McCafe: The McDonald's co-branding experience

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Abstract
This paper explores the use of co-branding in franchising as a strategy to stimulate and rejuvenate growth in a mature franchising sector. It is proposed that development trends, such as multiple unit franchising, mobile franchising and co-branding, occur because of the sector's need to find new means of expansion beyond the standard model of franchising. The specific phenomenon of co-branding is examined in the form of a case study. The McDonald's/McCafe co-branded arrangement, which evolved in Australia, is analysed to determine the incentives and inhibitions associated with this successful co-branding initiative. A theoretical model of franchise co-branding has been formulated representing a complex structure of motivational and inhibiting facets that are intrinsically linked and appear to work synergistically to achieve a far more complex co-branded arrangement.
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INTRODUCTION

Franchising in Australia is reaching a stage of saturation and maturity.[1,2] Macroeconomic forces and the federal regulation of franchising are major contributors to this situation. The sector has 700 franchise systems operating some 50,000 franchise units[3] for a population of just 20 million people. This represents a higher concentration of franchising than even the United States' franchising sector and signals the need to find new avenues for growth.

In order to explore this issue, early theories of franchising, which attempt to explain why this method of distribution flourishes, are examined and found to be inadequate in accounting for current trends in the sector. This paper proposes that the wide variety of franchising arrangements that have evolved (eg multiple concept and multiple unit franchising) have occurred in response to the sector's need for continued growth outside the prototypical model of a franchise and a company's underlying intrinsic reasoning to franchise.

The main focus of the following discussion is the recently developed phenomenon of co-branding and its early impact on the Australian franchising sector. Franchising over the past decade has rapidly

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matured and developed, both from a commercial and academic perspective.[4] A great deal of literature has been created over that time with regard to the particular theories explaining its development and perspectives of the regulatory environment and its subsequent impact. This paper first reviews the main theories that attempt to explain the evolution and development of franchising. Next, the phenomenon of co-branding in a franchising environment is introduced. Finally, using the unique case of McDonald's Australia's conception and introduction of McCafe as an example of co-branding, the methodology and findings of an in-depth case study are revealed.

BACKGROUND LITERATURE

Early explanations of franchising

Original studies of franchising established theoretical explanations with regard to the motivations for companies to expand using franchising as a growth mechanism. First, *resource constraints* theory argued that franchising was a source of external capital needed for expansion into a given market by the franchisor.[5–7] Hence, franchisees provided much needed finance and staff for the business at a particular location. Subsequently *administrative efficiency* theory stated franchising evolved to overcome agency problems associated with geographic and rapid expansion.[8,9] Franchisees were found to provide high levels of ownership and hence a greater degree of control over the everyday functions of the business. These theories have provided some insight as to why companies looked at franchising initially for growth purposes as opposed to company-owned units for expansion. Subsequent exploration of these theories remained focused on similar debates, either as a whole or in part explaining why franchising has been utilised as a growth strategy.[10,11]

Other authors[12–15] have dealt with the contextual legal framework of vertical and horizontal restraints of trade and its application to franchising in reference to the Trade Practices Act (1974) in Australia and/or a comparison with anti-trust legislation from the United States. This area is significant as it focuses on how the regulatory framework has historically shaped franchising and perhaps how recent developments in franchising are significantly different from what has been described as the prototypical model of a franchise operation.[16]

Rubin[8] argued, however, that the legal and regulatory framework could negatively influence franchisors away from franchising if there was significant intervention of regulators into the franchising relationship. In the case of Australia, the extensive compliance now required with the Franchising Code of Conduct (1998) should have, therefore, produced an environment justifying Rubin's statements. Current trends, however, would indicate that rather than find alternatives to franchising, franchisors have sought and developed new strategies within the sector as a means of continuing a franchised expansion process.

The maturity of franchising

It would seem that these innovations have been necessary to overcome a slowing of growth in franchise systems. Franchisors are now more likely to face difficulties in attracting and recruiting suitable franchisees. The decline in potential franchisee interest has been directly related to regulatory changes and macroeconomic conditions.[3]

The slowing of growth is one of the contributing factors that has resulted in the current level of maturity that franchising is experiencing in Australia[4] and the United States.[2] Stagnating retail growth, high levels of franchising per capita and the above-mentioned legal constraints are the principal causes of this maturity. This maturation is occurring within retail markets, where the majority of traditional franchising has existed.[2]

Individual franchise systems are continuing to grow in size,[3] but when contrasted with the retail statistics[17] it is possible to see that franchised retailing in its traditional format[18] is reaching an advanced level of maturity given that retail sales, as a measurement of growth, have not significantly increased in many categories over the past six years. This trend would seem to indicate that franchise systems may be cannibalising or converting the retail sector in maintaining moderate levels of individual system growth. That is, franchise systems may possibly be growing as a result of failure of small business competition in relevant markets or converting current retail businesses to specific franchised operations.

