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Harvard Business Review

DECEMBER 2010

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SPOTLIGHT PAGE 61

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Interaction

Brazil's Whopper Deal

HBR Blog post by **Fernando Luzio,** September 2010

3G Capital, a private equity firm backed by Brazilian investors, purchased American fast-food giant Burger King in September. The takeover is due to finalize in December. For Fernando Luzio, CEO of Luzio Holistic Strategic Vision, "the $3.26 billion involved in the Burger King buyout symbolizes the power that Brazilian banks have accumulated." In this post, he explores what 3G Capital should do to remake Burger King if it wants to catch up to McDonald's: redefine BK's target markets, rethink its offerings, cut excess costs, and re-engage the chain's employees.

The academic evidence of the past 50 years shows that the shareholders of acquiring companies do not gain anything, on average, from acquisitions. For an acquirer to be better than average, it has to do something special.

Posted by **Costas Markides,** Robert P. Bauman Professor of Strategic Leadership, London Business School

Luzio responds: *If the new CEO continues business as usual at BK, the acquisition will probably not be effective.*

It's not all about catching McDonald's. The Brazilian buyers are not focused on being first, but on generating value. These guys established a corporate culture during their years at Garantia Bank that is centered on results. The fact that BK has management and strategy problems is more of an opportunity than a challenge for them.

Posted by **Renato Mendes,** CEO, Contraste Solutions

Luzio responds: *In finance, we learn that "Cash is King," but for 3G, "Value is God."*

We will see if BK competes with McDonald's head-on, playing their game (for example, adding healthier menu items) with ruthless and ever-increasing efficiency, or if it differentiates its offerings and business model—setting it apart from its largest competitor not in sheer size, but perhaps in customer loyalty and profitability.

Posted by **Andre Matsushima Teixeira,** Managing Director, Merit KPO

McDonald's is diverting from its own core business by selling smoothies.

Posted by **Eduardo Gartenkraut,** Partner, Gartenkraut Consulting

Luzio responds: *Recently, we have seen McDonald's reinvent itself while preserving the DNA of its core fast-food strategy, adapting its business model to the increasingly health-conscious market. Why couldn't BK do the same?*

The most important aspect of the takeover is how the new shareholders will handle the company's communication system. Few companies use these powerful tools effectively.

Posted by **Maira Costa,** Director of Integrated Communications, FSB Comunicações

Luzio responds: *My experience corroborates what Steve Zaffron and Dave Logan call the First Law of Performance: "How people perform correlates to how situations occur to them." The 3G executives must carefully manage people's perceptions about any changes in BK's business model to ensure strategic alignment, focus, and maximum performance.*

It's Time to Take Full Responsibility

HBR article by **Rosabeth Moss Kanter,** October 2010

Supply chain transparency cultivates responsible business, but it also complicates strategy. Kanter says, "It's no longer good enough to do your job well, satisfy customers, and generate financial returns." Instead, "companies and leaders will be assessed not only on immediate results but also on longer-term impact—the ultimate effects their actions have on societal well-being."

This is only a problem if your business strategy is brand recognition. If you're pushing for a cost-leader strategy this doesn't matter.

Posted by **Anonymous**

The cost-leader strategy will not suffice when consumers are more concerned about the supply chain than they are about the price of the product. Even Wal-Mart, with its cost-leader strategy, will not be able to hide behind lower prices.

Posted by **Anthony G. Smith II,** Quality Assurance Officer, Wyndham Vacation Resorts

Cost-leader strategy in its purest form is trying to meet a broad market with the lowest cost, without regard to customer retention. Wal-Mart's business model attempts to get customers to come back with a no-questions-asked return policy. When your strategy is truly cost-leader, customer satisfaction is not a concern; you are simply providing the best price for a product.

Posted by **Anonymous**

Correction: *In "Growing Green" (HBR June 2010) the wrong web address appears for the Global Reporting Initiative. The correct address is www.globalreporting.org. We regret the error.*

ILLUSTRATION: MATT DORFMAN