two large distribution centers in these two metros. Needless to say, opening up restaurants in these two cities would drive down the opportunity and transaction costs.

Logistics play a critical role in McDonald's location strategy. As a part of its Quick Service Restaurant (QSR) business, McDonald's has initially decided to open its outlets only within a 500-km radius of its main distribution centers in Delhi and Mumbai. This is the reason why McDonald's has not opened a single outlet in metropolitan cities like Kolkata in the eastern part of India, despite the city's huge urban and cosmopolitan character.

Besides Delhi and Mumbai, other places where McDonald's has opened up restaurants are satellite cities located near Delhi (such as Noida, Gurgaon, and Faridabad), or Mumbai (such as Pune); places with tourist appeal (such as Jaipur, Mathura, and Shimla); and cities with an eating-out culture (such as Ahmedabad, Chandigarh, and Bangalore). The McDonald's outlet in Ahmedabad in the state of Gujrat is an interesting case. Ahmedabad is largely a vegetarian city. But, like other metropolitan Indian cities,

[21] Neera Bhardwaj, "The Making of McQuality," *Business India*, August 24, 1998, p. 19.

Ahmedabad has a significant number of eating-out customers. Given long lines of people at the counter, it seems that McDonald's well-balanced menus of vegetarian and nonvegetarian items has provided enough choice and space for customers of this city.[22]

McDonald's has partnered with the state-owned oil company, Bharat Petroleum Corporation Ltd. (BPCL), to set up restaurants at the latter's petrol stations in and around Delhi to make it more convenient for automobile-driving consumers. BPCL is the leading petroleum retailer in India and has the largest number of petroleum stations in and around Delhi. It is important to note the shift in government attitude toward MNCs that led to a successful partnership between McDonald's and the largest state-owned company.

Keeping an eye on the huge potential for eating out venues for lower middle-class Indians, McDonald's has partnered with a railway station and bus station in Delhi to open its outlets: Delhi Metro Rail Corporation, and the overcrowded Delhi's Inter-State Bus Terminus, where thousands of people pass through daily on their way to different destinations. More importantly, to tap the automobile-driving consumers, business travelers, and tourists, McDonald's has set up drive-through outlets in Delhi and along national highways. Two drive-through outlets on the Delhi-Agra and Mumbai-Pune highways have proven to be successful. The company has plans to open more drive-through outlets in Delhi and Mumbai and along national highways—such as the Delhi-Jaipur highway, Delhi-Ambala highway, and Delhi-Ludhiana highway. Again, as with all of its restaurants, the move to set up these new restaurants has been driven by business prospects, logistics, and supply chain.

In order to tap into the business of shopping mall and film-going customers, McDonald's has set up outlets at shopping malls and new multiplexes in metros like Delhi and Mumbai. The success of its outlet at the Crossroads in Mumbai is evidence that a strategic location outside a mall can bring in customers in hordes. Given the premium pricing in the shopping mall, it is not surprising to see that many people are content with window-shopping at the Crossroads. But they do not mind spending a few rupees at McDonald's for a burger or spicy fries. More important, families with children are happy to spend at least 7 rupees to buy an ice cream for their children. Thus, while most shopowners at the mall are hard-pressed to break even, the lines at the McDonald's counters seem unending. A similar trend is seen at the newly opened multiplex in Delhi's Vikaspuri.

Cultural Sensitivity

Since the mid-1980s, Indian society has undergone a dramatic shift in social values. The traditional caste-defined view of Indian life, which undervalues social and economic mobility, and the dominance of the Brahmanical culture's disdain toward commerce have been challenged by the middle class in contemporary Indian society. Getting rich and enjoying a good life has become the new mantra of social existence for the Indian middle class. With more income and more purchasing power, the status-conscious Indian middle class now seek to buy good quality consumer products and spend more money on food and entertainment. In metropolitan cities, extensive foreign media exposure and the Internet revolution have contributed to the emergence of a new social attitude which accepts Western values and culture. The contemporary Indian society can be understood on the basis of a 70/30 dynamic. While 70% of Indians are still traditional, poor, and live in rural areas, 30% of Indians (more than 300 million people) have emerged as rich, modern, Western-exposed, English-speaking, urban dwellers.

In India's metropolitan cities, the young and rich have embraced the spirit of American culture.[23] America has come to be associated with success, productivity, and a good life. This growing acceptance corresponds to the big impact of the American influence on Indian business, education, and entertainment. The U.S. is India's largest trading partner, investor, and business collaborator. Top U.S. corporations like General Electric, General Motors, Ford, Citibank, Coca Cola, Pepsi, Microsoft, IBM, and

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[22] Vinod Mathew, "McDonald's Set to Enter Veg Territory," *Business Line*, February 18, 2002.
[23] For growing acceptance of American culture, see Sudeep Chakravarti, Nandita Chowdhury, and Stephen David, "Americana: Like, This is it!" *India Today*, February 9, 1998, pp. 17-19.

Intel are entrenched in India. American universities in general, and a few in particular like Harvard, Wharton, Columbia, Princeton, and Massachusetts Institute of Technology (MIT), are instantly recognized in India and have become the most preferred destinations for today's generation. The growing popularity of Western pop culture, MTV, Hollywood movies, and American-type fast food are all a part of this new social acceptance of the urban-based Indian rich and middle class.