Traditional forms of retail strategies such as new product development and product extensions can be difficult for franchise systems to assimilate culturally and continue to maintain high levels of control over quality and consistency system wide.[19] In addition to this cultural impediment and other macroeconomic conditions, the Australian franchising sector has more than double the number of franchise systems per capita than the United States,[3] which indicates a high level of saturation, contributing to a mature environment.

Perhaps as a result of these macroeconomic conditions and/or of the maturation of franchising itself, a range of emerging trends in franchising has been identified and further investigated. Mobile franchising arrangements,[20] multiple unit franchising,[16,21] conversion franchising[22] multiple concepts, multiple systems and co-branded franchising[23,24] are franchised forms that have evolved in recent times. This evolution has occurred in response to the more mature status of the sector, but techniques seem to have been adopted in an experimental rather than systematic fashion. This paper will now explore further the concept of co-branding and its application to franchising.

DEFINING CO-BRANDING AND THE RESEARCH QUESTION

Many definitions of co-branding exist at a promotional, ingredient, product and organisational level. Most agree that co-branding, however, involves combining two brands to create a single product or offering.[25] As this paper is concerned with franchise system co-branding, we will focus on the *organisational* level. In its most refined and complex form, co-branding embraces a collaborative venture constructed to further the interests of two, or more, organisations in a planned, strategic format.[13,26–28] While this definition focuses on the organisational function of co-branding, there must be a customer focus to differentiate co-branding from other forms of brand associations or synergies. Co-branding, therefore, must encompass a number of brands being joined to reach target audiences of similar interest.[28–31] Retail co-branding is dominated by businesses that provide convenience benefits to consumers.[32] Hence, we observe examples of fast food franchises teaming up with service stations (fuel retail) and grocery stores, as demonstrated by McDonald's and Hungry Jacks with Shell and BP, and Subway with 7-Eleven.

Co-branding, especially within business format franchising as a dominant method of retailing, has been a relatively recent phenomenon in Australia that has attracted

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little attention in the academic literature. Attention has instead focused on product-specific co-branding rather than retailer or organisational co-branding. Hence, the current study investigates the research question:

> *What motivational factors instigated co-branding arrangements within McDonald's/McCafe?*

METHODOLOGY AND DATA COLLECTION

Given the contemporary nature of the phenomenon of co-branding along with its limited, but growing, appearance within the retailing sector and the exploratory nature of the research question, a *case study* method was adopted as the data collection method.[33] A case study explores a 'bounded system' through in-depth analysis[34] using multiple information sources that provide 'thick description'[35] of the phenomenon.

The aim of the research was to build a tentative theory from an embedded analysis of the case study.[35,36] Such a framework requires a clear research question as well as selecting the case in a purposeful way, using structured protocols in a flexible manner, a wide spectrum of data collection, and critical detailed data analysis on a within-case basis.[33] The analysis revealed several themes relevant to the context of the case,[37] resulting in a tentative theory.[38]

Owing to the paucity of information previously gathered in the area of franchised co-branding, the restricted availability of the phenomenon in the franchising sector and the complex nature of the process in an organisational context, it was necessary to adopt a phenomenological perspective to understand and describe the action.[35] The examination of these characteristics suggests that case study research is an appropriate design as the current research focused on a contemporary set of events, investigating phenomena over which the researchers had no control. It has a distinct advantage over other data collection methods when a 'how' or 'why' question is being asked, such as this.[33] The advantage involves the richness of information that flows from direct interactions with the subjects involved.

Therefore, this method allowed the investigation to retain the holistic and meaningful characteristics of the real life events (in an organisational setting) that were being explored. The data collection incorporated numerous data sources to provide an in-depth picture of the case under study, but primarily relied on personal interviews and unobtrusive observation[39] as well as examination of pertinent company reports where appropriate.

