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MCDONALD’S IN INDIA: NOT A HAPPY MEAL[[1]](#endnote-1)

Paul Beamish, Pooja Gupta, and Madhvi Sethi wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On September 6, 2017, the leading business newspaper in India, the *Economic Times*, proclaimed, “169 McDonald’s stores stare at closure from today.” According to the news reports, the agreement between Connaught Plaza Restaurants Limited (CPRL) and McDonald’s India (McDonald’s) had become null and void from September 5, 2017, onwards. The termination notice was given to CPRL on August 21 as McDonald’s cancelled its franchise agreement with that company. McDonalds gave CPRL 15 days to stop using its name, menu, and intellectual property.[[2]](#endnote-2)

The news highlighted the reality and uncertainty facing the McDonald’s stores in the north and east of India. Did the former franchise holder CPRL have a legal right to use the McDonald’s name anymore? Could the partners resolve their differences?

The entry of MCDONALD’S into INDIA

In 1977, India’s first and only (for a long time) fast-food restaurant chain, Nirula’s, opened its first outlet in Connaught Place, New Delhi. Before this, fast food in India meant roadside vendors and food stalls, but Nirula’s changed all that. The chain introduced Indians to pizzas, burgers, sundaes, banana splits, and ice cream. In the late 1980s, India’s first foreign burger outlet arrived, again in Connaught Place, New Delhi, by way of the UK chain Wimpy. The growth in the sector was slow and mostly regional.[[3]](#endnote-3)

In 1991, when the economy opened up, foreign businesses rushed in to get clearance to open in India. McDonald’s was one such company.[[4]](#endnote-4) The Foreign Investment Promotion Board granted clearance for McDonald’s in 1991, but it took the company about five years to open the first restaurant in Delhi.[[5]](#endnote-5) One reason for the delay was the need to completely revamp the McDonald’s menu for the first time. The restaurant had to shun its primarily meat-based menu, especially beef and pork products, and replace it with mainly vegetarian items. It also customized the menu according to Indian tastes and sensibilities by using more indigenous products.[[6]](#endnote-6)

In early 1995, McDonald’s signed two joint venture (JV) agreements in India: CPRL, led by Vikram Bakshi, was contracted to open a McDonald’s restaurant in the north and east of the country, and Hardcastle Restaurants Pvt. Ltd. (HCRL), headed by Amit Jatia, was to open restaurants in the west and south of the country.[[7]](#endnote-7)

McDonald’s restaurants worked on a franchise model; by 2013, the company had a footprint in more than 118 countries and more than 34,000 outlets worldwide, 80 per cent of which were franchised.[[8]](#endnote-8) By contrast, in developing countries, McDonald’s changed its entry strategy by using the ownership model. India’s two JVs—both with a 50 per cent stake of McDonald’s and a 50 per cent stake of respective Indian partners—were a case in point. An interesting observation from the retail food industry regarding these JVs was that neither of the partners of McDonald’s was into any kind of food-related businesses.[[9]](#endnote-9) Bakshi and Jatia were real estate players and had seen this as an opportunity.[[10]](#endnote-10)

The initial contract was for a period of 25 years with an option of McDonald’s buying out its partner or selling out to its partner if the need arose. The JV agreement mandated the partner to source from the same suppliers and coordinate the market spends. Apart from this, the two JVs had no real connection.[[11]](#endnote-11)

The first McDonald’s outlet opened in India in the Basant Lok Market area in New Delhi[[12]](#endnote-12) was highly successful. By 2017, India had about 300 McDonald’s restaurants, and from 1996 to 2017, McDonald’s created an Indian menu that kept local preferences in mind.[[13]](#endnote-13) Major competition from other multinational brands entering India came from KFC, Pizza Hut, Domino’s Pizza, and Burger King.[[14]](#endnote-14)

TROUBLE IN PARADISE

Both JVs were similarly structured, but things changed for the worse for CPRL. Bakshi had large interests in various real estate ventures, which prompted the worsening of relations with McDonald’s.[[15]](#endnote-15) Bakshi was believed to have transferred ₹700,000[[16]](#endnote-16) to his own real estate company from CPRL. This was one of many transactions that were unexplained and questioned by McDonald’s representatives on the JV board with Bakshi. The relations between the parent company and CPRL worsened further in 2008 when the parent company realized that Bakshi had pledged his 51,300 shares in CPRL to get a ₹200 million loan so that his real estate company could develop a new mall. McDonald’s also alleged that Bakshi’s directorship in 25 other companies impeded his ability to fully concentrate on the CPRL business.[[17]](#endnote-17)

