

## McDonald's Corporation—Monitoring Suppliers Can Reduce Risk\*

A risk may come from either an external or internal source. In the case study that follows, the risk is external, from a contracted or supplier source.

This is the case of McDonald's "Pick Your Prize Monopoly" game promotion; the case of a company's most famous and lucrative promotion turning into a front-page headline about fraud. It is an excellent example of turning a potentially disastrous event into one in which the risk was minimized and the problem effectively shifted to another party.

Headlines read: "McTheft" and "FBI Arrests 8 in Fraud Scheme Targeting McDonald's Game." Eight people were arrested and charged with rigging the popular McDonald's promotion game to fraudulently collect more than \$13 million worth of prizes. Fortunately, no employees of McDonald's were involved in the scam. Those charged were employees of Simon Marketing Inc., the Los Angeles-based company hired to run the promotion/game for McDonald's. Where there is a brand as famous and well respected as McDonald's, the risk is always there to associate the blame and the liabilities. In this case, post-crisis, McDonald's did just about everything right to minimize its risk and to repair the bad publicity of the initial event. On the other hand, McDonald's may not have done its best pre-event in selecting a vendor for its most famous promotion. Let's look at both of these risk management performances of McDonald's Corporation.

Here is what happened. The FBI arrested eight people involved in a scheme to defraud the McDonald's Corp. of some \$13 million by rigging several of the fast-food company's promotional games since as early as 1995.

The scheme—involving friends and close-knit family members, including a husband and wife—was initially reported by a citizen who "came forward and roughly described a conspiracy" that was confirmed by further investigation.

The eight suspects were charged with fixing the outcome of the contests—including the "Pick Your Prize Monopoly" game—by controlling the distribution of the high prize values. The ringleader was identified as a security official with Simon Marketing, Inc.—the company that McDonald's hired to run the Monopoly game.

The complaint alleges that the security officer provided the winning game pieces to his friends and associates who acted as recruiters. These recruiters then solicited others who falsely and fraudulently represented that they were the legitimate winners of the McDonald's games.

Simon Marketing handles virtually all of McDonald's major promotions including its "Happy Meal" menus. The security officer with the firm had been

responsible for placing the winning high-prize pieces into circulation since at least 1995.

Prosecutors alleged that for a \$1 million winning piece, the security officer and his recruiters would charge \$50,000 in cash from the winner, often money he demanded in advance before giving over the piece. The recruiters also got a cut.

On lower prizes, such as luxury vehicles, the recruiters would sell the winning game pieces to other family members or friends. According to court documents, Simon Marketing's policy called for constant supervision of the high-level game pieces from printing to distribution by at least two or sometimes three people.

Obviously McDonald's Corporation has been through crises before this, as evidenced by its response and handling of the event.

McDonald's chairman and CEO (at that time), Jack Greenberg, announced that the fast-food chain was terminating its relationship with Simon Marketing "effective immediately." He said it would impanel an independent task force to review all future promotions and ensure their integrity.

McDonald's said it was "delighted" with the arrests and announced a new \$10 million instant cash giveaway, lasting for five days, to make up for the fraudulent games. "We are committed to giving our customers a chance to win every dollar that has been stolen by this criminal ring," Greenberg said. "This initial \$10 million giveaway is the first important step toward fulfilling this commitment." During that five-day period, McDonald's gave away five \$1 million prizes and 50 \$100,000 prizes at randomly selected restaurants.

Greenberg said that when the FBI concluded the investigation and determined the total amount stolen, McDonald's would give customers an opportunity to win any additional dollars taken.

A McDonald's spokesperson said the company "was victimized by a long-time supplier in a sophisticated inside game of fraud and deception. . . . Protecting our customers' interest has been our goal since the investigation began."

The FBI praised McDonald's for its role in the investigation, saying the corporation and Greenberg were "model corporate citizens."

A sample of corporate press releases from McDonald's demonstrates the methodological manner in which McDonald's handled the crisis and related risks.