Three tactics were used in this research to address the issue of *construct validity*. First, multiple sources of evidence were attained from divergent lines of inquiry, thus enabling triangulation of data.[40] Next, the establishment of a chain of evidence ensured that explicate links between the questions asked, the data collected and the conclusions drawn were detailed, enabling crosschecking of evidence.[33] Finally, the third tactic to address construct validity involved asking informants to review their transcripts.[36]

The tactics used to address *internal validity* were pattern matching and addressing rival explanations. Pattern matching involved systematically matching patterns with literal replications and theoretical replications to ensure that the causal explanations were consistent. Addressing rival explanations involved analysing negative or discrepant information that ran counter to the themes.[39]

Case study tactics used to ensure *reliability* of results in this research were the use of a case study protocol, use of a semistructured interview protocol, and development of a case study database.[41]

The McDonald's study was selected for theoretical, not statistical reasons.[35,36] As the literature is scarce on co-branding and its application in an organisational setting is likewise scarce, many forms of co-branding may exist. Therefore, the adoption of McDonald's/McCafe was chosen as an intrinsic case study due to its uniqueness.[34] McDonald's/McCafe also proved accessible in terms of data collection where one parent company could yield a rich source of both company documents and interviewees.

The interviewees were originally selected on the basis of organisational representation. A senior executive was chosen to give a strategic overview, an operations manager provided a middle management perspective as well as the corporate interface with the franchisees, and a franchisee gave an account of the day-to-day functions of McCafe. Many internal documents were also sought regarding McCafe to provide depth for the analysis in attaining and reinforcing a clear organisational viewpoint.

After initial exploration of the documents and interview transcripts, it was necessary to review the process with regard to statements made in the interviews at that time. It appeared that some statements by the operations manager about the incorporation of McCafe into McDonald's were diametrically opposed to other interviewees, otherwise known as a rival explanation.[39] To ensure that all views were correctly interpreted to achieve organisational representation, a process involving checking back with other interviewees, as well as someone of a similar position in the McDonald's corporation to the person who had appeared to have given the rival explanation, was conducted.[36] After further analysis all interviewees, including a new interviewee, a training manager, agreed that the statements originally made by the operations manager were congruent with other statements made in the same section of the interviews.

MCDONALD'S BACKGROUND

While McDonald's enjoyed significant growth through the 1980s and 1990s, and consistently developed and introduced successful new concepts such as 'drive thru', the breakfast menu and an early version of McCafe, broader societal concerns emerged that saw McDonald's stall in sales and growth over the latter part of the 1990s and early 2000s. Purchasing frequency by customers declined as a result of issues such as the fat content of fast food and its effect on the obesity levels of youth. Commentators argued that the type of high-fat, low-fibre diet promoted by McDonald's was linked to serious diseases such as cancer, heart disease, obesity and diabetes.[42]

McDonald's inability to evolve its image in parallel with consumer trends also kept customers from frequently patronising the retail outlets of the organisation. Consumers were finding the image of the restaurant stale and uninviting, reinforcing the concept that the organisation was out of touch with general consumer trends.[43,44] Other issues during the late 1990s that enveloped the organisation with a negative identity through media exposure were advertising campaigns focused on children, employment practices, environmental issues and free speech (http://www.mcspotlight.org/). To arrest this negative movement, McDonald's began a series of initiatives that it thought would assist in developing a positive corporate image. For instance, in 2000, McDonald's was named the Official

Restaurant of the Sydney 2000 Olympic Games.

Further developments occurred organisationally to provide a more appealing range of products to its customer. For example, the McCafe concept in 1999 was adopted as a mainstream initiative for McDonald's and in 2001 the New Tastes Menu was introduced throughout Australia. These initiatives were developed to reinvigorate the McDonald's brand. As a result, many mature customers began revisiting McDonald's with the frequency they once had (http://www.McDonald's.com.au/).

FINDINGS

Brand extension or co-branding?

McCafe has developed over a 12-year period within the McDonald's organisation. Initially, the central business district (CBD) version of McCafe was created in 1993 as a coffee pot on the counter of the McDonald's situated at Swanson Street, Melbourne for peak hour commuters. This version evolved into more sophisticated retail offerings in the ensuing six years until the development of the fully integrated suburban McDonald's/McCafe in the Brisbane, Australia suburb of Coorparoo in 1999.[45,46]

McDonald's executives recognised that McCafe had, by this time, developed its own brand equity discretely from the McDonald's master brand. While some attributes of both brands were seen as similar (eg service delivery components) it was clear that separate identities for both brands had been established within the organisation focussed on discrete customer segments.[26] This is an important part of the co-branding function providing separate values to the respective target audiences but combining the experiences of both brands at the point of exchange.[47]