The image of McDonald's as a premier American fast food chain fits well with this changing Indian socio-cultural landscape. For many, McDonald's has become an important stop on the way to Harvard or MIT, a place that provides an opportunity to "connect" with the world outside India. For its part, McDonald's has also introduced several new products specifically for Indian consumers in order to get accepted and successfully blend into local Indian culture. Of course, introducing local products for the local palate is not a new concept at McDonald's. The Teriyaki Burger in Japan, Croque McDo in France, the Maharani Burger in Malaysia, a green pepper burger in Singapore, a Thai burger with a Thai curry paste, spaghetti in the Philippines, spicy chicken with rice in Indonesia, and spicy seafood noodle in China are some of the examples of its localization strategy. But what is unique in the context of India is the company's willingness to replace its core product, beef-based Big Mac.

Given the fact that an overwhelming majority of Indians (about 83%) do not eat beef or pork, the introduction of the Maharaja Mac (a mutton-based burger) by McDonald's seems to be an appropriate cultural fit. Contrary to popular belief, however, India is not a predominantly vegetarian country. About 20% of India's population is completely vegetarian (Exhibit 11). A closer look at state-level food habits in India reveals that food preferences vary widely among the country's 30 states and six union territories. About 69% of Gujrat is vegetarian; 60% of Rajasthan; 54% of Punjab and Haryana; 50% of Uttar Pradesh; 45% of Madhya Pradesh; 34% of Karnataka; 30% of Maharashtra; 21% of Tamil Nadu; 16% Andhra Pradesh and Delhi; 15% of Assam; 6% of Kerala, Orissa, Bihar, and West Bengal; and less than 5% in northeastern states/union territories (Manipur, Mizoran, Nagaland, and Arunachal Pradesh). While part of this vegetarianism is economic, a more compelling force is ethical and even religious. Jains avoid meat totally, while many Buddhists in India are vegetarian. Brahmins, Saivite non-Brahmins of South India and several Vaishnavite sects across the country avoid meat. Interestingly, though, Brahmins of East India, Kashmir, and the Saraswats of the southwest eat fish and mutton. But even among meat-eaters, beef is taboo.[24]

For vegetarian consumers, McDonald's offers veggie burgers, which are very popular among the vegetarians in India. Like the Maharaja Mac, the veggie burger has gone through a rigorous testing procedure and detailed planning. Sanjiv Mediratta, McDonald's quality assurance and product development manager for India, had test-marketed this veggie burger in 1994 in McDonald's outlets located in three Asian population-dominated towns of London—Southhall, Ilford, and Hounslow—before launching the product in India in 1996.[25] Further, McDonald's has sought to enforce strict standards in product development and cooking so as not to ruffle cultural sensitivities of the vegetarian consumers of the Indian society. All foods are strictly segregated into vegetarian and nonvegetarian lines and separate utensils are used for cooking vegetarian and nonvegetarian foods. French fries in India are not flavored with beef tallow, as is the case in the United States and elsewhere. Even the mayonnaise and ice cream contain no eggs.[26]

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[24] See D. Balasubramanian, "Changes in the Indian Menu over the Ages," *The Hindu*, October 21, 2004; for details about India's demography and food preference. Also see "The Rediscovery of India," *India Abroad*, January 2, 1998. This report is based on a decade-long nationwide ethnographic survey of Indian people, which was published by Anthropological Survey of India, New Delhi, December 1997, under the title of "People of India."

[25] Interview, New Delhi, May 17, 2003.

[26] This information is prominently displayed in all McDonald's outlets in India. On June 1, 2002, McDonald's Corporation said it would pay $10 million to Hindu, vegetarian, and other groups more than a year after a Seattle lawyer, Harish Bharti, sued the fast food chain, alleging it failed to disclose the use of beef flavoring in its french fries. In the same press release, McDonald's clearly stated that it does not use the beef flavoring for fries sold at its restaurants in India.

Indians typically spend more money on eating out and purchasing new products during festival seasons. To capitalize on the spending habits of Indian consumers, McDonald's has often sought to launch new products, the so-called "fourth flavor,"[27] during India's festival season, which falls between September and November. Some of the major and popular religious festivals in India during September and November are *Navratras, Dussehra,* and *Diwali,* when even nonvegetarian Hindus turn vegetarian. Given this dynamic, McDonald's decided to launch a new product called Veg Surprise, a vegetable burger laced with Indian spices, in September 2001, achieving an impressive sales figure 40% higher than what the company expected. Likewise, *Paneer Salsa,* a vegetarian wrap, was introduced in 2003. Given its growing popularity, this product is likely to be adopted by McDonald's in global markets soon.

Family-Centric and Child-Centric Strategy

In India, McDonald's has positioned itself as a family restaurant. Family has become the cornerstone of its strategy. Its outlets are called "McDonald's Family Restaurants," as opposed to simply McDonald's as in other parts of the world. McDonald's restaurants provide a clean, comfortable, and stress-free environment especially suited for working families. With India's changing family system in metropolitan cities, where the extended family is no longer the preferred way of living, McDonald's has become an attractive place for working and busy young parents on weekdays. On weekends, residents of Delhi and Mumbai bring their children to McDonald's so that they can relax, while their children play in McDonald's hugely popular play places.

Like its other worldwide locations, McDonald's targets children as their main clientele in India. Children in India may not have the purchasing power comparable to their Western counterparts, but they are still the center of the universe in the Indian family system, and they can actually pull the parents to visit a place time and again. Children are an enormously powerful medium for relationship building in India. They not only influence markets in terms of the parental decision-making to buy certain kinds of products, they are also future consumers. After all, brand impressions, once formed, can stay for a lifetime.

