



## Case C: Sustaining McDonald's Environmental Success

*Susan Svoboda, Manager of the Corporate Environmental Management Program, University of Michigan, prepared this case under the guidance of Stuart Hart, Director of the Corporate Environmental Management Program and Assistant Professor of Corporate Strategy and Organizational Behavior at the Michigan Business School, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.*

By the spring of 1993, Michael Quinlan, McDonald's CEO, felt quite confident about his company's environmental performance. A partnership with the Environmental Defense Fund (EDF) had won McDonald's praise from its customers, and its efforts at waste reduction, combined with its well-publicized switch from polystyrene "clamshells" to paper-based sandwich wraps, had repositioned it as a leader in protecting the environment. However, in April 1993 another non-profit environmental group, The Beyond Beef Coalition, targeted McDonald's in a campaign to reduce beef consumption. This time the environmental complaints launched against McDonald's did not criticize ancillary aspects of their business but, rather, focused on their primary products and growth markets. Quinlan did not want this campaign to diminish the reputation the company had solidified through the EDF partnership.

### McDonald's Operating Strategy

Ray Kroc, the founder of McDonald's Corporation, based his empire on the fundamental principles of Quality, Service, Cleanliness, and Value (Q.S.C.& V.). The company, which started in 1948 as a single drive-in restaurant in San Bernardino, California, grew to become the largest food-service organization in the world. By June 1993, McDonald's ran 2,576 company-owned stores, 9,451 franchises and 1,362 joint ventures in 65 countries.<sup>1</sup> In the U.S. alone, more than 18 million people visited a McDonald's each day.<sup>2</sup> See **Exhibit 1** for a summary of McDonald's financials.

McDonald's was the second-best-known global brand, maintaining this level of consumer awareness with a \$1 billion marketing budget.<sup>3</sup> McDonald's launched a major new ad campaign in 1991, "Great Food at a Great Value," which was successful in promoting profitable value-meal combinations. This was followed in 1992 with the largest outdoor advertising campaign ever undertaken by a single brand. Messages focused on value and customer satisfaction. High brand recognition was particularly important to McDonald's as many customers are impulse purchasers, often selecting McDonald's by the convenience of the location. Approximately 28% of company revenues were derived from franchisee fees, based on a percentage of sales collected to cover the costs of corporate services such as centralized marketing research and R&D.

Approximately 70% of McDonald's restaurants were franchises. McDonald's generally entered new countries with company-owned restaurants located in the center of major cities, franchising them after they were well established. Under the conventional franchise agreement, the franchisees supply capital, equipment, signs, seating, and decor with the company buying or leasing the land and building. The initial investment ranges from \$430,000 to \$560,000, 60% of which may be financed. Twenty-year franchises are awarded to applicants after extensive screening, and additional restaurants are allocated to franchisees with proven records of success.

New restaurant development was important to McDonald's growth strategy. In 1991 it introduced the "Series 2000"-design restaurants, which were about

half the size of traditional restaurants but designed to accommodate nearly the same level of sales at a lower real-estate investment. This has resulted in an approximately \$400,000 reduction in development costs, which lowers the facility's breakeven point. Additional locations have been opened in small towns and "satellite sites," such as outlets inside Wal-Mart stores.

A typical McDonald's restaurant may serve as many as 2,000 people a day, 60-70% of whom take food outside the restaurant. McDonald's depends on the ability of its crew to prepare hot, fresh food and to serve it to its customers within two minutes of the time they enter the restaurant. To do this, McDonald's engineering department has carefully designed the layout and equipment for its restaurants. In 1993 it reported the development of an enhanced production system that improves McDonald's ability to serve hot food quickly. This system is currently used in 80% of McDonald's U.S. restaurants for breakfast; more than half are using a more extensive system for lunch and dinner. In accordance with Q.S.C.&V., specific operating practices and careful standardization help to assure uniformity among restaurants. For example, 10 hamburgers are to be made from each pound of beef, and they are to contain no more than 19% fat.<sup>4</sup>

An important component of McDonald's operational strategy is to anticipate customer traffic patterns and food selection based on a detailed analysis of sales history and trends. Restaurants use this information to prepare menu items in the right quantities and at the right times to have the food ready for customers when they arrive. To ensure freshness, all food not served within 10 minutes must be discarded.

McDonald's generally does not supply food, paper, or equipment to restaurants. Instead it refers franchisees to a network of more than 600 approved suppliers with whom long-term relationships have been developed. McDonald's often holds seminars or conferences for suppliers to discuss their needs. This strategy is intended to improve McDonald's ability to focus its efforts on its core business — restaurant operations.

## Product Line

In 1993, McDonald's marketing efforts focused on value meals, composed of its mainstay items: a burger, fries, and a beverage. Burgers are central to the menu; indeed, McDonald's purchases more than 1% of all

beef wholesaled in the U.S.<sup>5</sup> Although McDonald's stated goal is to provide a "limited menu of high-quality products consistent with customer tastes," it continues to test a variety of new menu items. McDonald's feels that it address public concern regarding nutrition through a

... combination of stringent product standards, strictly enforced restaurant operating procedures, and close working relationships with suppliers to assure that McDonald's food is safe and of the highest quality.<sup>6</sup>

It also discloses nutritional and ingredient information regarding its menu items through in-store posters and brochures distributed upon request.

In the early 1990's, international expansion into new cultures and corresponding eating habits resulted in new product introductions in several locations. For example, fried egg sandwiches were available from McDonald's in Malaysia, and spaghetti was sold as a low-price alternative in the Philippines; pizza was tested in the U.S.<sup>7</sup> In India, where McDonald's will spend over \$20 million on a chain of restaurants over the next seven years, an important new item may be a "lamburger."<sup>8</sup>

McDonald's was also testing Vegetable McNuggets and Cauliflower and Cheese McNuggets in a few restaurants in the UK in 1993. Burger King has offered an increasingly popular spicy bean burger in Britain for three years. McDonald's launched vegetarian burgers in Holland in 1992.<sup>9</sup> The burger, consisting of potato, peas, carrots, corn, onion and spices, sold for about \$2.70, slightly less than a Big Mac. McDonald's new items generally receive no advertising and little sales promotion during the test period.

## Fast-Food Industry

The total fast-food market in 1992 was estimated at \$81.4 billion. Although the convenience offered by fast-food retailers was valued by growing numbers of families and travelers in the early 1990's, the recession and intense competition produced slower growth and sagging profits for the industry. Particularly hard-hit were independent restaurants, which found it difficult to compete with the burger chains' value-pricing strategies and large advertising budgets. As a result, independents comprised only 56% of all U.S. restaurants in 1993, down from 63% in 1986, according to Peter Oakes, a vice-president at Merrill-Lynch.<sup>10</sup> In fact, restaurant

industry reports suggest that saturation in the “limited-menu” segment of the restaurant industry was forcing growth-oriented chains to expand overseas and explore alternate outlets domestically. According to the Restaurant Business Growth Index, real sales growth for this segment during 1990–91 was only 0.3% in the U.S.<sup>11</sup>

Customer satisfaction, nutrition, and value seemed to form the basis for domestic competition, although the fastest-growing restaurant chains pursued varied strategies. For example, Rally’s advertised “We get it right or you get it free,” Boston Chicken emphasized nutrition by roasting, steaming, and baking its dishes, and Checkers, a double-drive-through burger chain, offered made-to-order burgers at lower prices. Drive-through window sales industry-wide reached \$25 billion in 1992.<sup>12</sup>

