

MCDONALD'S ARGENTINA

Professor Dominique Turpin prepared this case as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

"This is just incredible..." "How can they possibly do this?" "I cannot believe it!" Gathered in the main meeting room at their headquarters, managers of Arcos Dorados Argentina were venting their frustration and anger at what was being aired on Canal America, the fifth major TV channel in the country. At 21:00, the TV station had decided to show live the shutdown of four McDonald's stores by the local health authorities in downtown Buenos Aires. Jorge Lanata, a well-known investigative journalist and controversial television commentator, was urging all Argentines to stop visiting McDonald's stores and refrain from eating McPollo (McChicken) burgers following an official announcement that potentially harmful bacteria had been found in these chicken products.

Standing in the middle of the room, Woods Staton, CEO of Arcos Dorados S.A., tried to reduce the tension and calm people down:

All right, all right. We all know that their information is incorrect and that our products are safe; but how are we going to fight back? Obviously, we don't like what we've just heard and seen on TV... I doubt that the local authorities will admit their errors now. Negative stories, although unfounded, tend to travel quickly and get picked up by other media. Now, the key issues are: How do we respond? And, in fact: Should we respond? How do we regain public confidence?... This is going to be a long and tough challenge... Let's keep our cool and review the options!

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Arcos Dorados Argentina

McDonald's Argentina (also known locally under the Spanish corporate name of Arcos Dorados) had been established in 1986 by Staton, a Colombian national by birth, who had partnered with McDonald's to start a franchise operation in Argentina. Fifteen years later, McDonald's had 211 stores (70 of them in Buenos Aires) in more than 10 cities in Argentina and employed more than 11,500 people. It served an average of 300,000 meals per day and posted total annual sales of US\$240 million.

Chicken products such as McPollo burgers and chicken nuggets represented between 5% and 10% of McDonald's daily sales in Argentina. For competitive reasons, Arcos Dorados imported all of its chicken meat from Brazil. On average, about 20,000 chicken meals were sold per day in McDonald's stores across Argentina. Chicken nuggets were popular with children and were usually included in the "Happy Meal Menu," which McDonald's sold for an average of US\$3.70.

McDonald's major competitor in Argentina was Burger King, with 23 stores. Wendy's, another food service competitor, had withdrawn from the Argentine market one month earlier after suffering serious financial losses due to the poor economic situation in the country.

Woods Staton's Business Philosophy

Staton summarized his philosophy and his 15 years of success with the company:

McDonald's is the largest food service retailer in Argentina. We are one of the largest employers in a country where unemployment is close to 20%. The opening of each new McDonald's store signifies not only the creation of new jobs but also new opportunities for local industry, stimulating the growth of numerous businesses that work together with us. About 90% of McDonald's basic ingredients are purchased locally from Argentine businesses. McDonald's contributes to the growth of the agriculture and livestock sector, consuming annually a large amount of Argentine food products, including 8,000 tons of beef, 100 million bread rolls, 900 tons of tomatoes, 1,200 tons of lettuce, 4.5 million liters of ice cream and 8,200 tons of potatoes. These facts not only confirm McDonald's involvement in our national industry but also show our deep commitment to developing the community where we conduct business.

Our commitment to this country is not limited to business and employment--we also support the Argentine community with different social contributions such as the Ronald McDonald Houses. This project is dedicated to housing families from anywhere in Argentina who have to find temporary accommodation because their children need prolonged medical treatment far from home.

Deep social and economic change have had an impact on Argentine society over recent years. McDonald's has lived through these changes and, as a result, Argentines have discovered that in McDonald's they can find meals of excellent quality, friendly and speedy service, and cleanliness--all at an accessible price. We have achieved recognition for the McDonald's brand in the country of beef and French fries.