Thus, McDonald's has done everything possible to attract children. When one of its outlets was opened in South Mumbai, a children's parade was organized all along the popular Marine Drive, led by McDonald's mascot, Ronald, who was accompanied by a 40-feet long float depicting the various tourist destinations in Mumbai. Its "Happy Meals" and the accompanying Lego toys are a great attraction for children. McDonald's play places—appropriately called Fun Zones—appeal to children and their parents, because they are considered safe, reliable, hygienic, and kid-friendly. Kids like McDonald's outlets because they are brightly lit and full of young people. During their visits, kids are showered with knick-knacks. The Noida outlet near Delhi even has a low-height order counter for children. McDonald's outlets provide the kids with a hassle-free experience where no one tells them "sit down," "don't move," or "keep out of my way."

McDonald's also promotes birthday parties complete with cake, candles, and toys in television advertising aimed directly at kids. In some Indian cities like Mumbai, Delhi, and Bangalore, birthday parties are all the rage for upwardly mobile youngsters. Given that most young people in these cities live in small, overcrowded flats, McDonald's has become a convenient and welcoming place for birthday celebrations.

McDonald's has become a popular place for many jean-clad teenagers, who use the outlet as a venue to meet their boyfriends/girlfriends, still a tricky issue among Indian middle-class families. McDonald's appeals to India's new Westernized elites because its food is clean, safe, and reliable. India's upwardly mobile middle-class families show considerable interest in enjoying what is often described as

[27] McDonald's terminology for products that are temporarily added to the menu.

the "McDonald's experience"—i.e., eating McDonald's food in a clean, friendly, and fun-filled environment with quick and accurate services.

McDonald's offers attractive new promotions from time to time to attract more young adults to its outlets. One such promotion—"Music Meal," launched in April 2005 in association with Coca-Cola India and Universal Music India—became extremely popular with young men and women. Through this promotional campaign, young people were offered free tickets to an exclusive hugely popular Bombay Vikings show upon collection of four McDonald's mini-CDs, which come with a large meal combo order. By engaging young customers with fun and new promotions that are in tune with their changing desires, McDonald's has been able to increase its business volume considerably over the past years.

McDonald's has introduced other innovations that appeal to customers of all ages in India. In some of its newly opened restaurants, McDonald's has provided lounges for senior citizens to relax and taste its food. For people used to a traditional restaurant environment, in which waiters lead patrons to sitting places, McDonald's in Delhi's residential areas has made special arrangements, where several crewmembers are present to direct families to available sitting places. Most Indians love to have sweet desserts after a meal. Keeping this in mind, McDonald's has opened several very popular Cold Kiosks in Mumbai and Delhi. These Cold Kiosks, which are located either inside the main outlet or adjacent to the McDonald's outlet, offer customers an innovative range of cold desserts such as ice creams with unusual flavors like bubble gum, green apple, and peach.

Most Indians believe in fate, and fate-driven success or failure is a way of life. There may not be frequent discussion in public discourse, but the powerful concept of *Karma* in Hinduism and reward for good *Karma* still continues to be a critical and almost subconscious determinant of Indian social existence. Not surprisingly, one of McDonald's most popular attractions has been the instant scratch-and-win prizes on a daily and weekly basis (Exhibit 12). The daily drawn prizes include color televisions, cell phones, Panasonic camcorders, VCRs, music systems, microwave ovens, and even scooters. The weekly prizes promise a family vacation to various places outside India. There is also a monthly jackpot prize of a Mahindra Bolero jeep and other high-ticketed items available. Aptly named the "Lucky Itch," these prizes have become enormously popular for the fate-driven Indian psyche, i.e., "if you are lucky, you are successful and win big."

For people who still want to eat at home or are unable to visit restaurants because of lack of transportation, traffic jams, and overcrowded eating places, McDonald's has introduced its popular home-delivery (McDelivery) services. For another section of rich middle-class families in Delhi and Mumbai who prefer to enjoy watching movies, cricket matches at home, or just for plain relaxation away from cooking, McDonald's home-delivery services (where food is delivered usually hot) have become popular and convenient. McDonald's has achieved about a 15% increase in sales as a result of starting home deliveries from some of its stores.

Challenges Ahead

It is too early to say that McDonald's has succeeded in India. Nine years after McDonald's first set up in India, the burger giant has yet to make any net profit. According to McDonald's management, each McDonald's store in India takes about five to seven years to break even. Part of the reason for this long break-even period has to do with the investments required per store in terms of expensive process control equipment (that the company imports from abroad) and acquiring prime location real estate properties. However, compared to 12-13 years that McDonald's takes to break even in any new country the company enters, India's break-even time is actually more favorable. One reason for the quicker breakeven in India is the reduction in the per-store investment that McDonald's has managed to achieve with indigenization. McDonald's per-store investment in 2003-2004 was 33% less than its per-store investment in 1996 in India.

Going by McDonald's expansion, an impressive 50% annual revenue growth since 1997, and growing popularity, it is reasonable to argue that McDonald's operations in India have achieved decent success.[28] McDonald's couldn't have achieved the success without appealing to new generations of consumers—children 3 to 14 and their busy parents' nurturing needs. In a recent survey by Synovate, a global market research agency, 20% of young Indians between the ages of 8 and 24 reported their preference for McDonald's products, followed by Pizza Hut (11%) and then KFC (2%).[29] No amount of advertising and brilliant promotions could have done the trick alone. In India, McDonald's did not create a market where none existed. It merely responded to an opportunity presented by the changing Indian socio-cultural values and sustained economic liberalization.