When asked if there were advantages or disadvantages with the use of 'Mc' in McCafe the general response from interviewees was represented by this statement made by the Vice President:

> 'The development of McCafe wasn't scientific and it wasn't a set of management/genius circumstances.... If we were starting today with what we know about brand and brand management maybe we wouldn't have called it McCafe. There were some concerns…that we had so many McCafe logos and illuminated signs that we might have been competing or even overshadowing the golden arches. Research tells us, however, that that is not the case. That is an internal perception and internal bias but the golden arches are well and truly strong enough to carry a sub-brand.... Would we change now? Obviously we wouldn't because there is too much time and money in developing that brand. That brand now is global'.

Clearly, the development of another brand using the 'Mc' has taken a great deal of management and a significant amount of cultural change for the brand to be adopted successfully within the corporation. This dilemma was also exacerbated over a period of time when senior management felt that the McCafe brand would erode the credibility of the 'golden arches'.

This movement of the McDonald's brand from company as brand to a master brand position (parenting its own brand equity and that of McCafe) in a brand hierarchy scheme explains the shift from a single brand to that of a brand portfolio.[31] Other examples of this retail co-branded environment are Allied Domecq's use of Dunkin' Donuts, Togo's and Baskin Robbins in the United States and Canada where the three brands were combined in one retail offering but operating discretely under the one roof. One franchisee was encouraged to own the entire outlet containing all three brands. Another more notable example is that of Yum Restaurants International combining the three brands of Pizza Hut, Taco Bell and KFC in a similar fashion. Ultimately, these examples differ slightly from McDonald's in that the master brands of Yum Restaurants International and Allied Domecq do not facilitate the same brand meaning at the consumer exchange level as the McDonald's brand.[48]

McDonald's/McCafe can therefore be seen as a collaborative venture constructed to further the interests of the two brands (one master and one sub-brand) in a planned, strategic format. It has attracted multiple market segments simultaneously to patronise a range of facilities provided by the combined retail entities. This strong customer focus differentiates co-branding from other forms of brand associations such as brand extensions.[32] Hence, there appears to be sufficient evidence to classify the McDonald's/McCafe relationship as co-branded.

Themes

A number of themes emerged during the data collection process, which illustrates the reasons why McDonald's has entered into a co-branding arrangement. It is acknowledged that attracting customers, competitive advantage, reinvigorating brand equity and growth incentives are covered comprehensively in current literature and are recognised as motivations that synergistically produce an end result that is greater than each of the parts. Further each of the above-mentioned motivations is common in all of the forms of co-branding.

The maturation of the franchising sector within Australia over the past decade, however, has produced a number of different methods of growth away from the prototypical model of franchising vs company-owned expansion. Mobile franchising arrangements,[20] multiple unit franchising,[16,21] conversion franchising[22] multiple concepts, multiple systems and co-branded franchising[23,24] are franchise forms that, as mentioned, have evolved in recent times to counter the mature status of the sector. Potential inhibitors to co-branding have been identified as systems, culture and legal and will be discussed in a separate section.

The common themes identified in the current literature arising from the case study will now be discussed.

Theme 1: Attracting customers

This theme represents a number of motivations as to why McDonald's chose to pursue McCafe in a co-branded format. Clearly, outlined in the interviews and company documents is a focus on creating a separate area, a specific design for the interior and exterior of the combined McDonald's/McCafe store, targeted advertising and the general location of the refurbished site, which all combine to ultimately attract new and old customers to the McDonald's site.

A cross-link function is also apparent between the notion of a separate area and market segmentation through which significantly increased amounts of in-store traffic are generated by the combination of McDonald's/McCafe, representing surges in patronage from current customers and the return of what appear to be lost segments of the market. Without the separate area there would appear to be some doubt as to the success of co-branding. As stated in one interview,

> '…you'll see at least one "mothers' group" where you'll see five mums in there, all

> the kids in the play-land or sitting down eating their Happy Meals at another table and they're there with their coffee and cake and I think it's giving permission for that demographic to come back to McDonald's and every now and then, they'll have their coffee with a Big Mac'.

Ultimately, this overlap of customers is expressed as increased sales and profit. A corporate interviewee cited the following statistics,

> '…if we generate a dollar's worth of sales in the McCafe, we are also generating between 50c and $2.00 additional sales in McDonald's'.