The “Jorge Roel Problem”

On August 6 Cecilia Galasso, who worked in the customer service department at Arcos Dorados, received a call from Jorge Roel, a Buenos Aires resident who wanted to complain about food poisoning. Roel claimed that the day before he had visited one of the main McDonald’s stores in the Patio Bullrich, a shopping mall in downtown Buenos Aires, where he had eaten a McPollo burger. Roel then claimed that a few hours later he had felt sick. He now wanted to know: “What is McDonald’s going to do about my problem?”

Galasso was fully trained to answer this kind of call. Typically, she received about 15 calls a day from consumers asking for information on new promotions, making suggestions and also offering congratulations or complaints. It was not unusual for Galasso to receive calls from people like Roel who complained about real, fake or imagined stomach problems. McDonald’s had some of the strictest--if not the strictest--sanitary standards in the country. In the past, all reported health problems were found to be linked to other reasons than McDonald’s products. In Argentina, a country of 35 million inhabitants, health problems were most often linked to contaminated water or food consumed from the thousands of street vendors active in the capital. Galasso was also fully aware that in a country where one-third of the population still lived on a few dollars a day, some unscrupulous people could try their chances at extortion.

To minimize these problems, McDonald’s Argentina had designed a detailed questionnaire that helped Galasso better understand consumers’ health problems and their real causes. For every call related to food poisoning, Galasso asked a series of questions and entered all the answers in a computer. Then a report was e-mailed internally to the store manager concerned, the quality manager and the public relations director and, possibly, to the legal department (depending on the nature of the case) and a doctor.

Once Galasso had completed the interview with Roel, she told him that McDonald’s would immediately start an internal investigation and that she would call him back within a maximum of five working days.

Health Inspectors Move In

The following day, August 7, María José (Majo) Parodi, the public relations manager of Arcos Dorados, received a call from the McDonald’s store manager at Patio Bullrich. He told her that health inspectors from the Department of Hygiene and Food Safety (DHFS) of the city government of Buenos Aires were in the store, collecting frozen and cooked samples of chicken meat used for McPollo burgers and chicken nuggets. The inspectors told the store manager that they were acting on a call to the DHFS’s toll-free line that Roel had placed the day before.

In accordance with Argentine regulations, the inspectors collected three food samples: the first was sent to the city government laboratory; the other two samples were sealed and saved, one in the DHFS fridge and the other in the store fridge. McDonald’s would use its sample for a separate test by an independent

private laboratory. The third sample would be saved for a potential counter-test. As a precaution, McDonald's saved a fourth sample in its store as another potential counter-test.

The first tests were conducted by the Buenos Aires city government laboratory. By law, neither McDonald's nor its legal representatives were allowed to be present during the sanitary tests. To avoid the potential for tampering with the evidence, these tests were not videoed by the city government authorities.

Unlike the city government lab, however, McDonald's insisted that the private sanitary lab should videotape all its test examinations. Within 24 hours, the second test had proved negative for any potential health problem. If the sample had shown up as "probably positive," a second test would have had to be conducted on the same sample 48 hours later.

Over the next few days, other samples were taken by Buenos Aires city government health inspectors in 27 different stores, including one at McKey, the McDonald's plant and distribution center in Garín, outside the capital. Several store managers reported concerns to their headquarters about the health inspectors' procedures. In several instances, they had not worn protective gloves, which could possibly influence the outcome of future health tests.

Tests on raw chicken lots taken from the Garín plant proved to be negative. However, to McDonald's surprise, 4 of the 27 other samples in the hands of the city government turned out to be positive: 3 raw samples and one cooked sample. All samples tested independently by McDonald's repeatedly showed up as negative. The DHFS then turned to the Malbrán Institute (a national public laboratory that was part of the national Ministry of Health) for a second opinion on the samples it had already tested. On August 13, Malbrán concluded that the four samples contained *E. coli* 0157:H7 (*Escherichia coli enterohemorrhagica*) from the same stock, or origin. In its final report, which McDonald's received directly from Malbrán, the national laboratory indicated it had not received the samples of chicken meat themselves, but a sample of *E. coli* from the DHFS for which it had been asked to confirm the type. The city government authorities never commented on this information.