McDonald's strategy of positioning itself as a family restaurant with an emphasis on local menus and local values seems to be working well in India. But to what extent McDonald's can continue its growth in India remains uncertain. McDonald's is more than just another American fast food chain. It carries a symbolic load of Americanness—American variant of capitalism and its overwhelming domination over the global economy. It is also a symbol of American cultural imperialism.[30] For this reason, McDonald's operations in India, like other parts of the world, will continue to face opposition from religious fundamentalists, environmentalists, protectionists, animal rights activists, and antiglobalization protestors.[31] Already, McDonald's outlets in Delhi and Thane (on the outskirts of Mumbai) have been the targets of violent protests from the Hindu militant groups led by the Shiv Sena (the right-wing Hindu nationalist group) after the company was sued in the United States over the use of beef extract on its French fries.[32] McDonald's public assurance that it does not use any animal extract in vegetarian foods in India and the clearance certificate the company got from the government agency Brihanmumbai Municipal Corporation (BMC) took the steam out of this kind of politically motivated violent protests for the time being.[33]

In March 2005, McDonald's outlet in Ahmedabad in the western state of Gujrat became a target of protest from the ruling BJP (Bharatiya Janata Party) party workers, following the U.S. decision to

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[28] For this assessment, see "McDonald's Plans to Explore South Indian Market," *The Economic Times*, April 30, 2002.

[29] Chandrima S. Bhattacharya, "Rich Kids Eat, Drink and Wear Videshi," *The TeleGraph*, July 10, 2005.

[30] Several books and articles have explored the cultural impact of McDonald's expansion around the globe, including *To Russia with Fries* (Toronto: M&S, 1997) by George Cohon with David Macfarlane, which tells the story of how McDonald's opened its first restaurant in Russia; *Golden Arches East: McDonald's in East Asia* (Stanford: Stanford University Press, 1997) edited by James L. Watson, which looks in particular at China; and Maoz Azaryahu's "McIsrael? On the 'Americanization' of Israel" (*Israel Studies*, March 31, 2000). Thomas L. Friedman offers his "Golden Arches Theory of Conflict Prevention" in *The Lexus and the Olive Tree: Understanding Globalization* (New York: Farrar, Straus & Giroux, 1999). Theodore C. Bestor provides an example of how the spread of other cuisines has affected local tastes and cultures in "How Sushi Went Global" (*Foreign Policy*, November/December 2000).

[31] For opposition to McDonald's operations in various countries, see Francis Rocca, "America's Multicultural Imperialism," *American Spectator*, Vol. 33, No. 7, September 2000, pp. 34-38. McInformation Network, an independent group of McDonald's critics, has created its own Web site where readers can learn about protests against McDonald's worldwide, including the much publicized McLibel Trial in Britain. For more information about that trial, also see John Vidal's *McLibel: Burger Culture on Trial* (New York: New Press, 1998). For a survey of European reaction to McDonald's, see Carla Power's "McParadox" (*Newsweek*, July 10, 2000). John Stopford's "Think Again: Multinational Corporations" (*Foreign Policy*, Winter 1998-99) gives a good overview of how today's multinational companies operate. For outlooks on McDonald's future, read Ken Kurson's "Surprise Dread: McDonald's Future Is Smelling Worse than Its Restaurants" (*Esquire*, April 2001); and financial press releases on McDonald's Web site. See how mad cow disease is affecting McDonald's in Andrew Edgecliffe-Johnson's "Beef Concerns Hit McDonald's" (*Financial Times*, March 15, 2001).

[32] "Quit India, Shiv Sena Tells McDonald's," http://www.businessworldindia.com/archive/990621/strategy1.htm.

[33] "Animal Flavouring—McDonald's Indian Arm Says It's Clear," *Business Line*, March 9, 2002, http://www.blonnet.com/2002/03/09/stories/2002030901530600.htm.

deny the BJP party's leader and the Chief Minister of Gujrat Narendra Modi a diplomatic visa on the ground of his alleged involvement in the Godhra train carnage, where hundreds of people were killed as a result of Hindu-Muslim communal riots. Denouncing the U.S. decision as an insult to India's sovereignty, the BJP party workers organized protest rallies in Ahmedabad with placards like, "Throw out all American goods and Americans from Gujrat."[34] With increased deployment of police force and the central BJP leaders' advice not to attack the American companies, the protest fizzled out. But it may erupt again.

In India, McDonald's is likely to face constant pressure to increase its product range. Until now, the company has responded well to varying customers' tastes and preferences by introducing new products. But given India's fragmented regional cultures, where no single food preference predominates, McDonald's needs to develop new products on a regular basis. Developing new products adds complexity and cost and raises the risk of error. It also runs counter to McDonald's culture and history. Yet, if McDonald's does not do it on a regular basis, the company's popularity will be short-lived. It will be difficult for the company to meet the range of different competitors, most notably the homegrown Nirula's, which offers a variety of products at reasonable prices.

In order to grow, McDonald's needs to expand to other cities and towns in India rather than concentrating in Delhi, Mumbai, and a few other metropolitan cities. For expansion to succeed, McDonald's can no longer depend on its processing and distribution centers in and around Delhi and Mumbai. Given India's poor transportation and road facilities, the logistical bottleneck of transporting food items from one place to another will add to the cost of its products. It needs to build new processing and distribution centers in other cities for operational efficiency. This requires additional investment, and the cost cannot be easily passed on to the consumers. Price increase is the last thing that McDonald's can afford if it wants to succeed in its expansion strategy in India. Already, for most people, McDonald's is associated with high prices. Many critics therefore argue that McDonald's will never become part of mass culture in India because most people can't afford a Maharaja Mac.