In contrast to the domestic scene, the international market for fast food was exploding. From the Pacific Rim to South America, foreign cultures were being introduced to American-style fast food. In 1993, Burger King had more than 900 restaurants in 45 countries, Kentucky Fried Chicken had 3,712 in 63 nations, and Domino’s had 566 in 30 countries.<sup>13</sup> The Eastern European market offered relatively easy entrance, and the Brazilian fast-food market grew 40% in 1992, to more than \$700 million with no signs of slowing down.<sup>14</sup> In Asia, Western-style quick-service restaurants were perceived by customers to be positive and trendy, according to a Hong Kong consulting food firm that said, “[They are] not perceived to be junk food.”<sup>15</sup>

## The Hamburger Segment

Domestic competition in the hamburger market continues to intensify. Consumer demand for lighter, more nutritious food has recently caused the major burger chains to expand their menu, yet a new type of double-drive-through restaurant has emerged to challenge the “traditional” burger chains. On one hand, major burger chains face tough competition from the casual dining restaurants such as Outback Steakhouse, Chili’s and Friday’s, in providing a range of reasonably priced menu items. On the other hand, they face the fast-growing double-drive-through restaurants that offer consumers a basic burger menu more quickly and at a lower cost. These franchises, such as Checkers and Rally’s, were expected to pursue aggressive domestic growth. For example, the Pepsi-owned chain of Hot’n’Now Hamburgers had plans to expand to 5,000 locations from the 700 it had in 1992. Hamburgers or

cheeseburgers ranked as the most popular menu items and still accounted for 17% of all restaurant orders in the U.S. in 1992.<sup>16</sup> 1992 revenue from the burger chains totaled \$39.5 billion. See **Exhibit 2** for a description of the top hamburger chains.

In addition to pressure from these new entrants, price wars served to dampen profit margins among the four major chains, which, by 1993, all offered value-priced items: Wendy’s offered seven 99¢ items, while Burger King introduced its combination meals in 1993, followed a month later by Hardee’s value-menu program.

Burger King, the world’s second-largest hamburger chain, continued to expand aggressively, adding one restaurant per day throughout 1992 while trying to increase sales in existing U.S. restaurants through dinnertime table service complimented by an expanded dinner menu. Burger King achieved a 6% increase in profitability in 1992, compared to Rally’s 41% increase in earnings during the same time period.

Wendy’s enjoyed a 26% increase in net income in 1992, even though 30% of its sales were derived from its Super Value Menu. Improved operational efficiency and higher-than-average new-restaurant sales produced these results. Wendy’s planned a minimum of 75 new international restaurants in 1993, with targets in Mexico, the Pacific Rim, and Saudi Arabia.

Competitive pressures have forced the chains to re-think their strategies. Many now consider themselves to be in competition with any business serving or selling food, such as quick-service eating establishments, mom-and-pop’s, take-outs, pizza parlors, coffee shops, street vendors, convenience food stores, delis, supermarket freezers, and microwave ovens.<sup>17</sup> For example, McDonald’s U.S. President, Ed Rensi, said he had mapped out a program to penetrate innovative domestic venues including supermarkets, airports, hospitals, stadiums, kiosks, and carts.<sup>18</sup>

Still, the most significant source of future growth was clearly abroad. Even with 3,355 units in 53 countries in 1991, McDonald’s had barely scratched the surface of the global market. So, to ensure that the company’s long-standing history of increased sales and earnings continued, Ed Rensi accelerated the international expansion in search of a greater share of the world market. Over the next several years, McDonald’s expects to add 450–600 restaurants annually overseas.<sup>19</sup> See **Exhibit 3** for a listing of McDonald’s international locations.

## The Challenge of Sustainable Development

In June 1992, the United Nations Conference on Environment and Development (UNCED) held what has come to be known as the “Earth Summit” in Rio de Janeiro. While the meeting, which included representatives from nearly every nation in the world, focused on global environmental problems such as climate change and biodiversity, a central feature of the Summit was a proposed plan (Agenda 21) for industrial nations to help poor countries develop their economies without ruining the environment — to pursue “sustainable development” on a global scale.

The U.S., for example, had only 5% of the world’s population, but used 25% of the energy, emitted 22% of all carbon dioxide, and accounted for 25% of the world’s GNP. India, on the other hand, had 16% of the world’s population, but used only 3% of the energy, emitted 3% of the carbon dioxide, and accounted for only 1% of the world’s GNP.<sup>20</sup> Thus, developed nations, having reaped the comforts — and environmental costs — of industrialization, wanted others to avoid their mistakes. Developing nations, on the other hand, were anxious to raise their burgeoning populations out of poverty, and did not want to pay for environmental sins they did not commit.

In 1987, the World Commission on Environment and Development defined sustainable development as economic progress that “meets the needs of the present without compromising the ability of future generations to meet their own needs.”<sup>21</sup> Although much attention had already been given to the environmental problems related to the industrialized nations, it was the first document to clearly link third-world development issues with environmental concerns: that is, population growth and poverty in the developing world were also identified as major causes of environmental degradation. Over the next 40 years, world population was expected to double to more than 10 billion, with nearly all of this growth (95%) coming in the developing world. With world GNP at about \$20 trillion, economic activity would have to increase at least 5–10 fold to provide basic amenities for this population. The World Commission and the Earth Summit stressed that this level of economic production would be environmentally destructive with current technologies and business practices.<sup>22</sup>

While Agenda 21 was primarily aimed at national and international governments, the Earth Summit also

featured a high-profile business consortium — the Business Council for Sustainable Development — led by Swiss industrialist and multibillionaire Stephan Schmidheiny. This group of 48 CEOs of multinational corporations produced a book, *Changing Course*, that emphasized that “while industry may be a big part of the problem, it must also be a big part of the solution.”<sup>23</sup> Since the late 1980’s, several other business groups aimed at altering corporate behavior consistent with the principles of sustainable development have formed, including the Global Environmental Management Initiative (GEMI), the Coalition for Environmentally Responsible Economies (CERES), and Businesses for Social Responsibility (BSR).

## Beef and the Environment

In 1993, the beef industry was a \$40-billion global business, comprising approximately 1.3 billion cattle occupying nearly one-quarter of the world’s landmass. According to U.S. Department of Agriculture data in 1990, nearly 40% of the world’s (70% of U.S.’s) grain was fed to livestock.<sup>24</sup> Half of the continental United States was used by the livestock industry for crops, pasture, and range. Approximately 260 million acres of arid public range in 11 western states were leased by the government to ranchers for grazing. Federal grazing fees averaged about \$2 per month per head, whereas private-market grazing fees were closer to \$9. Overgrazing of public land had resulted in significant soil loss and desertification. In 1990, the U.S. Bureau of Land Management reported that 70% of its holdings were in unacceptable condition, with 10% having degraded to desert conditions. Overgrazing of the range forces cattle to feed on the remaining vegetation along streambanks, resulting in floods that carry away soil and accelerate the decline of the land.