At Arcos Dorados, Parodi, along with the legal director and other executives, started to become extremely concerned but also very suspicious. According to medical experts, harmless strains of *E. coli* were found as a matter of course in the intestines of healthy humans and healthy ruminant animals. However, the principal source of the harmful strain known as *E. coli* O157:H7 was cattle, especially young animals. Argentina, being a major producer and exporter of cattle meat, had one of the highest incidences of *E. coli* in the world.² In most instances, the source of outbreak was traceable to a cattle product, especially undercooked ground beef. Dr Ureta, a medical expert who advised McDonald's,

² Gyles, Carlton L. "*E. coli* 0157:H7 and Other VTEC in Animals." *The Infectious Disease Review*. Vol. 1, No. 2, June 1999: 127.

confirmed that *E. coli* 0157:H7 could result in serious illness ranging from simple stomach pains to diarrhea with blood and vomiting or even hemolytic uremic syndrome (HUS) and that it could be deadly in children under five years of age. The incidence of HUS in children in Argentina was 22 per 100,000 compared with rates of 0.5 to 5 per 100,000 in Europe, the US, Canada and other South American countries.³ However, Dr Ureta could not understand how Roel could have been infected within 24 hours by *E. coli*, since the bacteria needed between 3 and 10 days to strike the human body. Moreover, although *E. coli* 0157:H7 could be found in beef, this particular type of *E. coli* was not found in poultry meat.⁴

Staton explained:

All our tests continued to be negative. We could not really understand why the authorities were coming up with different conclusions! If there is one thing McDonald's is particularly strict about, it is sanitary inspection. This is one of our core competences. Under no circumstances did we believe that our food was bad. We cook all meat for three minutes at very high temperatures (360°F/182°C) to make sure that no bacteria can survive. *E. coli* bacteria are killed at 70°C... We have the strictest health standards in all the industry. How could four different samples taken from four different and distant locations possibly contain the same bacteria, from the same source? This was when we seriously started to question the validity of the city government tests and thought that cross-contamination might have happened in one of their labs.

Regardless of test discrepancies, food safety and our customers are absolute priorities for us so, in consultation with the government of the City of Buenos Aires and our lawyers, we decided to recall all McPollo chicken burgers and chicken products from every store in the capital, and to extend this precautionary measure to all our stores across Argentina.

Then, on August 20, we received a letter from a DHFS inspector confirming that all raw chicken products tested in the McDonald's plant in Garín were fine for human consumption. With the full approval of all the authorities concerned, we decided to resume selling chicken products the following day. Nevertheless, we found out that other health inspectors were continuing to take more samples...and two days later, SENASA [the national sanitary services agency] asked us to stop production in our plant...

What happened was that the city government inspectors had gone out of their jurisdiction to take samples from our Garín plant, situated outside the city. The plant is in fact under the jurisdiction of the Province of Buenos Aires, for which a different health authority (SENASA) is responsible! These people started to get involved, too, but fortunately confirmed after two weeks that the products from our plant were safe.

³ Gyles, Carlton L. "E. coli 0157:H7 and Other VTEC in Animals." *The Infectious Disease Review*. Vol. 1, No. 2, June 1999: 128.

⁴ Beutin et al. found that 67% of sheep, 56% of goats and 21% of cattle were positive, compared with 14% of dogs, 8% of cats and 0% of chickens. Source: Beutin L., D. Geier, H. Steinruck, S. Zimmermann, and F. Scheutz. "Prevalence and Some Properties of Verotoxin (Shiga-like Toxin)-Producing *Escherichia coli* in Seven Different Species of Healthy Domestic Animals." *Journal of Clinical Microbiology*, Vol. 31, Iss. 9, 1993:2483-2488.