Despite these challenges, the outlook is positive for McDonald's in India. It may remain as a restaurant for rich and middle-class people in the near future. But these are the classes that have extra money to spend on food and entertainment. The growing popularity of McDonald's-type fast food is only one dimension of a much larger Indian trend toward culinary adventurism associated with rising affluence of 30% of Indians. Rajesh Chauhan, the marketing manager of the newly opened superplex in Delhi's Vikas Puri, where the newly opened McDonald's is attracting streams of well-dressed and well-mannered people, states with a calm smile, "Personally, I like Maharaja Macs."[35] This view was echoed by Pramod Chatterji, an Indian Airlines Pilot, who said, "McDonald's offers just another option for eating out, and their products really taste good."[36] While eating a Maharaja Mac in a McDonald's located in Delhi's crowded Connaught Place shopping area, Sandeep Kohli, a tourist taxi driver in Delhi, said, "I do not mind eating at McDonald's once a while if I can afford it."

More critically, support for McDonald's operations in India comes from an unexpected quarter. A senior high-ranking bureaucrat in his mid-40s, who occasionally visits McDonald's outlets in Delhi with his two children, observed, "I do not see anything wrong with McDonald's doing business in India. After all, it is not McDonaldization (cultural imperialsim) that we know of, it is a Big MaCcommodation (cultural accommodation)," referring to the Indianization of McDonald's products.[37]

Local adaptation, no doubt, has contributed to McDonald's business growth in India. As Vikram Bakshi, Managing Director of McDonald's India, sums up, "Good Planning is absolutely necessary

[34] "Security Beefed Up for U.S. Companies in Gujrat," *The Economic Times*, March 19, 2005.
[35] Interview, New Delhi, December 28, 2003.
[36] Interview, New Delhi, December 28, 2003.
[37] Interview, New Delhi, December 28, 2003.

when you go into any country. Very clearly, you have to understand the culture; you have to understand how you intend to be relevant to the consumer in that country. I don't think any brand, no matter how big it is, can take the market lightly. And I think the biggest mistake is when you think you have a big brand and that everyone is overwhelmed by it. Because whatever the brand, it has to be relevant to the consumer of that country."

By providing country-specific relevant products—Maharaja Mac and about 70% Indianization of its products—McDonald's has been able to triumph over its last great frontier. Or has it, really?

Exhibit 1 Map of India

Exhibit 2 India's Socio-Economic Profile

GDP (US$ billions, 2003)	658.2
GDP (PPP US$ billions, 2003)	3,033.0
GDP per capita (PPP US$, 2004)	3,100.0
GDP per capita annual growth rate % (1999-2004)	6.8
Total Population 2005 (millions)	1,080.0
Annual Population growth rate (%) 1999-2015	1.3
Urban Population (as % of total, 1975)	21.3
Urban Population (as % of total, 2004)	28.1
Population under age of 15 (as % of total, 2004)	31.7
Life expectancy at birth (2003)	63.0
Adult literacy rate (% age 15 and above, 2003)	59.5
Population below national poverty line % (1999-2000)	29.0
Share of Income or Consumption % (richest 20%) 2000	43.3
Share of Income or Consumption % (poorest 20%) 1999	8.9

Source: World Development Report 2003, *The World Bank* (New York: Oxford University Press, 2003); Human Development Report 2003, *UNDP* (New York: Oxford University Press, 2003); Economist Intelligence Unit, 2005.

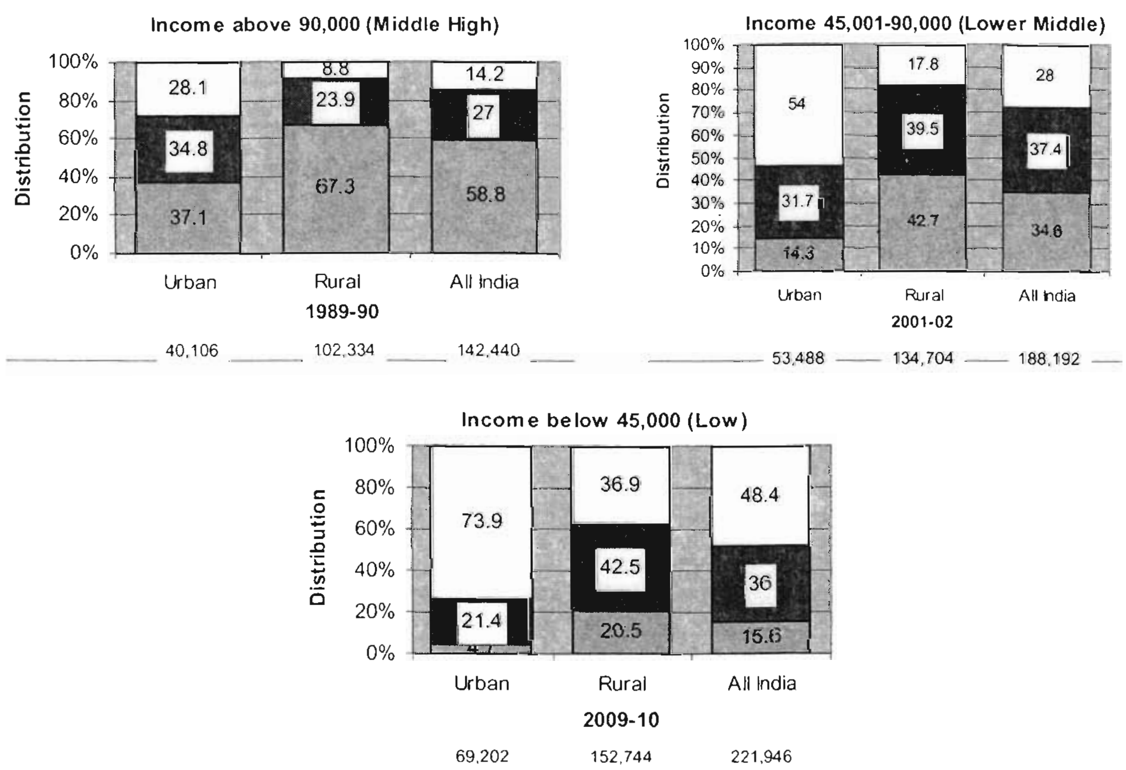
Exhibit 3A Income Distribution and Market Size in India (2004)