Theme 2: Competition

Evidence of both internal and external competitive forces arose from the data analysis. Internal competition focused on location of the outlet and the possibility of encroachment. Given the high level of market penetration that McDonald's stores have, there is little intra-system competition for market share. When the McCafe concept is introduced, however, significant market share appears to be relinquished by the site without a McCafe. Hence, the location of McDonald's stores is a relevant factor when a McCafe is introduced.

Similarly, the threat of encroachment appears to be a motivating factor for franchisees to incorporate McCafe into their system. This aspect is significant to protect and build sales as well as increase profitability. While the long-term effects of the introduction of McCafe are still to be determined, it appears more likely that McCafe will continue to be adopted rapidly throughout the system to enhance sales and profitability.

From the corporate perspective, McCafe is seen as a potential panacea for staying off external competitive threats to the McDonald's system. As identified earlier McDonald's sales and subsequent profitability were becoming increasingly difficult to maintain. While the franchising culture within McDonald's had a significant contribution to that situation it would appear that competitors were increasingly affecting system market share. Interviewees reported that, after the introduction of McCafe at specific sites, the effect of competitors had decreased.

Theme 3: Reinvigorated brand equity

The reinvigoration of the brand is recognised as a major motivation for co-branding. Constant reference was made to the development of McCafe as a 'sub-brand' that has helped restore sales and profitability by increasing cross-selling potential through attracting old and new customers to current McDonald's sites.

Different segments of the market were clearly identified as both potentially new customers and those who had dissipated over time. The co-branding process is designed to increase the visiting frequency of different types of customers both singularly and as a group and maximise the unit sale price at point-of-purchase. McDonald's has deliberately shifted from its previous positioning model and now utilises McCafe to provide different attributes to customers, such as a move from processed to fresh food, as well as reinforce original attributes such as convenience and price.

A focused branding process is apparent for both McDonald's and McCafe with selected attributes being highlighted by different facets of the co-branded model. For example, the corporation sees the separate area and staffing for McCafe as a way to, 'extend the meaning and value of the McDonald's brand via customer focused innovation'. The notion of augmented customer service is not unusual to McDonald's (through previous innovations such as drive thru). Customer service, however, is now attached intrinsically to the new McCafe brand via enhanced staffing quality and superior in-store atmosphere. Certainly the franchisor perspective is that the separate brand of McCafe is reconstructing the group's attributes through the co-branding process. 'The view of McCafe is still that it is an integral part of the business but provides synergy to assist rebuilding McDonald's brand'.

The branding process appears to contribute to the reinvigoration of the McDonald's brand at the same time the McCafe brand has been created and promoted. This remains a significant motivation for McDonald's to undertake the strategy of introducing the McCafe concept.

Theme 4: Growth incentives

Incentives for system and unit-wide growth also provide motivations for co-branding. Franchising as a model for growth is fundamental to the culture of McDonald's and its continual focus on increasing sales and profitability. Expansion remains a significant driving factor for McDonald's to introduce McCafe relative to the franchising culture created over the past thirty years. Where expansion or contraction of company owned outlets remain within the corporate decision making arena, within a franchise organisation the stakeholder contribution and ownership provided by franchisees can see significant conflict arise out of similar decisions. Therefore, it is important for all franchised organisations to continually expand as part of their fundamental objectives. Corporate documents identified system expansion as a key incentive to adopt the McCafe concept. As stated, 'The rapid expansion of McCafe since 2000 has come from McDonald's enticing franchisees to invest in the concept through introducing a capital investment subsidisation program'.

McCafe has provided an incentive for system expansion through its initial CBD concept as well as through its evolutionary progress into suburban sites. This has provided vertical growth through increased sales but also horizontal growth through increased outlets giving added benefit to the corporate entity and franchisees. In addition, cost savings that translate into profitability remain a significant factor motivating the process of introducing McCafe throughout the McDonald's system. The cost savings are evidenced by way of operational synergies, staffing costs and real estate productivity (increased sales without an increase in fixed costs such as rent).

Lower operational costs for the franchisee are also apparent. Combined operations provide extra sales without proportional increases in variable costs such as labour, store maintenance and storage facilities. As noted by an interviewee,

> 'We have lower costs doing it this way because we already own the real estate,… So straight away we're in front and we can operate the store on a lower base of sales. In 98% of the cafes that are opening, the stores are seeing increases in their profits overall.'

Operational savings at franchisor and franchisee levels as well as higher price-to-asset ratios have increased profitability for both franchisor and franchisee. Profit being a fundamental consideration for any business remains a clear motivation for McDonald's to incorporate McCafe into a co-branded model.