## Corporate Press Releases

08/21/2001

### **McDonald's Applauds FBI Action, Announces \$10 Million Instant Give-Away for Customers\***

Oak Brook, IL, August 21, 2001—McDonald's Corporation today thanked and congratulated the Federal Bureau of Investigation, the U.S. Attorney's Office and the U.S. Department of Justice for their investigation that led to the arrest of a suspected criminal ring that has been charged with stealing high-level McDonald's game prizes.

According to the FBI, no current or former McDonald's employees or franchisees were implicated in the compromised promotions. The criminal ring was allegedly led by the security director for Simon Marketing, Inc., the outside company responsible for game security.

"Quite simply, this office could not have built the strong case we now have against the subjects without McDonald's cooperation and support," said Thomas Kneir F.B.I. Special Agent in Charge from the Jacksonville, FL bureau. "This case is an excellent example of how cooperation between corporate America and the FBI can work to protect the American people from those who would victimize them for their own selfish gains. In this case, McDonald's was the consummate 'good corporate citizen' and for this we thank you."

"Customer confidence is at the very heart of McDonald's business," said McDonald's Chairman and CEO Jack M. Greenberg. "We're determined that nothing gets between us and our customers, and we're outraged when anyone tries to breach that trust. Once the FBI contacted us, we agreed immediately to cooperate fully with them in an effort to ensure our customer interests were protected. And today, we are pleased to see this objective accomplished."

Mr. Greenberg also thanked the hard-working investigators and pledged the company's continuing support to the U.S. Attorney's Office prosecution team. "Their professionalism and diligence throughout this investigation have been a credit to America's law enforcement community. Let me underscore the point that this is an on-going investigation, and McDonald's is fully committed to providing our continuing assistance and cooperation to the FBI."

Additionally, McDonald's announced several action steps related to this investigation, including:

#### **McDonald's 2001 Instant Give-Away**

"Even though millions of McDonald's customers legitimately won prizes over the years, this criminal enterprise has been charged with stealing many of the highest-value prizes from our customers, and that is completely unacceptable," said Greenberg. "To right this wrong, we are announcing today the opportunity for McDonald's customers to participate in an instant give-away from August 30 through September 3, 2001, to win cash prizes valued at \$10 million."

\*From [www.cheril.com/mcdonald/fraud.htm](http://www.cheril.com/mcdonald/fraud.htm).

During the five-day period, 55 major cash prizes—five \$1,000,000 prizes and fifty \$100,000 prizes—will be given away at randomly selected McDonald's restaurants. To reach customers with news of the McDonald's 2001 Instant Give-Away, McDonald's will be publishing newspaper ads on Wednesday, August 22, 2001. Full details of McDonald's 2001 Instant Give-Away will be available today on McDonald's website, [www.mcdonalds.com](http://www.mcdonalds.com), and will be posted in McDonald's restaurants from August 30 to September 3, 2001.

"McDonald's is committed to giving our customers a chance to win every dollar that has been stolen by this criminal ring," said Greenberg. "This initial \$10 million give-away is the first important step towards fulfilling this commitment. When the FBI concludes its investigation and ultimately determines the total amount stolen, we will announce plans to give our customers an opportunity to win any additional dollars taken."

#### **Independent Security Task Force**

In order to ensure the integrity of future promotions and protect its customers, McDonald's announced the creation of an independent task force to review all procedures for future promotions. "We're particularly pleased that Dan K. Webb, former U.S. Attorney, Northern District of IL, and Chicago partner at the law firm of Winston & Strawn, has agreed to chair this security task force," said Greenberg. "The task force will include leading independent anti-fraud and game security experts and is charged with scrutinizing our promotion processes to identify the ideal mix of checks, balances and oversight to ensure the integrity of future promotions."

#### **McDonald's Terminates Supplier**

Separately, McDonald's announced that it is terminating its relationship with Simon Marketing. "Given the duration of the alleged conspiracy, the lack of any meaningful oversight and the magnitude of the losses, it was the only responsible course of action," said Greenberg.