Average Annual Income in US $	% of Households	Number of Households (millions)
0 – 1,000	32	64.4
1,001 – 2,000	40	78.4
2001 – 3,000	13	26.3
3,001 – 5,500	8	15.2
> 5,500	7	13.4
Total	100	197.7

Source: India Economics, Merrill Lynch, Lafferty estimates, Lafferty Ltd., Cards International, February 24, 2005; *India: The Structure of Poverty*, World Resource Institute, Washington, D.C., May 19, 2004.

Exhibit 3B Middle-Class Income Distribution in India (Rs, 2001–2002 prices)

Total Number of Households ('000)



Source: NCAER, March 2004.

Exhibit 4 McFactoids

- Ray Kroc, founder of McDonald's Corporation, opened his first McDonald's in 1955 in Des Plaines, Illinois.
- McDonald's is the largest global fast food-service retailer, with more than 30,000 restaurants in 120 countries serving 47 million customers daily, and more than 1.5 million employees worldwide.
- The first McDonald's restaurant outside of North America opened in Costa Rica on December 28, 1970.
- In Russia, McDonald's opened its first restaurant on January 31, 1990. As of June 2001, it has opened 60 restaurants in that country.
- McDonald's opened its first restaurant in the People's Republic of China (Shenzhen Special Economic Zone) on October 8, 1990. It opened its outlet in Beijing in 1992. As of June 1999, it has opened 235 outlets in that country.
- There are 164 McDonald's in three countries in Africa: South Africa, Egypt, and Morocco.
- McDonald's opened its first restaurant in Japan in 1971. As of September 30, 2001, Japan has 3,717 McDonald's restaurants.
- McDonald's opened its first restaurant in Singapore in 1979. As of September 30, 2001, Singapore has 124 McDonald's restaurants.
- McDonald's opened its first restaurant in India in 1996. As of November 2004, India has 58 McDonald's restaurants.
- McDonald's opened its first restaurant in Pakistan in 1998. As of September 30, 2001, Pakistan has 18 McDonald's restaurants.

Sources: "McAtlas Shrugged," *Foreign Policy*, May/June 2001, p. 30; Seema Shukla, "McIndia," *Business Today*, November 25, 2001, p. 61; James L. Watson, "China's Big Mac Attack," *Foreign Affairs*, May/June 200, p. 120.

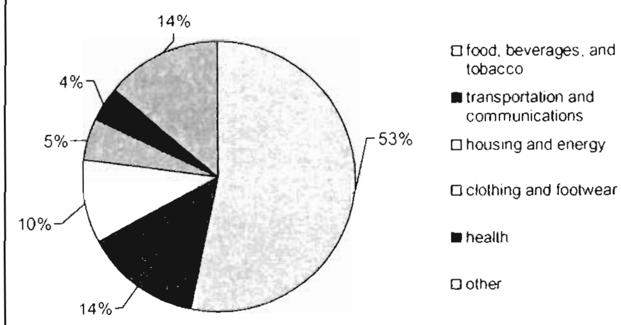
Exhibit 5 Summary of Economic Reforms and Changes in the Indian Economy (1991-93)

Industrial Reform	
Abolition of industrial licensing	Industrial licensing abolished for all but 18 strategic industries. Earlier, licenses were required not only for new industries, but also to make any change in the existing ones.
Removal of control over capacity expansion	Under Monopoly and Restrictive Trade Practices (MRTP) Act, large firms were prevented from expanding their existing industrial capacity. This was removed.
Participation of foreign firms in new projects	Automatic approval granted for projects involving foreign equity investment up to 51% in high priority industries such as transportation, power, infrastructure-related, etc.
Privatization	List of industries reserved for public sector reduced from 17 to 6. Private sector participation is allowed in industries on the reserved list.
Price liberalization	Prices of most controlled items such as steel, petroleum, and coal liberalized.
Capital Market Reform	
Liberalization of foreign investment	Foreign Exchange Regulation Act (FERA) was amended to make it easier for foreign firms to take more than 40% stake in Indian firms. Foreign institutional investors such as pension funds and mutual funds were allowed to invest in Indian capital market after registering with the independent authority called Security and Exchange Board of India (SEBI).
Access to global capital markets	Indian firms were allowed to raise debt and equity in global capital markets.
Rupee convertibility on current account	No longer necessary to purchase raw materials and capital goods at government-fixed exchange rates.
Tax Reform	
Reduction of income tax rate	Corporate taxes lowered from 65% to 45%. Personal income tax rate reduced to 40% and exemption limit raised.
Abolition of wealth tax	Wealth tax on all financial assets, including shares, securities, bonds, and bank deposits abolished.
Labor Market Reform	
Exit policy	No real progress. Companies with a workforce of over 300 cannot retrench workers without authorization from the government.
EXIM Policy Reform	
Reduction of tariff structure	Customs duties on raw materials and finished goods lowered from 110% to 65% and on capital goods from 110% to 25%. Requirement on import licenses removed. Import duties on machinery for agriculture, horticulture, forestry, poultry, etc., reduced from 100% to 25%. Importation of consumer goods remains restricted.