Acknowledgment of a significant return on investment (ROI) was also provided as a motivation by franchisees to acquire McCafe. Interviewees highlight the difference between a stand-alone McDonald's site and a co-branded site, as evidenced by this statement,

> 'If we went into a store and … we did a fantastic reinvestment in the site and didn't do a McCafe, we'd still get a good sales increase. … without a McCafe, I have no doubt we'd get a significant increase in sales, just by providing a better facility and having a nice dining environment, but you're still not going to get the same increase in sales that you do with your McCafe as well'.

Hence, there is a synergistic combination of investment to achieve expansion and profitability for the McDonald's system through the introduction and expansion of the McCafe concept.

Inhibitors to co-branding

The following three themes are identified as those that do not exist in the current literature of co-branding or franchising. These themes have also been identified as inhibitors or barriers to franchise systems that need to be overcome for successful co-branding to occur at an organisational level.

Theme 5: Systems

Clearly identified in the data was coordination and integration of systems throughout McDonald's and McCafe that needed to be joined for the co-brand identity to operate effectively and efficiently at retail level. The identified systems were those of product development, logistics and management information systems. It was acknowledged by all interviewees and the company documents that unless these systems were integrated properly into McDonald's/McCafe the arrangement would not work effectively. It was recognised that the exchange process between the customer and McDonald's/McCafe would be ineffective unless all customer segments could be properly catered for at any given time.

This systems development represented a significant resource investment by the franchisor (for strategic research and development) and franchisees (for implementation costs at retail level) and represents the operationalisation of the co-branding function within the overall company structure. When compared to other types of co-branding (promotional, ingredient and product co-branding) differences appear with regard to the level of investment required by the two separate brands in the co-branding arrangement.

This can be identified with a focus on the point of exchange. In promotional co-branding, the brands only need to locate the offering in a preferred promotional item such as a leaflet, advertisement and/or campaign. While the promotional investment may represent a significant investment for both brands depending on the geographic coverage and timing of the promotion, once delivered both brands can assess the success/failure of the promotion and either continue, cease or modify the campaign. With ingredient/product co-branding investment is limited to the product created. With the many examples that have been provided in the current literature, this level of investment appears to be based on current operational/manufacturing procedures. Clearly, some research and development is needed to establish the viability of the product and its conceptualisation into the marketplace. Once the ingredient/product co-brand is established, however, the separate brands are faced with the same choices as those of the promotional co-branded arrangements; that of continue, modify or cease.

For organisational co-branding, however, to work effectively the cross-fertilisation of systems at the point of exchange needs to be considered. This is a far greater level of investment that has a significant level of permanency once the co-brand has been created.

Theme 6: Culture

The McCafe was first tested in 1993 in the Swanson Street McDonald's, Melbourne. This concept evolved and was then market tested in the mid-1990s as a discrete entity, owned by McDonald's, called Serious About Coffee (SAC). After opening three stand-alone sites in and around the Sydney area SACs were closed. The product testing, however, occurred that would be utilised within the McCafe system as well as providing a forum to trial new product without restriction from the original McDonald's operational requirements. This gave some ideas with regard to menu development for McCafe and circumvented the lengthy periods of time that McDonald's requires to get a new product developed and distributed. As demonstrated in the franchisee interview, SACs contributed to the cultural change that brought about McCafe in this manner.

> '(SAC's) allowed more flexibility with regards to products. We could do things a little bit differently. We could do what McCafe's and other coffee shops could do because it wasn't under the McDonald's umbrella. So we could use suppliers that didn't have a full HASSOP (quality control) rating. Because to get the very small suppliers to be HASSOP certified is time consuming. Which then meant that if you wanted to put a product on the menu you couldn't do it. It was taking us years. That part of my key role was helping the purchasing guys'.

It should, however, be noted that this motivation was created *post hoc* rather than with strategic intent. Corporate management acknowledges that a number of the motivations for introducing McCafe only crystallised after its expansion.

With the introduction of McCafe, staffing has been given higher priority by the organisation to attain a distinct and augmented level of customer service above and beyond that of a standard McDonald's store. This is an important perspective relevant to overall motivations because it is intrinsically linked with in-store atmosphere, design and the notion of a separately identified area. A distinct set of service considerations appears to be essential to maintaining a separate area and atmosphere as well as providing operational synergies for the overall retail outlet. McCafe staff members wear a different uniform, are generally older than the typical part-time crew and receive specialised training.