Globally, extensive overgrazing is leading to a steady decline in per-capita beef production. If feedlots are used to supplement beef production, grain harvests will need to grow by seven million tons annually, roughly two-thirds of the historical annual increase in the world grain harvest. However, there is little new fertile land to be farmed, and many existing farmers are already using advanced yield-raising technologies, reducing the likelihood that the gain will be achieved through increased productivity. If population grows as projected at 90 million people annually, and grain output does not increase over current levels, per-capita supplies of grain will continue to diminish by two percent annually.<sup>25</sup>

In 1993, the U.S. imported only five percent of its beef from Central America. However, since 1960 more than 25 percent of the forests in Central America have been cleared to create pastureland for cattle.<sup>26</sup> It has been estimated that each rain-forest hamburger requires the clearing of six square yards for pasture.<sup>27</sup> Such a swath would typically include one large tree, 50 saplings of 20–30 species, thousands of insects comprising hundreds of species, and an unknown diversity of mosses, fungi, and microorganisms.<sup>28</sup> Clearing the same piece of rain forest would release 165 pounds of carbon dioxide into the atmosphere — the amount released by a typical American car in a 20-day period.<sup>29</sup>

It is estimated that between 1966 and 1983, 15,000 square miles of Amazon rain forest were cleared for large-scale cattle production.<sup>30</sup> A United Nations report predicted that if deforestation of the Amazon continued at its 1987 rate until the year 2000, more than 15% of the plant species and an unknown but significant percentage of insect species would be lost.<sup>31</sup> The clearing of land for large-scale cattle production has also forced millions of rural peasants to the already overcrowded cities of Latin America. Worldwide, deforestation accounts for nearly one-third of all greenhouse-gas emissions, with the burning of fossil fuels accounting for the other two-thirds.<sup>32</sup> See **Exhibit 6** for more information on beef production in various countries.

The efficiency with which grain and feed is converted to meat varies greatly by animal. For example, in order to produce one pound of meat, chickens must consume 4.5 pounds of grain, pigs must consume 6.5 pounds, and cattle must consume 15.5 pounds.<sup>33</sup>

Large quantities of energy and water are also used to grow the grain required to feed livestock. Almost half of the energy used in American agriculture goes into livestock production, the majority of it for meat production. In fact, according to Cornell University data, the amount of energy used to produce one pound of beef is equivalent to .25 gallons of gasoline. In addition, according to an animal science expert at the University of California-Davis, half of the grain and hay fed to U.S. livestock grows on irrigated land. Each pound of grain-fed beef requires about 2,500 gallons of water. For the typical American, this is about 190 gallons/person/day — twice the amount used at home each day for all purposes.<sup>34</sup> See **Exhibit 4** for more information regarding water usage. In California, livestock production takes nearly one-third of all irrigation water used.

Pesticides and fertilizers used in grain production also place a burden on the environment, since much of the grain treated is fed to cattle. 1993 pesticide sales for corn, rice, cotton, soybeans, and wheat surpassed \$21 billion globally. In 1993, 8.2 million tons of fertilizer were used in the production of corn, 1 million tons for soybeans, and 3 million tons for wheat. Pesticides and fertilizers used in grain production appeared to contaminate surface and ground water. Lumping together animal wastes and feed fertilizers, livestock production accounted for about 40% of the nitrogen and 35% percent of the phosphorus released into U.S. rivers, lakes, and streams.<sup>35</sup> Cattle and other ruminants also emit methane, a potent greenhouse gas, as they digest grass and other fibrous plants. Indeed, each head of cattle belches out about a third of a pound of methane for every pound of beef it yields.<sup>36</sup> See **Exhibit 5** for information regarding sources of methane.

While per-capita beef consumption in the U.S. has declined since 1976, the average American still eats 65 pounds of beef per year — 23% of all the beef produced in the world.<sup>37</sup> Only about 12.4 million Americans describe themselves as vegetarians, according to a 1992 survey by *Vegetarian Times*.<sup>38</sup> For most of the world, however, a low-meat diet is the norm. Worldwide, only about one in four people eat a meat-centered diet. Historically, as income rises, so does meat consumption. For example, per-capita consumption of red meat in Japan has doubled since 1975. Koreans and Taiwanese appear to be following a similar pattern. See **Exhibit 7** for information regarding per-capita beef consumption of several countries. To support the world's current population of 5.3 billion on an American-style diet would require as much energy as the world now uses for all purposes, along with 2.5 times as much grain as the world's farmers currently produce.<sup>39</sup>

## Where's the Beef?

The Beyond Beef Coalition saw the spread of the "cattle culture" to the developing world as one of the greatest threats to the global environment. The Coalition was comprised of individuals and organizations interested in environmental protection, animal rights, public health, and world hunger (see **Exhibit 8** for a list of members). Like the Environmental Defense Fund, this group targeted McDonald's for its campaign because it was the industry leader, and one of the largest users of beef in the world.

The Coalition's goals were: to reduce individual beef consumption in the U.S. by at least 50%; to replace beef in the diet with organically raised grains, legumes, vegetables and fruits; to reform current cattle-industry practices; and to promote humanely and organically raised beef as an alternative for those who continue to include some beef in their diet.<sup>40</sup>

The goal for the McDonald's campaign was to inform at least 1 million McDonald's customers about beef's harmful impact of on the environment through an extensive in-person campaign at 1,000 locations across the country. On April 17, 1993, thousands of Beyond Beef volunteers gathered outside McDonald's restaurants to hand out leaflets and children's literature and to inform customers about the "real" social and environmental costs associated with beef. See **Exhibit 9** for a sample of campaign literature. They also collected names on petitions in an effort to encourage individuals to reduce their beef consumption by 50%, to encourage McDonald's to add a vegetarian item to their U.S. menu, and to commit 25% of advertising to the new item.

Reactions to the campaign were varied. "There's nothing wrong with eating beef— it's American" said one customer regarding the campaign.<sup>41</sup> However, another approached by a Beyond Beef campaigner said, "If McDonald's had it [a meatless burger], I would try it in a second."<sup>42</sup> Dave Santoro, a franchise owner, said, "If enough customers wanted it, we'd have it . . . We have salads, cereals, hotcakes. We didn't just dream those up. The consumers asked for them."<sup>43</sup>

Kim Poston, marketing manager for McDonald's in San Jose, said that the Beyond Beef campaign was "an assault on small business " and that Beyond Beef is a "fringe activist group that doesn't really reflect what our customers want."<sup>44</sup> McDonald's spokesperson Ann Connolly added, "Ultimately, it's our customers who decide what we serve, and our customers tell us they're not interested in that kind of a product."<sup>45</sup> Howard Lyman, former cattle rancher and current Executive Director of Beyond Beef, responded: "It's the same mentality as General Motors that said there's no market for small cars. Large corporations can't see the future because the present is so good for them."<sup>46</sup>

## END NOTES:

<sup>1</sup> "Making Up for Lost Time." *Fortune*, Oct. 18, 1993; and *1993 Annual Report*, p. 3.

<sup>2</sup> EDF Task Force Final Report, p. 22.

<sup>3</sup> *McDonald's 1991 Annual Report*, p. S4.

<sup>4</sup> Rifkin, J. *Beyond Beef*, p. 269.

<sup>5</sup> *Ibid.*, p. 267.

<sup>6</sup> *McDonald's 1993 Annual Report*, p. 5.

<sup>7</sup> "When Worlds Collide." *Restaurant Business*, July 1, 1993, p. 56.

<sup>8</sup> "Silver Lining, Golden Arches." *The Economist*, February 13, 1993, p. 41.