Managing the Key Players

Between August 6 (when Roel made his first phone call) and August 27 (when Lanata went live with the show on TV), every Arcos Dorados executive had been mobilized to work on the case. Regular meetings presided over by Staton enabled the team to see how the situation was evolving:

- Parodi was in charge of the media, monitoring coverage of the events in the press. So far, the media had not been particularly interested in the case. For them, there was “no story.”
- Germán Lemonnier, vice-president, coordinated the efforts of the legal team headed by Rivero Ayerza. Among other things, the legal team had been in regular contact with Roel. They found that Roel—who was unemployed and lived alone with his mother—wanted to avoid any publicity and worked only by phone, even when he talked to the city government authorities. When city officials asked him to file an official complaint against McDonald’s, he refused to comply, arguing that he was in direct contact with the company in order to solve the problem. The legal team also found that neither Arcos Dorados nor the city government could officially confirm that Roel had visited a McDonald’s store on August 6. No doctor’s report or hospital record of a visit for food poisoning was available. The legal team also discovered that Roel had recently tried to extort money from a local supermarket. Roel never asked McDonald’s directly for any kind of financial compensation, but he regularly called Arcos Dorados and asked the same question: “What are you going to do for me?”

Lemonnier, together with José Fernandez (Arcos Dorados’ executive vice president), had also kept close contact with the municipal and federal authorities. Fernandez, who was in charge of real estate and business development, had connections with many different officials in Buenos Aires. Lemonnier and Fernandez’s objectives were to understand why the health tests had unexpectedly turned out to be positive, as well as some of the possible motivations behind something that to them did not stack up. During a meeting with some officials, one of Fernandez’s contacts confidentially confirmed:

A politician is going after you, but please don’t ask me who... With elections coming soon, don’t you understand that some politicians want to look good?...They want to show that they are caring for the health of the citizens, and that they are acting fast. They know you are an ideal target. Your company is an obvious symbol of American capitalism. You are known to be a clean company, not paying any bribes, so these people have nothing to fear from you. They owe you nothing...and when you are down, this guy believes that his party will look great in the eyes of his supporters.

This was incomprehensible to the Arcos Dorados managers. After all, the business community and high-ranking city officials considered McDonald’s to be an excellent example of good corporate citizenship. Over the years, Staton and his team had cultivated and maintained strong and good relationships with the municipal and state authorities. Staton was particularly proud of some of McDonald’s Argentina’s social actions. One example was a weekly program run

jointly by the city government and McDonald's to take 180 kids from the slums to Buenos Aires zoo, followed by a free lunch in a nearby McDonald's store. The program was so important in the eyes of Staton and the mayor, Aníbal Ibara, that they both joined the tour on its inaugural day.

The Political Factor

Over the previous 30 years, the political situation in Argentina had been "hot." The country had experienced a military dictatorship between 1976 and 1983 during which 9,000 people had been killed or disappeared--according to official data--and up to 30,000 according to human rights groups. The country was now entering its 18th year of democracy but was still experiencing many political and socioeconomic difficulties. Both the City of Buenos Aires and the federal government were run by the "Alianza" (alliance) made up of various parties representing many different political sensitivities and factions from the far right to the far left. Down the chain of command, responsibilities within the government of Buenos Aires were split among different parties, often leading to poor implementation and/or political paralysis.

According to different sources from national and international non-governmental organizations, 20 million out of the 36 million Argentines had recently been or were still affected by poverty. Economic growth was down. Many Argentines were becoming increasingly nostalgic about the days, in the 1930s, when Argentina was considered one of the 10 most prosperous largest economies in the world. Many citizens attributed the decline of their country to a single major problem: political corruption. A local food exporter explained:

We have hundreds and hundreds of politicians in this country, from the state level to the provinces and municipalities, and they are very well paid. In fact, this country has more political representatives than the United States and we are seven times smaller...As you can imagine, these people cost us a lot of money...and of course, they try to get money from everybody, especially from big corporations.