Further, culture proved to be a significant hurdle for McDonald's as the McCafe format introduced different operational dimensions that franchisees/staff/management needed to absorb and synthesise on a day-to-day operating basis in order for the co-branded arrangement to work effectively. Previously franchising culture, generally, operated by replicating a specific but simple business concept. The culture of virtually every franchise organisation would then reinforce strict operating procedures within the context of a franchise agreement. This culture was intrinsically focussed on maintaining the replication process in an inflexible manner.[19] McDonald's, by introducing the McCafe, changed that focus by changing the way each store operated and thus added enhanced flexibility to varying aspects of the overall system. This was not a new product offered on the menu but

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a strategic change in the way the entire system functioned.[45,46,49]

Culture as an intangible aspect of any organisation remains a more complex part of retail co-branding. Product co-branding as described in the literature does not address this intangibility in a meaningful way. Clearly, the functional aspect of the McDonald's system required that staff (as the expression of culture at the point of exchange) act in a certain manner. With the introduction of the McCafe concept in a co-branded format management then focussed on recruitment, selection and training to enable a more positive function to be displayed.[18,45]

McDonald's executives recognised that they had more control over this cultural aspect as a result of integrating McCafe more than a co-branded arrangement with a completely separate company. This was highlighted by comments made regarding the less refined co-branding arrangements with Shell and BP where significant conflict existed at retail level between franchisees of the separate systems and the analysis of Aroma's as a potential co-branded arrangement in the same context as McCafe.

Theme 7: Legal issues

Legal considerations have provided both incentives and barriers that appear to have motivated McDonald's to utilise their current sites in a specific manner with current franchisees. Each site needs to be approved by a local council and relevant health authorities to be utilised for restaurant purposes. Once that approval has been attained any subsequent modifications do not need to have the same approval processes attached. Further, the process of acquiring the land and its subsequent development have already been established. An interviewee substantiates this by revealing, 'It's easier for us, we don't have to deal with legal issues of purchasing property and leasing from a landlord and the land or building'. By utilising its current sites McDonald's is avoiding the need to deal with landlords. It is clear that if a third-party owner of the property were a necessary part of the co-branding process the overall model may not have developed beyond the CBD version.

Further legal implications are also apparent regarding the franchise agreement and potential litigation that can be identified as barriers to co-branding. McDonald's are clearly motivated to only sell the McCafe concept to its current franchisees (and only then after rigorous testing). They do not believe that a prospective franchisee has the experience or ability to manage a McCafe until sufficient experience has been attained both in franchising and managing a McDonald's outlet.

This is also reinforced by comments made with regard to the adoption of the Aroma's brand. McDonald's interviewees commented that it would be too difficult to integrate the separate brand into the current system and thus proceeded to create its own, that of McCafe. Further evidence of this strategy comes from the comments made about the co-branding with BP and Shell where high levels of conflict are experienced between franchisees at specific retail locations where both franchise systems function and issues regarding operational procedures are constantly being questioned by both franchisees.

These legal aspects from a franchising perspective create an inhibitor against co-branding, especially when separate companies are involved. McDonald's recognised that co-branding arrangements across multiple companies within a retail environment created after market co-extensives[50] or switching costs that increase the cost of monitoring a franchise system (with multiple brands) and complicate exit strategies for both the franchisor and franchisee. In order to minimise the impact of this factor, McDonald's only sell the McCafe concept to current franchisees who meet strict criteria as previously mentioned.[49] The franchise agreement and operations manuals were also significantly altered to incorporate these system modifications with regard to McCafe. Clearly, these inhibiting factors will exponentially increase costs and the risk of potential litigation when a separate company is involved with different cultures and expectations.

The increase in intra-system competition between McDonald's with McCafe also produced a consequent increase in levels of conflict between franchisees and the franchisees and the franchisor. This conflict management can be viewed as a subset of the legal environment creating a hurdle to effective co-branding, especially as the co-brand is established.

The cost of monitoring this type of conflict and potential litigation against subsequent failures of a co-branded arrangement can further inhibit companies from exploring this method of growth especially where separate franchise systems are faced with conflict between franchisees of separate systems, franchisees and franchisors of separate systems and subsequent internal conflict where co-branded arrangements also have a significant competitive effect.

SUMMARY OF THEMES

The first four themes represent the motivation for co-branding. Essentially the incentive or motivation for co-branding is founded on growth opportunities and the synergy between the two brands. In this respect, the results are consistent with the existing literature of co-branding, so the case effectively reinforces that literature.