<sup>9</sup> "McDonald's Tests Vegetable McNuggets." *Marketing*, July 29, 1993, p. 5.

<sup>10</sup> "The Hunger Pangs Let Up a Little." *Business Week*, January 11, 1993, p.97.

<sup>11</sup> "25th Annual Growth Index: Limited Menu—Flat as a (Beef) Patty." *Restaurant Business*, September 20, 1992.

<sup>12</sup> "Can Lightning Strike Twice?" *Restaurant Business*, Aug. 10, 1993.

<sup>13</sup> "When Worlds Collide." *Restaurant Business*, July 1, 1993.

<sup>14</sup> "Fast-food franchises fight for Brazilian aficionados." *Brandweek*, June 7, 1993.

<sup>15</sup> "Hot Wings Take Off." *Forbes*, January 18, 1993, p. 74.

<sup>16</sup> "Hamburger Market Segment Report." *Restaurant Business*, January 1, 1992.

<sup>17</sup> *McDonald's 1993 Annual Report*, p. 7.

<sup>18</sup> "McDonald's Steps Up Overseas Push." *Restaurants and Institutions*, August 15, 1993, p.14.

<sup>19</sup> *McDonald's 1993 Annual Report*, p. 2.

<sup>20</sup> "Summit to Save the Earth." *Time*, June 1, 1992, p. 42-43.

<sup>21</sup> Schmidheiny, Stephan. *Changing Course*, p. 6

<sup>22</sup> MacNeill, Jim. "Strategies for Sustainable Economic Development." *Scientific American*, September, 1989.

<sup>23</sup> "Business has Message for Rio Meeting." *New York Times*, June 2, 1992.

<sup>24</sup> Durning, Alan. "Fat of the Land." *World Watch*, 1991, p.11.

<sup>25</sup> *State of the World—1994*, Worldwatch Institute Report, pp. 181, 182, and 186.

<sup>26</sup> "A Reporter at Large: The Rain Forests." *New Yorker*, January 14, 1985, p. 79.

<sup>27</sup> Rifkin, p. 192.

<sup>28</sup> Durning, p. 15.

<sup>29</sup> Brown, Sandra, (University of Illinois forestry professor), cited in Durning, p. 15.

<sup>30</sup> Parsons, James. "The Whole Earth Review," Spring, 1988.

<sup>31</sup> *Our Common Future*, Oxford University Press, 1987.

<sup>32</sup> Steven Schneider. "The Changing Climate." *Scientific American*, September 1989.

<sup>33</sup> USDA Economic Research Service, 1994.

<sup>34</sup> Water Education Foundation.

<sup>35</sup> Durning, p. 16.

<sup>36</sup> *Ibid.*

<sup>37</sup> "Beyond Beef." *Utne Reader*, March/April 1992

<sup>38</sup> "For Folks Who Don't Care Where's the Beef," *The New York Times*, Dec. 9, 1992

<sup>39</sup> Durning, p. 17.

<sup>40</sup> Beyond Beef campaign literature, Spring 1993, Vol.II, Issue I.

<sup>41</sup> "Activists to McDonald's: Where's the Beef Alternative?" *Reno Gazette-Journal*, April 18, 1993.

<sup>42</sup> "A Veggie Protest at Fast-Food Chain." *The Honolulu Advertiser*, April 18, 1993.

<sup>43</sup> "What's their beef? Gas." *Burlington County Times*, April 18, 1993.

<sup>44</sup> "Anti-Beef Group Lobbies McDonald's," *Santa Cruz Sentinel*, April 18, 1993, and "Area Protesters Have a Beef with McDonald's," *Times-Standard*, April 17, 1993.

<sup>45</sup> "Here's His Beef." *Chicago Tribune*, April 15, 1993.

<sup>46</sup> *Ibid.*



### Published by: The National Pollution Prevention Center for Higher Education

University of Michigan, Dana Building  
430 East University Ave.  
Ann Arbor, MI 48109-1115  
• Phone: 313-764-1412  
• Fax: 313-936-2195  
• E-mail: [nppc@umich.edu](mailto:nppc@umich.edu)

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## EXHIBIT 1: 11-YEAR SUMMARY

(Dollars rounded to millions, except per common share data and average restaurant sales)