McDonald's is the world's leading food service retailer with nearly 29,000 restaurants in 121 countries serving 45 million people each day.

**08/21/2001**

#### **Statement from Jack M. Greenberg\***

#### **Chairman and Chief Executive Officer, McDonald's Corporation**

#### **FBI Arrests Suspected Criminal Ring Charged With Stealing High Level McDonald's Game Prizes**

Today's arrests are a powerful reminder that McDonald's will never let anything get between us and our customers. Customer confidence is at the very heart of McDonald's business.

When the FBI first contacted us, we were shocked and stunned. However, we agreed immediately to cooperate fully with the FBI in an effort to ensure our customer interests were protected. And today, we're pleased to see this objective

\*From [www.cheril.com/mcdonald/press\\_release\\_chairman.htm](http://www.cheril.com/mcdonald/press_release_chairman.htm).

accomplished. We are proud of the role McDonald's played in this investigation, and pleased that no McDonald's employees were involved in any way. The FBI has made it clear that McDonald's was betrayed by a long-time supplier in a highly sophisticated inside game of fraud and deception. We are delighted that the perpetrators were arrested today.

On behalf of McDonald's, our franchisees, employees and customers, we want to thank the FBI, the U.S. Attorney's Office, and the Department of Justice for their extraordinary work. In piecing together this challenging case, this federal law enforcement team has earned our heartfelt thanks for the arrest of this criminal ring. Moreover, we recognize that this investigation is ongoing, and McDonald's has pledged its continued cooperation and support to the FBI's efforts.

Let me underscore one important point. Millions of McDonald's customers legitimately won prizes over the years, from free food and drinks to cash and merchandise. We now know, however, that this criminal enterprise has been charged with stealing many of the highest value prizes from our customers . . . and that is completely unacceptable. To right this wrong, we are announcing today the opportunity for McDonald's customers to win prizes valued at \$10 million between August 31 through September 3 in a McDonald's Instant Give-Away.

McDonald's is committed to giving our customers a chance to win every dollar that has been stolen by this criminal ring. This initial \$10 million give-away is the first important step towards fulfilling this commitment. When the FBI concludes its investigation and ultimately determines the total amount stolen, we will announce plans to give our customers an opportunity to win any additional dollars taken.

Finally, we want to emphasize again that McDonald's will do whatever it takes to ensure the integrity of our brand, our restaurants and the trust of our customers.

The theft of \$13 million in prize money from the McDonald's promotional contest provides powerful evidence of the inherent risks a business takes when outsourcing a function to a business partner. In this case, McDonald's outsourced the promotion of its Monopoly and "Who Wants to Be a Millionaire" contests to Simon Marketing, Inc., and were victimized by the very person who was in charge of the promotion's security.

This is an example of the type of damage that a third-party vendor can have on a business's financial health and hard-earned reputation. Hundreds of billions of dollars each year are spent on the marketing of consumer products for such things as contests, coupon programs, cooperative advertising, and trade spending. Many companies do not monitor the activities of the vendors that make up the marketing supply chain and thus run the risk that millions of dollars intended for those purposes are diverted for someone's personal enrichment. Putting the following sound risk management practices in place can prevent some of these crimes.

- Conduct a complete background check of the vendor company and thoroughly investigate any red flags generated by that check.

- Get a complete list of the employees the vendor will have working on your account and fully verify their personal backgrounds for any history of malfeasance.
- Ensure that no one employee of the vendor has complete control of the security process.
- Assign one of your own employees supervisory responsibility for the vendor relationship.
- Conduct periodic audits of the companies to whom fiduciary responsibilities have been outsourced.

McDonald's is sure to closely adhere to these risk management practices in the future. Even if one does an excellent public relations job on the crisis, avoiding it and its inherent risks are the better road to take for any corporation.

### **Case Discussion Questions**

1. In this chapter we indicated that there is a major movement toward outsourcing, and in the McDonald's case we see that the risks can be incurred from suppliers. What steps would you take to limit your risks with external suppliers?
2. Do you believe McDonald's "fix" or response was adequate?