In contrast, the next three themes reflect the constraining or inhibiting forces holding back or potentially deterring co-branding. Inhibiting forces have not been dealt with as prominently in the literature as motiving forces. The inhibiting forces, however, are particularly significant in franchising co-branding. Considerably greater investment is required to overcome the cultural and system barriers emanating from the inherent inflexibility of franchising systems. The combination of brands at one retail location can exponentially increase the cost of construction. For example, McDonald's has cited \$750,000 to \$1.5m, depending on the size and location of the site. This can be compared with the other forms of co-branding where levels of investment are apparently lower and represent little ongoing effect to the brands involved.

When this level of investment is combined with the other themes generated in this research, the co-branding arrangement clearly goes to the heart of the organisation with a far greater level of permanency. It cannot be described as a superficial or temporary arrangement in contrast with a promotional, ingredient or product co-brand where the offering is created with far less investment. In order for McDonald's to effectively co-brand, it created McCafe as a sub-brand with enough brand equity to establish it as a co-brand.

Hence the following propositions can be put forward to underpin the theory of franchising co-branding:

Proposition 1: *The motivational forces for franchising co-branding relate to synergies across the brands and to growth opportunities, in a similar way to other forms of co-branding.*

Proposition 2: *The inhibiting forces to franchising co-branding are particularly strong, requiring large investments in systems and cultural re-alignment.*

Proposition 3: *For an organisational co-brand to be successful within a franchised retail environment, the company involved might favour acquisition in order to minimize the investment costs.*

CONCLUSION

In summary, seven themes have emerged from the data collected that provide support for the motivations to introduce McCafe. Tying these together, the model in Figure 1 illustrates the initial themes drawn out of the data collected and their interrelationships. The model is representative of the complex range of motivations that have created the McDonald's/McCafe co-branded arrangement and the barriers that needed to be overcome for success to occur as discussed in the previous sections. The theory of franchising co-branding put forward here is based on separate grouping of the motivational drivers of co-branding against the barriers or inhibiting forces. Franchising is a complex, inflexible institution, not well equipped to deal with innovation. Franchising co-branding faces very high investment costs to implement the cultural change needed to introduce the new format and to cover the property and other system costs of co-managing two branding systems.

This initial case study of McDonald's/McCafe has provided a starting point for examining incentives for co-branding in franchise organisations but from within one system. As co-branding strategies move from simplistic forms such as promotional and product co-branding to a more complicated form of organisational co-branding within a retail environment, it is clear that meaning of the

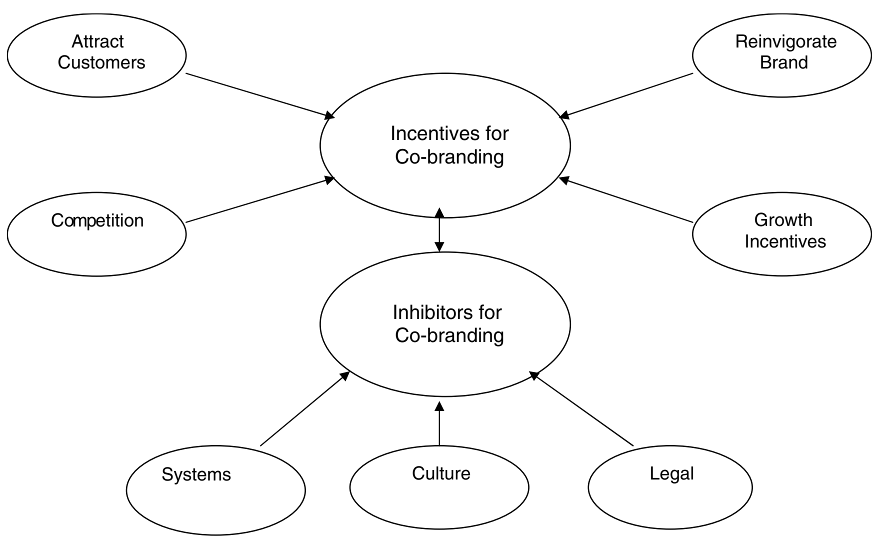

Figure 1 Incentives and inhibitors for co-branding—Evidence from McDonald's/McCafe

brand is penetrated far more for the organisation. Three propositions have been developed to enable a broader testing of the newly proposed theory of franchising co-branding.

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