|   | 1991            | 1990            | 1989            | 1988            | 1987            | 1986            | 1985            | 1984            | 1983           | 1982           | 1981           |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------|----------------|
| <b>System-wide sales</b>  | <b>\$19,928</b> | <b>\$18,759</b> | <b>\$17,333</b> | <b>\$16,064</b> | <b>\$14,330</b> | <b>\$12,432</b> | <b>\$11,001</b> | <b>\$10,007</b> | <b>\$8,687</b> | <b>\$7,809</b> | <b>\$7,129</b> |
| U.S.  | 12,519          | 12,252          | 12,012          | 11,380          | 10,576          | 9,534           | 8,843           | 8,071           | 7,069          | 6,362          | 5,770          |
| Outside U.S.  | 7,409           | 6,507           | 5,321           | 4,684           | 3,754           | 2,898           | 2,158           | 1,936           | 1,618          | 1,447          | 1,359          |
| <b>System-wide sales by type</b>                                  |                 |                 |                 |                 |                 |                 |                 |                 |                |                |                |
| Operated by franchisees   | 12,959          | 12,017          | 11,219          | 10,424          | 9,452           | 8,422           | 7,612           | 6,914           | 5,929          | 5,239          | 4,788          |
| Operated by the Company   | 4,908           | 5,019           | 4,601           | 4,196           | 3,667           | 3,106           | 2,770           | 2,538           | 2,297          | 2,095          | 1,916          |
| Operated by affiliates  | 2,061           | 1,723           | 1,513           | 1,444           | 1,211           | 904             | 619             | 555             | 461            | 475            | 425            |
| <b>Average sales, restaurants open at least 1 yr. (in 1,000s)</b> | <b>1,658</b>    | <b>1,649</b>    | <b>1,621</b>    | <b>1,596</b>    | <b>1,502</b>    | <b>1,369</b>    | <b>1,296</b>    | <b>1,264</b>    | <b>1,169</b>   | <b>1,132</b>   | <b>1,113</b>   |
| Revenues, frnchsd. rstrnts.                                       | 1,787           | 1,621           | 1,465           | 1,325           | 1,186           | 1,037           | 924             | 828             | 704            | 620            | 561            |
| Total revenues  | 6,695           | 6,640           | 6,066           | 5,521           | 4,853           | 4,143           | 3,694           | 3,366           | 3,001          | 2,715          | 2,477          |
| Operating income  | 1,679           | 1,596           | 1,438           | 1,288           | 1,160           | 983             | 905             | 812             | 713            | 613            | 552            |
| Inc. before prov. for inc. taxes                                  | 1,299           | 1,246           | 1,157           | 1,046           | 959             | 848             | 782             | 707             | 628            | 546            | 482            |
| Net income  | 860             | 802             | 727             | 646             | 549*            | 480             | 433             | 389             | 343            | 301            | 265            |
| Cash provided by operations                                       | 1,423           | 1,301           | 1,246           | 1,177           | 1,051           | 852             | 813             | 701             | 618            | 505            | 434            |
| <b>Financial position at year-end</b>                             |                 |                 |                 |                 |                 |                 |                 |                 |                |                |                |
| Net property and equipment  | 9,559           | 9,047           | 7,758           | 6,800           | 5,820           | 4,878           | 4,164           | 3,521           | 3,183          | 2,765          | 2,497          |
| Total assets  | 11,349          | 10,668          | 9,175           | 8,159           | 6,982           | 5,969           | 5,043           | 4,230           | 3,727          | 3,263          | 2,899          |
| Long-term debt  | 4,267           | 4,429           | 3,902           | 3,111           | 2,685           | 2,131           | 1,638           | 1,268           | 1,171          | 1,056          | 926            |
| Total shareholder equity  | 4,835           | 4,182           | 3,550           | 3,413           | 2,917           | 2,506           | 2,245           | 2,009           | 1,755          | 1,529          | 1,371          |
| <b>Per common share</b>   |                 |                 |                 |                 |                 |                 |                 |                 |                |                |                |
| Net income  | \$ 2.35         | \$ 2.20         | \$ 1.95         | \$ 1.71         | \$ 1.45*        | \$ 1.24         | \$ 1.11         | \$ .97          | \$ .85         | \$ .74         | \$ .65         |
| Dividends declared  | .36             | .33             | .30             | .27             | .24             | .21             | .20             | .17             | .14            | .12            | .09            |
| Year-end shareholder equity                                       | 13.48           | 11.65           | 9.81            | 9.09            | 7.72            | 6.45            | 5.67            | 4.94            | 4.38           | 3.78           | 3.37           |
| Market price at year-end  | 38              | 29 1/8          | 34 1/2          | 24 1/8          | 22              | 20 1/4          | 18              | 11 1/2          | 10 1/2         | 9              | 6 1/2          |
| <b>System-wide restaurants at year-end</b>                        | <b>\$12,418</b> | <b>\$11,803</b> | <b>\$11,162</b> | <b>\$10,513</b> | <b>\$9,911</b>  | <b>\$9,410</b>  | <b>\$8,901</b>  | <b>\$8,304</b>  | <b>\$7,778</b> | <b>\$7,259</b> | <b>\$6,739</b> |
| Operated by franchisees   | 8,735           | 8,131           | 7,573           | 7,110           | 6,760           | 6,406           | 6,150           | 5,724           | 5,371          | 4,911          | 4,580          |
| Operated by the Company   | 2,547           | 2,643           | 2,691           | 2,600           | 2,399           | 2,301           | 2,165           | 2,053           | 1,949          | 1,846          | 1,746          |
| Operated by affiliates  | 1,136           | 1,029           | 898             | 803             | 752             | 703             | 586             | 527             | 458            | 502            | 413            |
| <b>Systemwide restaurants at year-end:</b>                        |                 |                 |                 |                 |                 |                 |                 |                 |                |                |                |
| U.S.  | 8,764           | 8,576           | 8,270           | 7,907           | 7,567           | 7,272           | 6,972           | 6,595           | 6,251          | 5,918          | 5,554          |
| Outside U.S.  | 3,654           | 3,227           | 2,892           | 2,606           | 2,344           | 2,138           | 1,929           | 1,709           | 1,527          | 1,341          | 1,185          |
| <b>Number of countries at year-end</b>                            | <b>59</b>       | <b>53</b>       | <b>51</b>       | <b>50</b>       | <b>47</b>       | <b>46</b>       | <b>42</b>       | <b>36</b>       | <b>32</b>      | <b>31</b>      | <b>30</b>      |

\*Before the cumulative prior years' benefit from the change in accounting for income taxes.



**EXHIBIT 2: TOP 10 HAMBURGER CHAINS**

| <b>Rank</b> | <b>Chain</b>         | <b>U.S. Sales (\$000)</b> | <b>U.S. Units</b> |
|-------------|----------------------|---------------------------|-------------------|
| 1           | McDonald's           | 12,519,400                | 8,764             |
| 2           | Burger King          | 5,330,000                 | 5,557             |
| 3           | Hardee's/Roy Rodgers | 3,580,000                 | 3,954             |
| 4           | Wendy's              | 2,940,000                 | 3,414             |
| 5           | Jack-in-the-Box      | 977,000                   | 1,094             |
| 6           | Carl's Jr.           | 629,000                   | 210               |
| 7           | Sonic Drive-Ins      | 518,765                   | 1,112             |
| 8           | Whataburger          | 338,000                   | 446               |
| 9           | White Castle         | 302,549                   | 257               |
| 10          | Rally's              | 221,100                   | 333               |

