Fast-food giants are feeling the burn from Middle East boyco8s. Just look at McDonald's, Starbucks, and Yum Brands' earnings

Sunny Nagpaul
Sun, February 18, 2024 at 6:00 AM EST·7 min read

McDonald's reported a rare sales miss in its-fourth quarter earnings report earlier this month. [Starbucks] is forecasKng slower growth for the rest of the year, even lower than what analysts predicted. And [Yum Brands], parent company of Taco Bell, also reported a hit to fourth- quarter sales.

What do these companies have in common? Besides the obvious—they're fast-food proprietors—these groups and others have been targeted for their perceived support for Israel's military campaign in Gaza—and each company cited those protests as a material hit to earnings last quarter.

Since the outbreak of the war in Gaza, anK-war acKvists around the world have called for an end to the conflict while pressuring companies that they claim have supported Israel or suppressed pro-PalesKnian speech on social media. The war, incited by an Oct. 7 Hamas aZack that killed 1,200 and took hundreds of hostages, has escalated into a wider campaign in Gaza that has killed 28,000 people, including 12,000 children, and drawn criKcism from the United NaKons' InternaKonal Court of JusKce, among others. President Joe Biden, widely criKcized for supporKng Israel, has lately called Israel's response "over the top," which he followed by calling for a temporary cease-fire.

Burgers aren't supposed to be poliKcal, though. Tell that to McDonald's, whose Q4 earnings report revealed that sales in its internaKonal licensed markets and corporate sector, including the Middle East, shrank to 0.7% growth, compared to 16.5% the prior year, "reflecKng the impact of the war in the Middle East."

In a leZer posted to LinkedIn, McDonald's president and CEO Chris Kempczinski recognized that several markets in the Middle East "and some outside the region are experiencing a meaningful business impact due to the war," and that "associated misinformaKon," is affecKng brands like his.

In October, photos of a McDonald's franchise in Israel donaKng thousands of free meals to soldiers went viral, which ignited calls to boycoZ the chain. This moment also marked a period of declining sales in McDonald's Middle Eastern and Muslim-majority markets like Indonesia and Malaysia.

It's all about the franchise

Under McDonald's franchise model, individual restaurants are not strictly controlled by the parent chain and olen decide things like business locaKon, pricing, adverKsements, products, hiring, and even holidays it wants to observe. The perks of this model means the parent company can have bigger access to capital, open mulKple locaKons, and increase brand awareness with minimal supervision of the franchisee. (Ray Kroc, the man who wrested control of McDonald's from the McDonald brothers, famously said that it was secretly a real-estate company as a result of this franchise model, a story told in the ironically Ktled movie, "The Founder.")

The downsides of the franchise model, as the company may be seeing now, includes loss of complete brand control and increased potenKal for legal disputes since franchisees have a lot of control over their operaKons.

Ajai Gaur, a professor of management and global business at Rutgers, explained how a parent company "doesn't have much control" over its franchises, which can also "engage in social movements like charity."

“Even if the head office could do something, what would they do?” Gaur said, arguing that more transparency could help companies avoid aZacks long-term. A parent company could show, for example, “whatever number of franchisees it has in Saudi Arabia, how many local people are employed there, what the business, profit, employment, and benefits are for the local community— and what the costs of the boycoZs are.”

Beyond that, he said, companies olen change their presence in foreign markets during Kmes of war–two weeks aler Russia’s invasion of Ukraine, McDonald’s, Coke, Starbucks and Nerlix suspended operaKons in Russia. Within a very short period, “a lot of firms just sort of gave up everything there, and that obviously has financial consequences, he said.
Customers don’t expect them to stay neutral, either. “Society is becoming very sensiKve to what organizaKons do,” Gaur said, “and they expect organizaKons to go beyond profit-making machines.”

“If you don’t build your own narraKve, someone else will build the narraKve for you,” Gaur said. Meanwhile, Yum Brands came under fire for its investment in Israeli startups, like TicTuk, an Israeli company that allows customers to order food on social networks and message apps. On an earnings call with investors last week, the brand’s CEO David Gibbs said “top line sales were impacted by the conflict in the Middle East region, with varying degrees of impact across markets in the Middle East, Malaysia, and Indonesia.”

For Starbucks, which has also been a target of anKwar acKvists, sales also fell short of analysts’ expectaKons, as revealed by its first-quarter report released last month. On the earnings call, Starbucks CEO Laxman Narasimhan said the company saw “negaKve impact to our business in the Middle East” and that “events in the Middle East also had an impact in the US, driven by mispercepKons about our posiKon.” Rachel Ruggeri, Starbucks’ execuKve vice president, added she expects the conflicts will contribute to lower earnings in the second quarter of the year.

Calls to boycoZ Starbucks came aler the company sued Workers United, the union that represents some of its employees, for trademark infringement aler the union made a social- media post staKng, “Solidarity with PalesKne!” on X. The company demanded the union group stop using its name and similar logo. According to the Associated Press, the workers put up the tweet without authorizaKon of union leaders and it was removed aler about 40 minutes. The union group responded with its own lawsuit and seeks to conKnue using Starbucks’ name and logo.

MaZhew Goodman, a senior economic analyst at M Science, told *Fortune* that tracking the effect of a boycoZ is “very hard,” especially because other challenges, like shils in consumer spending, price hikes, unions, and a shaky performance of its seasonal drinks, also affects its earnings. SKll, companies need to be “more proacKve than ever in monitoring and managing their reputaKons to minimize the risk that unflaZering informaKon, whether accurate or not, leads to consumer boycoZs,” he said.

Last December, Starbucks' stock fell by nearly 10%, a loss in value of nearly $12 billion, due to worker strikes and low foot traffic from customers.

David Denoon, a professor that studies poliKcs and economics at New York University, told *Fortune* that boycoZs are "an increasingly effecKve tool of economic pressure" because of social media, which allows organizers "to contact millions of people whom they might not otherwise have known."

On TikTok, hashtags for boycoZs have goZen more than 300 million views and shares, and other brands have been thrown into the fire, too. Retail clothing brand Zara became a boycoZ target aler releasing a photo shoot in December that featured broken walls, rubble, and statues with missing limbs wrapped in white cloth, which acKvists called out as insensiKve. The hashtag #boycoZzara has more than 86 million views on the social plarorm.

Historically, boycoZs have surprised companies by coming from all direcKons. Last year was rough for Bud Light, for instance, aler the company's social promoKon with transgender influencer Dylan Mulvaney led to conservaKves and celebriKes boycoyng the brand. The company said it lost about $395 million in North American revenue in the following months. For 35 years, consumer boycoZs were the heart of the campaign to end apartheid rule in South Africa, which ulKmately ended in 1990. The boycoZs, which largely did not touch fast food, in line with today's paZerns, ulKmately caused BriKsh imports of South African texKles to fall by 35% between 1983 and 1986.

McDonald's, Starbucks and Yum Brands did not respond to requests for comment.