Exhibit 6 McDonald's Menu in India (May 2001)

ITEM	ITEM
A LA CARTE	FRIES
Maharaja Mac	Regular
McChicken Burger	Medium
McChicken Burger with Cheese	Large
Filet-o-Fish	Wedges
McBurger	BEVERAGES
McBurger with Cheese	Regular Coke
McVeggie Burger	Medium Coke
McVeggie Burger with Cheese	Large Coke
McAloo Tikki Burger	Regular Fanta
McAloo Tikki Burger with Cheese	Medium Fanta
Salad Sandwich	Large Fanta
Pizza McPuff	Regular Sprite
Chicken McGrill	Medium Sprite
Chicken McGrill with Cheese	Large Sprite
Extra Cheese	McSHAKES
Extra Condiments	Chocolate
HAPPY MEALS (with regular drink and toy)	Strawberry
McBurger	Vanilla
Pizza Puff	Mineral Water 500ml
Salad Sandwich	Coffee
McAloo Tikki	Tea
Chicken McGrill	Toned Milk
VALUE MEALS (with wedges and regular drink)	DESSERTS
McAloo Tikki	SOFT SERVE
Chicken McGrill	Vanilla
Salad Sandwich	Pineapple
Pizza Puff	Hot Fudge
MEAL COMBOS (with medium fries and medium drink)	Soft Serve Cone
McVeggie	Apple Pies
McVeggie with Cheese	
Maharaja Mac	
McChicken	
McChicken with Cheese	
Filet-o-Fish	
Upsize	

Exhibit 7 Household Expenditures (% of total), 1998–99



Source: *India: The Structure of Poverty*, World Resource Institute, Washington, D.C., May 19, 2004.

Exhibit 8 The Big Mac Index Concept

The Economist, a weekly news magazine published in the United Kingdom, introduced its Big Mac Index in 1986 to explain the concept of purchasing power parity (PPP). Given the consistency of McDonald's Big Mac product across countries, its price is used by *The Economist* to calculate exchange rates adjusted for purchasing power for a sample of countries. The idea of the Big Mac as a measure of purchasing power parity is based on the Law of One Price, according to which the exchange rate should adjust to equate prices of the same products between countries. By comparing the price of a Big Mac in any two cities in different countries, the exchange rate can be readily calculated that would make the prices equal (Exhibit 9). For example (as shown below), if a Big Mac costs US$2.90 in the United States and 10.41 yuan in China, then the exchange rate should be 3.59 yuan per U.S. dollar, so that the same Big Mac costs the same in New York and Shanghai.

Calculating the Big Mac PPP rate

PPP Yuan/US$ = Chinese price of a Big Mac in yuan divided by U.S. price of a Big Mac in US$
= Yuan10.40 / US$2.90
= 3.59 Yuan/US$, which is the exchange rate that will exist if the Law of One Price holds exactly

The above example makes it clear that the calculation of purchasing power parity is based on equal prices in both countries, rather than necessarily equal purchasing power for consumers. Given that the average per capita income in China in 2004 was US$5,225, while in the U.S. the average was US$34,770, it is clear that Chinese would not have the same purchasing power as the average American in that year. It would cost a Chinese consumer about 6.5 times as much as a percentage of his/her income to buy a Big Mac, even if the price were the same in both countries. Not surprisingly, a Big Mac costing 10.40 yuan in China may very well be a luxury good. In fact, in many countries, this is exactly the case.

Source: Adapted from Robert Grosse and Adrian E. Tschoegl, "The Manager's Guide to Big Macs," *unpublished paper*, July 2004.

Exhibit 9 Big Mac Index

	Big Mac prices in local currency	Big Mac pricess in dollars	Implied PPP of the dollar	Actual dollar exchange rate May 2004	Under (-)/over (+) valuation against the dollar (%)
United States	$ 2.90	2.90	—	—	—
Argentina	Peso 4.35	1.48	1.50	2.94	-49
Australia	A$ 3.25	2.27	1.12	1.43	-22
Brazil	*Real* 5.39	1.70	1.86	3.17	-41
Britain	£1.88	3.37	1.54	1.79	+16
Canada	C$ 3.19	2.33	1.10	1.37	-20
Chile	Peso 1,401	2.18	483	643	-25
China	Yuan 10.41	1.26	3.59	8.26	-57
Czech Rep	Koruna 56.55	2.13	19.5	26.6	-27
Denmark	DKr 27.75	4.46	9.57	6.22	+54
Egypt	Pound 10.00	1.62	3.45	6.17	-44
Euro area	2.74	3.28	1.06	1.20	+13
Hong Kong	HK$ 12.01	1.54	4.14	7.80	-47
Hungary	Forint 531	2.52	183	211	-13
Indonesia	Rupiah 16,101	1.77	5,552	9,097	-39
Japan	¥ 262	2.33	90.3	112	-20
Malaysia	M$ 5.05	1.33	1.74	3.80	-54
Mexico	Peso 24.01	2.08	8.28	11.54	-28
New Zealand	NZ$ 4.35	2.65	1.50	1.64	-8
Peru	New Sol 8.99	2.57	3.10	3.50	-11
Philippines	Peso 69.02	1.23	23.8	56.1	-57
Poland	Zloty 6.29	1.63	2.17	3.86	-44
Russia	Rouble 42.05	1.45	14.5	29.0	-50
Singapore	S$ 3.31	1.92	1.14	1.72	-34
South Africa	Rand 12.41	1.86	4.28	6.67	-36
South Korea	Won 3,199	2.72	1,103	1,176	-6
Sweden	SKr 29.87	3.94	10.3	7.58	+36
Switzerland	SFr 6.29	4.90	2.17	1.28	+69
Taiwan	NT$75.11	2.24	25.9	33.5	-23
Thailand	Baht 58.87	1.45	20.3	40.6	-50
Turkey	Lira 3,950,000	2.58	1,362,069	1,531,008	-11
Venezuela	Bolivar 4,399	1.48	1,517	2,972	-49
India*	**Rs 34.00**	**0.75**	**11.7**	**45.3**	-74