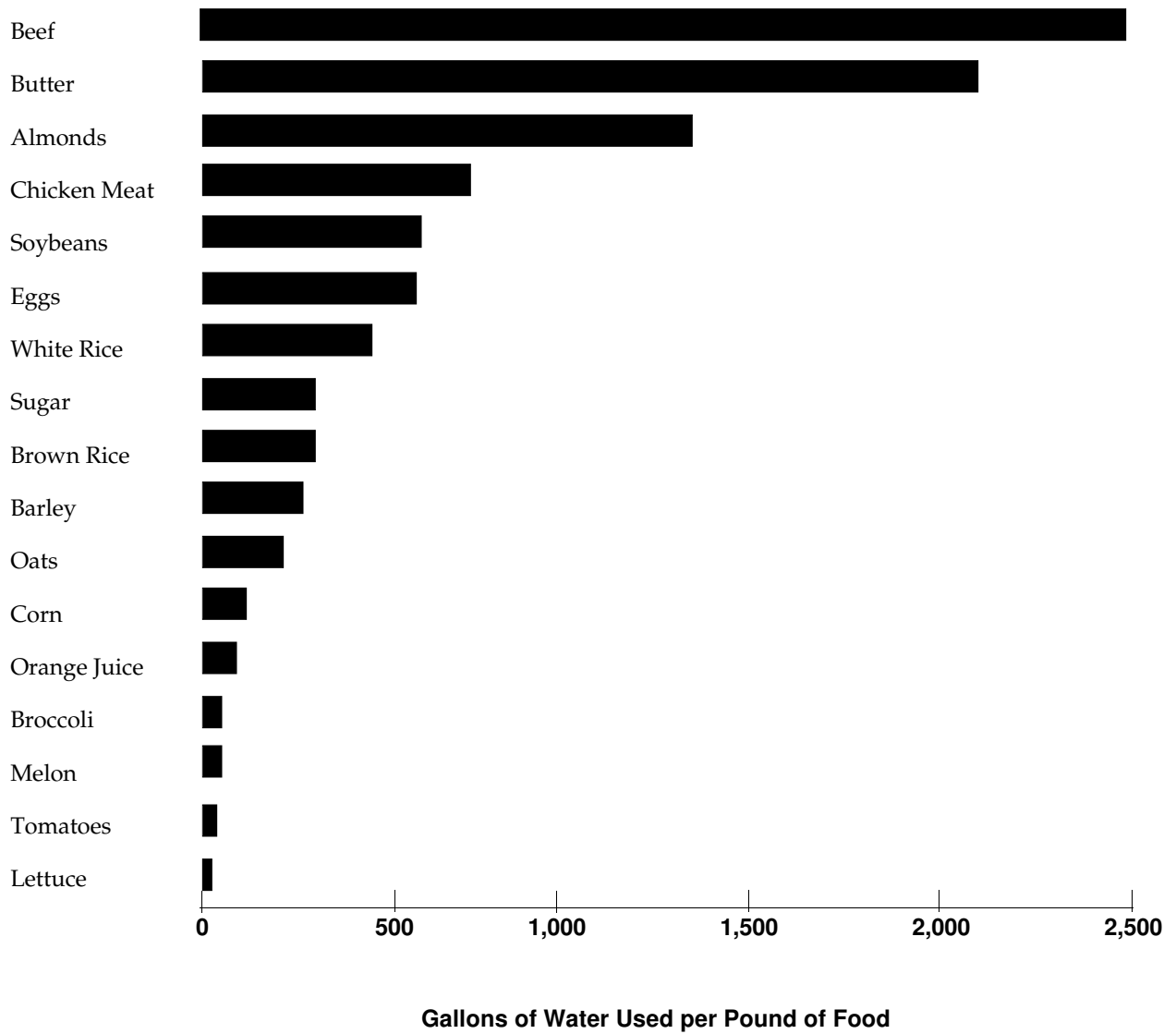
Source: 1992 Technomic Top 100

**EXHIBIT 3: SYSTEM RESTAURANTS**

|                     | 1992  | 1987  |                               | 1992          | 1987         |
|---------------------|-------|-------|-------------------------------|---------------|--------------|
| United States       | 8,959 | 7,567 | Canada                        | 658           | 539          |
| Australia           | 338   | 204   | Argentina                     | 18            | 3            |
| Brunei              | 1     | 0     | Aruba                         | 1             | 1            |
| China               | 4     | 3     | Bahamas                       | 4             | 3            |
| Guam                | 4     | 3     | Bermuda                       | 1             | 1            |
| Hong Kong           | 62    | 36    | Brazil                        | 107           | 37           |
| Indonesia           | 5     | 0     | Chile                         | 3             | 0            |
| Japan               | 956   | 604   | Costa Rica                    | 8             | 4            |
| Macao               | 3     | 1     | Cuba                          | 1             | 1            |
| Malaysia            | 31    | 15    | El Salvador                   | 3             | 2            |
| New Zealand         | 61    | 28    | Guadeloupe                    | 1             | 0            |
| Philippines         | 47    | 13    | Guatemala                     | 6             | 3            |
| Singapore           | 44    | 23    | Martinique                    | 1             | 0            |
| South Korea         | 15    | 0     | Mexico                        | 56            | 5            |
| Taiwan              | 67    | 22    | Netherlands Antilles          | 3             | 3            |
| Thailand            | 16    | 2     | Panama                        | 10            | 8            |
| Total Pacific       | 1,653 | 951   | Puerto Rico                   | 40            | 22           |
| Andorra             | 1     | 1     | Uruguay                       | 2             | 0            |
| Austria             | 35    | 20    | Venezuela                     | 6             | 3            |
| Belgium             | 16    | 9     | Virgin Islands                | 3             | 3            |
| Czech Republic      | 3     | 0     | Total Latin America           | 274           | 99           |
| Denmark             | 21    | 7     | <b>Outside of the U.S.</b>    | <b>4,134</b>  | <b>2,344</b> |
| England             | 429   | 255   | <b>Systemwide Restaurants</b> | <b>13,093</b> | <b>9,911</b> |
| Finland             | 14    | 4     |                               |               |              |
| France              | 239   | 61    |                               |               |              |
| Germany             | 438   | 262   |                               |               |              |
| Greece              | 2     | 0     |                               |               |              |
| Hungary             | 10    | 0     |                               |               |              |
| Ireland             | 16    | 8     |                               |               |              |
| Italy               | 16    | 4     |                               |               |              |
| Luxembourg          | 2     | 2     |                               |               |              |
| Monaco              | 1     | 0     |                               |               |              |
| Morocco             | 1     | 0     |                               |               |              |
| Netherlands         | 83    | 43    |                               |               |              |
| Norway              | 10    | 2     |                               |               |              |
| Poland              | 3     | 0     |                               |               |              |
| Portugal            | 4     | 0     |                               |               |              |
| Russia              | 1     | 0     |                               |               |              |
| Scotland            | 24    | 1     |                               |               |              |
| Spain               | 50    | 25    |                               |               |              |
| Sweden              | 59    | 29    |                               |               |              |
| Switzerland         | 32    | 14    |                               |               |              |
| Turkey              | 14    | 2     |                               |               |              |
| Wales               | 15    | 6     |                               |               |              |
| Yugoslavia          | 6     | 0     |                               |               |              |
| Total Europe/Africa | 1,549 | 755   |                               |               |              |

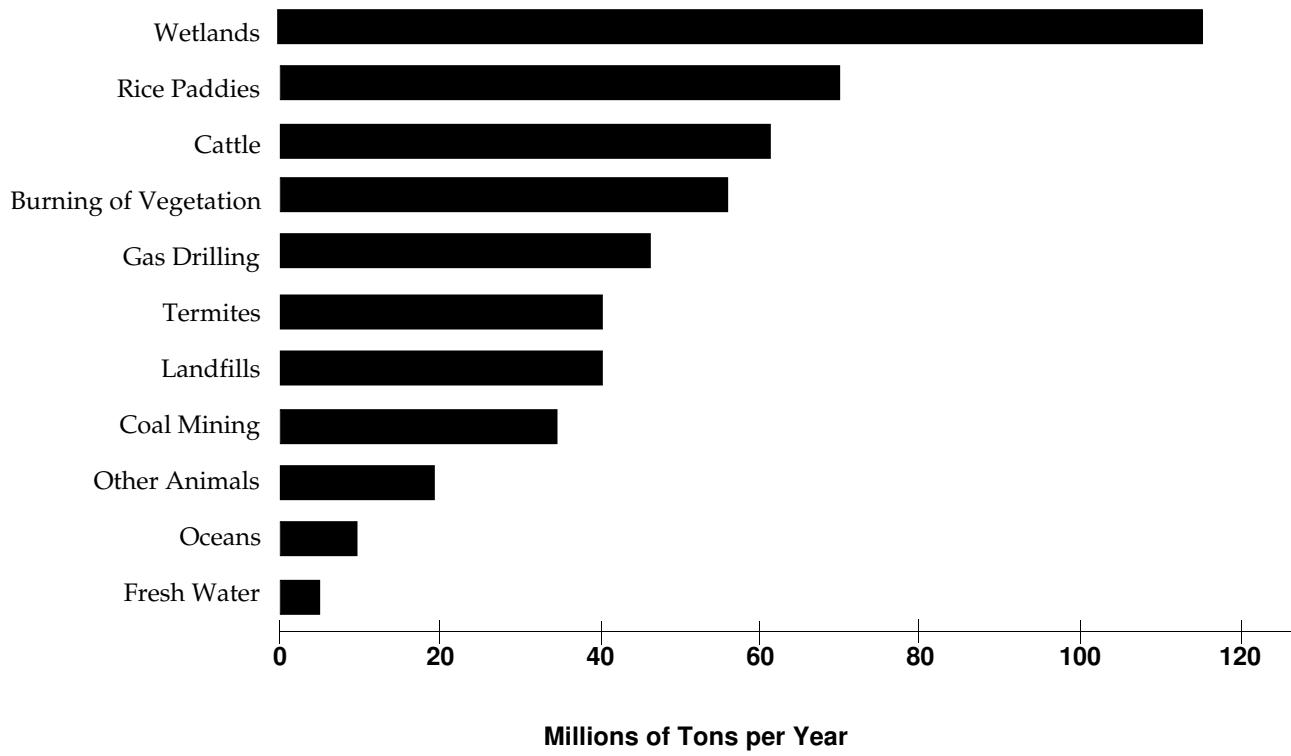
Source: McDonald's Annual Report, 1992, 1987.