In August 2008, McDonald’s offered US$5 million for Bakshi’s stake in CPRL.[[18]](#endnote-18) McDonald’s wanted him out of the business and proposed to run the venture on its own. Bakshi rejected the offer outright. In November of that year, McDonald’s increased the offer to US$7 million, which was again refused by Bakshi. In March 2009, he claimed that his 50 per cent stake in CPRL was worth at least 20 times more than the money offered by McDonald’s and asked for US$100 million for his stake, basing his claim on a valuation done by Grant Thornton.[[19]](#endnote-19) McDonald’s rejected his claim and the status quo remained.[[20]](#endnote-20)

In May 2010, McDonald’s changed the structural equation in India. The 50/50 JV of McDonald’s with HCRL was dissolved, with McDonald’s selling its 50 per cent shares back to Jatia. This helped McDonald’s to move to its preferred mode of franchise fee and royalty rather than ownership. Based on filings with the Ministry of Company Affairs, in exiting the JV, McDonald’s booked a loss in excess of ₹1.07 billion. Both McDonald’s and Jatia were silent on the valuation amount and refused to give any public clarifications on the amount.[[21]](#endnote-21)

Bakshi was upset with McDonald’s on this move, as he felt the company had paid a higher amount to Jatia than it was willing to pay him. The working relationship with CPRL became even worse after 2009. McDonald’s did not appreciate some of the decisions made by Bakshi. Two such decisions were opening two vegetarian McDonald’s restaurants in pilgrimage towns and allowing other food outlets on the top floor of a McDonald’s Noida outlet. McDonald’s was most upset regarding the Noida outlet because it had been touted as the biggest McDonald’s in Asia; the company felt that renting out parts of the outlet eroded the brand value of McDonald’s.[[22]](#endnote-22)

In August 2013, matters came to head as the two nominee directors of McDonald’s refused to renew Bakshi’s term as managing director (MD) of CPRL. The company had four directors—Vikram Bakshi, and his wife Madhurima Bakshi, and two nominee directors from McDonald’s. The initial JV agreement stated that the tenure of the MD would be for two years, with renewal after such time. With a stalemate in 2013 and the board of CPRL divided, Bakshi was forced to step down as MD of the company.[[23]](#endnote-23) Exhibit 1 highlights the major points of contention between Vikram Bakshi and McDonald’s.

MORE TROUBLE FOR BAKSHI

When Bakshi was asked to step down from the post of MD, he approached the Company Law Board. At the same time, as per the JV agreement, McDonald’s approached the London Court of International Arbitration for settlement of the dispute. At this time, the dispute mainly hinged on the valuation of CPRL and each party’s stake in it. Bakshi wanted to buy out the stake of McDonald’s in CPRL, but the company was not willing to sell. In turn, McDonald’s wanted Bakshi out of its brand name and to buy out his stake. Offers and counteroffers came from both sides, but the valuations differed hugely.[[24]](#endnote-24)

Bakshi wanted ₹18 billion for his 50 per cent stake in the business, but McDonald’s was only willing to pay him a maximum of ₹1.20 billion. The disagreements between the two partners kept increasing, with no end in sight. This resulted in CPRL bearing the brunt of the fight. From 2013 to 2017, HCRL increased its footprint in the western and southern market. CPRL’s expansion plans came to a halt during the same time period, and it faced an employee exodus and massive loss in market share. Its supply chain and quality control also suffered a great deal, and the profitability of the company plummeted. Revenues of CPRL were affected largely due to the dispute among the partners (see Exhibit 2).[[25]](#endnote-25)

RELIEF FOR BAKSHI and then setbacks[[26]](#endnote-26)

In July 2017, Bakshi was greatly relieved when the National Company Law Tribunal restored him as the MD of CPRL. The tribunal termed Bakshi’s removal in 2013 illegal, unjust, and malicious. The tribunal further restrained McDonald’s from interfering with the smooth functioning of CPRL from then on. The court appointed Justice Singhvi, a retired supreme court judge, as an administrator with powers to vote in the JV board meeting as the tie-breaker vote.[[27]](#endnote-27)