At Arcos Dorados, Fernandez confirmed this statement:

When we open a new store, we have lots of papers to fill in and many kinds of approvals are needed. The legislation is vague and often obsolete, so some people can create a lot of problems for us. However, over 15 years we have been known for not paying commissions or fees for any unnecessary work or transactions...As a US-based corporation, we are bound to abide by the "Foreign Corrupt Practices Act." The consequences of being clean are that we sometimes have to pay the price later, one way or another!

The Media Factor

Parodi commented:

Another big challenge for us is to deal effectively with the media...We are not always treated very fairly. I often meet journalists who have been McDonald's consumers for a

long time but when they are back at their desk, they can be quite harsh on us! On August 27, the day Jorge Lanata went live on Canal America, we met in the evening with a journalist working with Lanata. He had been investigating the Jorge Roel story for about a week. We clearly explained our position to him and he privately told me that he was quite convinced of our innocence. He also confessed to me that he regularly took his children to our stores and that he would continue to do so in the future. However, he added that when city government officials called the TV network to inform him that they were going to close down four McDonald's stores this evening, this was news for any journalist and he had to do his job!

He was first to tell us that our stores would be closed the same evening. His announcement was a real shock to all of us. The city government has *not* yet notified us officially and this journalist was indicating that we were going to be shut down...That was just incredible!

Lanata Live on TV

Following the information from the journalist that within a few hours the city government was going to close down four McDonald's stores (where positive *E. coli* samples had allegedly been found), Parodi phoned Staton. He then called an emergency meeting for all senior Arcos Dorados executives. At about the same time, the lawyers had called Staton to confirm the news. Although the legal team had not yet received an official written warning, a city government agent had been called to confirm the news: The legal team now believed that the decision was for real--Rivero Ayerza was already in her car driving from one of the four stores to the next to check the legal procedures of the store closures. Staton ordered the targeted stores to switch off all their lights and neon signs to give less visibility to McDonald's on the TV screens of consumers across the country.

All key executives had rushed into the main meeting room. Parodi recalled:

Everything went so fast, phones were ringing, people were coming in and going out, it was an incredible moment...And a few minutes later, there he was: Jorge Lanata, live on TV, urging Argentine consumers not to touch any McPollo burgers and making comments about McDonald's products. Cameras were now showing officials closing four stores. THIS WAS INDEED FOR REAL!

Rivero Ayerza called Staton with a major piece of information: "The health inspectors are asking us to close the stores, but they have no warrant!" With four stores nevertheless being closed by city government officials, Staton was sure that the press and TV networks would make this their headline news. Media coverage was likely to be huge and, without question, unfriendly to McDonald's. It was now 21:40. Staton and his team had to prepare a response fast. Parodi warned:

Pretty soon, the media are going to be downstairs. What are we going to tell them?

Around the table, comments and suggestions for action were flying in all directions. However, the same questions were coming back again and again:

- What position should the company take vis à vis Jorge Roel, the city government, their overreaction?
- Attacking the government is like attacking the people,...our clients!
- We can't attack clients, the people, the government. The consequences could be terrible.

Fernandez asked:

If we do respond, how do we do so credibly?

- ... and Lanata, how do we deal with him?!
- ... what about this guy, Jorge Roel? He created the problem in the first place.

Telephones were ringing non-stop. Parodi picked up a call from Daniel Haddad, a well-known commentator also working for Canal America. Haddad had a live TV news show at midnight and wanted to come to the Arcados Dorados headquarters for his program. Parodi wondered:

Should we let him in?

Staton was very concerned about consumers' reactions, about how to rebuild confidence with the staff, customers and suppliers and how the city government would react. He concluded:

We are 100% committed to doing the right thing and concerned only for our customers and their faith in our product. This customer confidence is of paramount importance to us, and if there are any issues we need to address we are completely committed to doing so.

Now, we've got to be fast and have the right communication approach. We also need to think about what other actions to take. Our first moves will be critical and we must be credible!