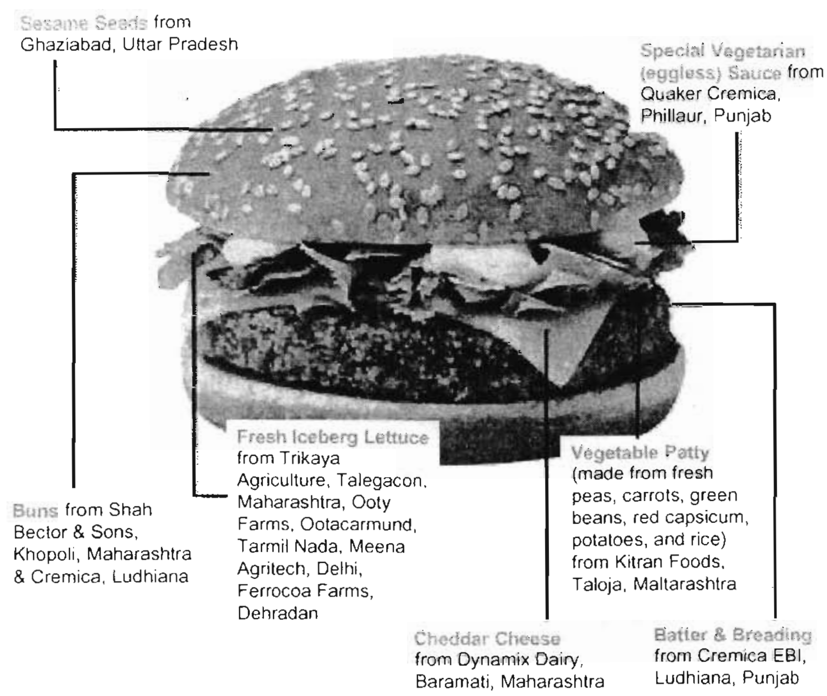
Calculating over (under) valuation:
PPP Yen/US$ = Tokyo price of a Big Mac in Yen divided by U.S. price in US$ = (Yen 262)/(US$2.90) = 90.3

Over (under) valuation = The PPP exchange rate minus the actual exchange rate, divided by the actual exchange rate = (90.3 – 112)/112 = -20% (That is, US$ has to fall by 20% against the Yen—Yen has to appreciate from 112/US$ to 90 yen/US$—for the rate to reach Big Mac PPP).

*Big Mac is not sold in India. In its place, Big Mac's substitute Maharaja Mac's price is given here.

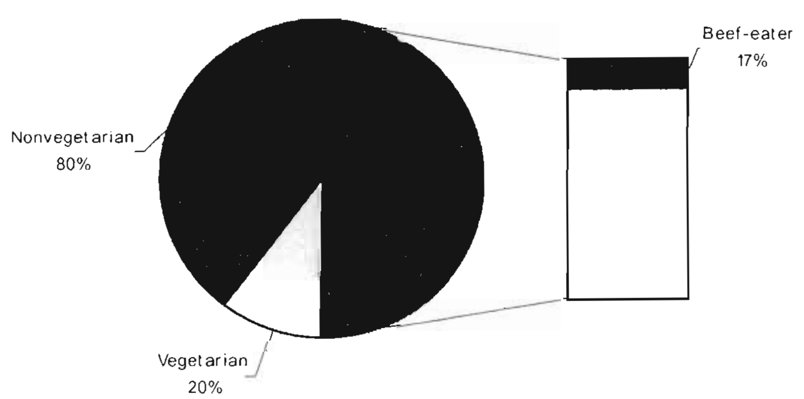
Source: Adapted from *The Economist*, May 29, 2004, pp. 71-72; and Robert Grosse and Adrian E. Tschoegl, "The Manager's Guide to Big Macs," *unpublished paper*, July 2004. Data for India is author's calculation.

Exhibit 10 Suppliers for McDonald's in India



Source: http://www.rediff.com/business/1999/apr/29mac5.jpg.

Exhibit 11 Indian Food Preferences—Vegetarian vs. Nonvegetarian



Source: "The Rediscovery of India," *India Abroad*, January 2, 1998. This report is based on a decade-long nationwide ethnographic survey of Indian people, which was published by Anthropological Survey of India, New Delhi, December 1997, under the title "People of India."

Exhibit 12 McDonald's Enticement (*itch karo, rich bano*)

Source: McDonald's in Mumbai, India (May 21, 2001).