However, relief was short-lived for Bakshi. In August 2017, McDonald’s cancelled the franchise agreement for its 169 restaurants coming under CPRL, and told its Indian suppliers that it had done so. According to sources at McDonald’s, the ending of the franchise agreement meant that CPRL was “no longer authorized to use the McDonald’s systems and its associated intellectual property.”[[28]](#endnote-28)

In a further setback to Bakshi, the LCIA’s judgement on the dispute between McDonald’s and Bakshi was to ask the latter to sell his stake in the JV firm CPRL to the US-based fast-food chain. In a two-to-one majority award, the arbitration panel asked Bakshi to transfer his shares in CPRL to McDonald’s at a fair valuation in accordance with their JV agreement.[[29]](#endnote-29)

The future was uncertain for both Bakshi but also for CPRL and its more than 6,000 employees. Bakshi had requested the High Court of Justice reverse the LCIA order, but it had refused to intervene until it had reviewed the LCIA’s orders in full. At that point, both CPRL and McDonald’s had limited options.[[30]](#endnote-30)

The biggest dilemma in front of McDonald’s was what to do next. It could not appoint another vendor for the north and east of India until the case was resolved. Had McDonald’s done anything wrong? The fast-food chain’s relationship with the two franchise owners had been as different as night and day.

Exhibit 1: Points of contention between Vikram Bakshi and McDonald’s

|  |  |  |
| --- | --- | --- |
|  | **McDonald’s** | **Bakshi** |
| **Valuation** | Wants to buy out Bakshi using formula in JV pact (which will yield a lower enterprise value) | Wants market value for his share |
| **Bakshi as MD** | Bakshi no longer MD, as board locked 2-2, and MD needs a majority | Nominee directors don’t have the right to vote against renomination of MD |
| **Internal Control Issues** | January review pointed out 13 issues | No auditor qualification in the auditor’s report between 2007 and 2011 |
| **Corruption and Bribery Clauses** | JV contracts do not have applicable anti-corruption, anti-bribery, and conflict of interest provisions | They do have anti-corruption, anti-bribery, and conflict of interest provisions |
| **Related-Party Transactions** | Risk of criminal proceedings against JV and senior executives, as the JV company is being used by Ascot Hotels, a Bakshi firm | All payments made to Ascot were for legitimate business transactions |
| **Attention** | Bakshi spending more time in his own businesses than with the JV | Other businesses run by daughters |
| **Mismanagement of Funds** | ₹70 million moved to a Bakshi group company | McDonald’s was informed; board approved the transaction |
| **Internal Control Issues** | JV did not perform due diligence on third parties and did not obtain comparable data on lease transactions | Most contracts are in favour of JV |

Note: MD = managing director; JV = joint venture; ₹ = INR = Indian rupee; US$1 = ₹64 on September 6, 2017.

Source: Adapted by the authors from John Samuel Raja D. and Chaitali Chakravarty, “Vikram Bakshi & Amit Jatia: A Tale of McDonald’s Two Franchise Partners in India,” *Economic Times*, September 24, 2013, accessed July 10, 2019, <https://economictimes.indiatimes.com/industry/services/retail/vikram-bakshi-amit-jatia-a-tale-of-mcdonalds-two-franchise-partners-in-india/articleshow/22956923.cms>.

Exhibit 2: Revenues of Connaught plaza restaurants limited versus Hardcastle restaurants pvt. ltd.

Note: CPRL = Connaught Plaza Restaurants Limited; HRPL = Hardcastle Restaurants Pvt. Ltd.

Source: ₹ = INR = Indian rupee; adapted by the authors from Sumant Banerji, “McDonald's Fight with 62-Year-Old Indian Businessman: What's It Really About?,” *Business Today*, August 13, 2017, accessed July 10, 2019, www.businesstoday.in/magazine/features/the-national-company-law-tribunals-strongly-worded-judgement-gives-vikram-bakshi-the-edge-in-his-battle-with-mcdonalds/story/256932.html.