**EXHIBIT 4: WATER USED IN PRODUCTION**



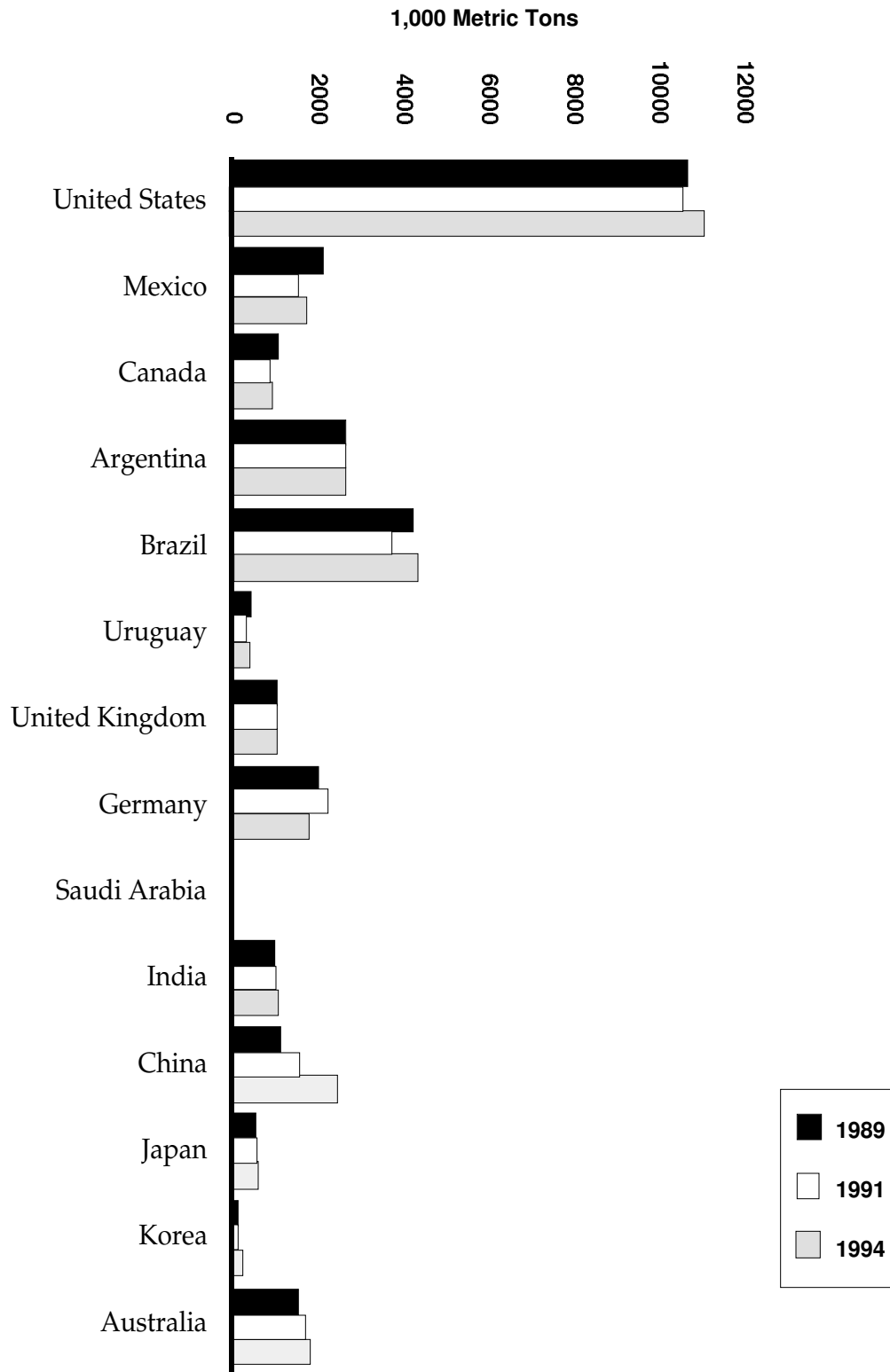
*Source: Water Education Foundation*

**EXHIBIT 5: SOURCES OF METHANE**



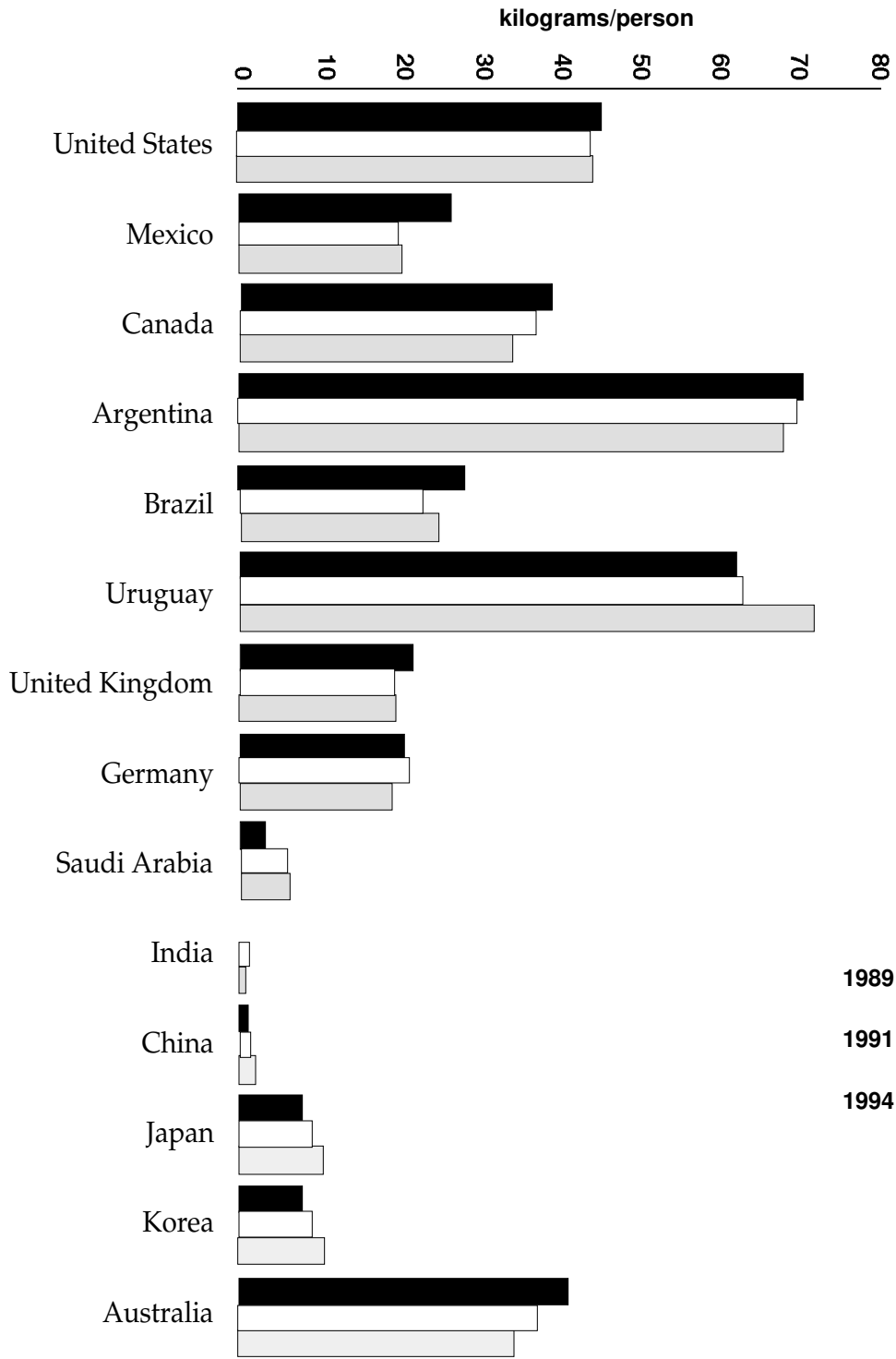
*Source: Cicerone Oremland, Biogeochemical Aspects of Atmospheric Methane*

