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ON RUSSIA, RESTAURANTS FOUND THEMSELVES 'BETWEEN A ROCK AND A HARD PLACE'

The Bottom Line: Closing stores in Russia is costing McDonald's and other brands millions. But the cost of not doing so might be even greater.

*By **Jonathan Maze (/profile/jonathan-maze)** on Mar. 10, 2022*

Photograph: Shutterstock

THE BOTTOM LINE

As company after company vowed to stop doing business in Russia last week in response to the Ukraine invasion, restaurants that had been expanding there for decades stayed largely quiet. That changed on Tuesday, when McDonald's, the world's biggest chain, said **it would temporarily close its locations in the country (https://www.restaurantbusinessonline.com/financing/yum-brands-pausing-development-russia)**.

By the end of that day, some of the world's biggest restaurant chains took various steps to close stores, slow development or find other strategies for divesting from the country. Others have since joined them, including Panda Express, which on Thursday said it would pull support from the country, where it has just three locations.

For companies like McDonald's and Papa Johns, the move won't be cheap. McDonald's expects its closures **to cost the company $50 million a month (https://www.restaurantbusinessonline.com/financing/mcdonalds-**

closing-its-russia-restaurants-will-be-costly), which could add up quickly in a protracted closure. Papa Johns said its decision to cease support for its Russian operations could require it to write off $15 million.

Yet, for many brands, the cost might have been higher if they opted not to close those locations. That could explain why companies were so deliberate in deciding whether to close stores—and why brands waited until McDonald's led the way.

"I think these U.S. brands are between a rock and a hard place," said Joel Silverstein, founder of East West Hospitality Group, which works with chains in international markets. "If they close down in Russia, there will likely be a local backlash. If they stay and operate in Russia they may get a global boycott.

"I think the current approach, while very expensive, is the right strategy for the moment. Close stores temporarily but pay the people."

Restaurant chains, particularly McDonald's, are reluctant to completely abandon the market. Russia not that long ago was considered a growing economic power and chains have been working for decades to open their locations there.

McDonald's notably worked for years to get a location in Russia and its opening in Moscow's Red Square was symbolic of U.S. brands' global reach. "That was a big, big deal symbolically," said John Gordon, a restaurant consultant out of San Diego.

Most of the chain's nearly 850 locations, about 30% of which were opened the past five years, are company owned, and the market represents about 9% of its sales.

"In Russia, we employ 62,000 people who have poured their heart and soul into our McDonald's brand to serve their communities," McDonald's CEO Chris Kempczinski said in his letter to employees and franchisees this week. "In the 30-plus years that McDonald's has operated in Russia, we've become an essential part of the 850 communities in which we operate."

Yet, had the company not taken this step to close restaurants, McDonald's and other brands might have faced a global backlash.

As it was, critics were putting growing pressure on U.S. brands to pull out of the country, which would work alongside economic sanctions being placed on Russia to put more pressure on leadership there to stop its Ukrainian invasion.

"This is what brings a tyrant down," Jeffrey Sonnenfeld, senior associate dean for leadership studies with the Yale School of Management, said in an interview. He noted that such efforts helped bring down tyrants in old Eastern Bloc nations in the late 1980s and early 1990s. He also added that Mahatma Gandhi used similar tactics to force Indian independence from Britain.

"This shows he doesn't have total control of the economy," said Sonnenfeld, whose list of hundreds of companies that decided to pull out from Russia—and an opposite list of those that haven't—helped galvanize a social push to get companies to exit the market.

Sonnenfeld said there are risks for companies that choose to continue operating in Russia during the invasion. "If there is a peaceful aftermath, they would be resented," he said. "Anybody who stays would be enablers of this cruelty."

But, he added, opting not to close stores in Russia at the moment could hurt brands' reputation among customers and prospective employees. "With customers the blowback is enormous," Sonnenfeld said.

Gordon agreed that McDonald's and other brands had little choice but to take this step. He also said it's a sign of McDonald's shift in recent years away from a singular focus on shareholders and more toward a focus on all "stakeholders," including areas where it is perceived to be a leader.

"It had to happen," he said. "They're looking at the world and world opinion as a stakeholder. They're a part of that and they need to be a leader."

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THE BOTTOM LINE (/ARTICLE/BOTTOM-LINE)