ENDNOTES

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of McDonald’s or any of its employees. [↑](#endnote-ref-1)
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4. “McDonald’s to Launch First Restaurant in Delhi Next Week,” *Indian Express*, October 9, 1996, accessed July 10, 2019, www.mcspotlight.org/media/press/indiaxprs\_9oct96.html. [↑](#endnote-ref-4)
5. Kohli, op. cit. [↑](#endnote-ref-5)
6. Ibid. [↑](#endnote-ref-6)
7. Bradley Dunseith, “Joint Ventures in India: Learning from McDonald’s Experience,” India Briefing, September 14, 2017, accessed July 10, 2019, www.india-briefing.com/news/joint-ventures-india-learning-mcdonalds-experience-15206.html/. [↑](#endnote-ref-7)
8. John Samuel Raja D. and Chaitali Chakravarty, “Vikram Bakshi & Amit Jatia: A Tale of McDonald’s Two Franchise Partners in India,” *Economic Times*, September 24, 2013, accessed July 10, 2019, <https://economictimes.indiatimes.com/industry/services/retail/vikram-bakshi-amit-jatia-a-tale-of-mcdonalds-two-franchise-partners-in-india/articleshow/22956923.cms>. [↑](#endnote-ref-8)
9. Dunseith, op. cit. [↑](#endnote-ref-9)
10. Shravan Bhat and Samar Srivastava, “Amit Jatia and McDonald's 15-Year Wait for Success,” *Forbes India*, March 13, 2014, accessed July 10, 2019, www.forbesindia.com/article/marwari-power/amit-jatia-and-mcdonalds-15year-wait-for-success/37353/1. [↑](#endnote-ref-10)
11. Dunseith, op. cit. [↑](#endnote-ref-11)
12. Kohli, op. cit. [↑](#endnote-ref-12)
13. Shilpa Kannan, “How McDonald’s Conquered India,” BBC News, November 19, 2014, accessed July 10, 2019, www.bbc.com/news/business-30115555. [↑](#endnote-ref-13)
14. Suneera Tandon, “McDonald’s Is Reinventing Itself So That India Can Start Lovin’ It as Much as Before,” Scroll.in, March 6, 2017, accessed July 10, 2019, https://scroll.in/article/830799/mcdonalds-is-reinventing-itself-so-that-india-can-start-lovin-it-as-much-as-it-did-before. [↑](#endnote-ref-14)
15. Sumant Banerji, “McDonald’s Fight with 62-Year-Old Indian Businessman: What’s It Really About?,” *Business Today*, August 13, 2017, accessed July 10, 2019, www.businesstoday.in/magazine/features/the-national-company-law-tribunals-strongly-worded-judgement-gives-vikram-bakshi-the-edge-in-his-battle-with-mcdonalds/story/256932.html. [↑](#endnote-ref-15)
16. ₹ = INR = Indian rupee; US$1 = ₹43.24 on June 1, 2008. [↑](#endnote-ref-16)
17. Tandon, op. cit. [↑](#endnote-ref-17)
18. Ibid. [↑](#endnote-ref-18)
19. Grant Thornton was an independent assurance, tax, and advisory firm. See “About Us,” Grant Thornton, www.grantthornton.in/about/. [↑](#endnote-ref-19)
20. Banerji, op. cit. [↑](#endnote-ref-20)
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23. Kiran Stacey, “McDonald’s Battles to Regain Control of Brand in India,” *Financial Times*, October 1, 2017, accessed July 10, 2019, www.ft.com/content/720ba6e4-a293-11e7-9e4f-7f5e6a7c98a2. [↑](#endnote-ref-23)
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25. Ibid. [↑](#endnote-ref-25)
26. Priyanka Mittal, “NCLT Reinstates Vikram Bakshi as MD of McDonald’s Joint Venture CRPL,” Livemint, July 14, 2017, accessed July 10, 2019, [www.livemint.com/Companies/PJVjPgc9oU6dtUFoNbRfcN/NCLT-reinstates-Vikram-Bakshi-as-MD-of-McDonalds-joint-vent.html](http://www.livemint.com/Companies/PJVjPgc9oU6dtUFoNbRfcN/NCLT-reinstates-Vikram-Bakshi-as-MD-of-McDonalds-joint-vent.html). [↑](#endnote-ref-26)
27. Stacey, op. cit. [↑](#endnote-ref-27)
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30. Ibid. [↑](#endnote-ref-30)