**EXHIBIT 6: BEEF PRODUCTION**



Source: U.S. Department of Agriculture, Livestock: World Markets and Trade, March 1994

**EXHIBIT 7: PER-CAPITA BEEF CONSUMPTION**



Source: U.S. Department of Agriculture, Livestock: World Markets and Trade, March 1994

## EXHIBIT 8: BEYOND BEEF COALITION

### United States Membership

Animal Welfare Institute  
Earth Island Action Group  
EarthKind  
EarthSave  
Food First/The Institute for Food and Development Policy  
Farm Sanctuary  
Free Our Public Lands  
The Fund for Animals  
Greenhouse Crisis Foundation  
Greenpeace  
International Rivers Network  
The National Coalition Against the Misuse of Pesticides  
Peoples Medical Society  
Physicians for Responsible Medicine  
Public Citizen  
Public Lands Action Network  
Rest the West  
United Poultry Concerns

### International Membership

Africa Rainforest Network/Kenya  
Alternative Konsumenten Bond/Netherlands  
Beyond Beef/Australia  
Compassion in World Farming/England  
De Kleine Aarde/Netherlands  
Die Verbraucher/Germany  
Earthwatch/Ireland  
Erklärung Von Bern/Switzerland  
Green Power/Hong Kong  
Jungle Source/Mexico  
KAG/Switzerland  
Lega Per L'Ambiente/Italy  
Milieudéfensie/Netherlands  
Network for Safe and Secure Food and Environment/Japan  
NOAH/Denmark  
Parents for Safe Food/England  
Platform Biologische Landbouw & Voeding/Netherlands  
Rainforest Information Centre/Australia  
Research Foundation for Science, Technology, and Natural Resource Policy/India  
Sahabat Alam Malaysia/Malaysia  
Solidaridad/Netherlands  
Tanzania Environmental Society/Tanzania  
Uniao Protetora do Ambiente/Brazil  
The Vegetarian Society/England  
Vereniging Milieudéfensie/Netherlands  
Vereniging Voor Ekologische/Belgium  
Walhi/Indonesia

# THE REAL COST OF A HAMBURGER

Whether they're from McDonald's, Wendy's, Burger King, or any other fast-food restaurant, hamburgers are no bargain. The next time you think about eating a hamburger, think about the real cost of eating beef.

**World Hunger**—At a time when nearly a billion people suffer from chronic hunger, more than one-third of all the grain grown in the world is fed to cattle and other livestock. That's enough to give every child, woman, and man a meal a day.

**Polluting and Depleting our Water**—Cattle produce a billion tons of organic waste each year. Waste from livestock, and the pesticides and fertilizers used to grow feed, are the number one non-point source of water pollution in the U.S. Almost half the water used in the U.S. each year goes to grow feed and provide drinking water for cattle and other livestock. It takes 29 gallons of water to produce a pound of tomatoes, 139 gallons to produce a pound of bread, but 2,464 gallons to produce a pound of beef.

**Animal Suffering**—Each and every day, 100,000 cattle are slaughtered in the U.S. Their deaths are cruel and horrible — shocked with electric prods, beaten and kicked, shot with a stun-gun, hung by their feet, their throats cut.

**Global Warming**—Cattle are a major source of greenhouse gasses. Tens of millions of tons of methane are released into the atmosphere by the world's 1.3 billion cattle. In addition, hundreds of millions of tons of CO2 are released by burning forests to create cow pastures.

**Destroying the Rain Forest**—Cattle ranching is the primary cause of rain forest destruction in Central and South America. Since 1960, more than 25 percent of the forests of Central America have been cleared to create pasture land for grazing cattle. While some fast-food chains claim they no longer use Central American beef, for every quarter pound hamburger still being exported from this region, 55 square feet of rainforest is destroyed.

**Creating Deserts**—Cattle are major contributors to soil loss and destruction. As much as 85 percent of U.S. western rangeland, nearly 685 million acres, is being degraded by overgrazing and other problems. The U.S. has already lost a third of its topsoil; more than 80 percent of this erosion is directly attributed to grazing and unsustainable methods of producing feed crops for cattle and other livestock.

**Human Health**—Seventy percent of U.S. deaths are related to diet, particularly the overconsumption of beef and saturated animal fats. Red meat is directly linked to heart disease, strokes, and cancer.

**Children's Rights**—Children, as well as adults, have a basic right to know the true facts about nutrition, health, and the social and environmental consequences of what they buy and consume. McDonald's and other fast-food giants have long targeted children with an advertising message that is both one-sided and misleading.

*How does all this add up when you buy a hamburger at your local fast-food restaurant?... read on ....*

## THE McDONALD'S IMPACT

**No single commercial entity has been more responsible for encouraging beef consumption in America than McDonald's.**

More than 8,500 McDonald's restaurants in America—and thousands more around the world—proudly advertise more than 85 billion hamburgers sold. What's the real cost of these? For starters:

- tens of millions of cows slaughtered;
- trillions of gallons of water used to grow their feed;
- millions of tons of methane, a greenhouse gas, released;
- millions of acres of public land eroded and destroyed;
- enough grain fed to cows to provide millions of hungry families with a daily meal.

Most McDonald's patrons are unaware of how their individual decisions as consumers add up to create such a devastating global impact.

But this April and May, through the **Adopt-A-McDonald's** Campaign—at more than 1,000 McDonald's across the nation—more than 1,000,000 customers will get the facts about the real cost of buying a fast-food burger.

## HOW YOU CAN ADOPT A McDONALD'S

**BEYOND BEEF** is helping to organize more than 1,000 **Adopt-A-McDonald's** teams. Each team of four or more people will be responsible for adopting at least one McDonald's restaurant in their community, and speaking with at least 1,000 McDonald's patrons as they enter or leave the restaurant. Beginning April 17, each team will provide customers with leaflets, educational

materials, and a children's coloring book. They'll hold press conferences and carry placards. They'll focus the attention of the country on the real environmental, health, and animal suffering costs of eating hamburgers. If you want to join the **BEYOND BEEF** team and **Adopt-A-McDonald's** this spring, fill out the coupon below.



I want to **Adopt-A-McDONALD's**.  
Get in touch with me immediately.

Name (please print) \_\_\_\_\_

Street \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Phone \_\_\_\_\_

Return coupon to: Beyond Beef, 1130 Seventeenth St. NW, Suite 300, Washington DC 20036. Phone: (202) 775-1132 Fax: (202) 775-0074