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McDonald's Corporation: Managing a Sustainable Supply Chain

In January 2007, Frank Muschetto, McDonald's Senior Vice President of Worldwide Supply Chain, returned to his office from a meeting with Bob Langert, Vice President of Corporate Social Responsibility (CSR). Muschetto had approved the formation of an internal Sustainable Supply Chain Working Group (SSCWG) in the summer of 2006 to "develop the strategies and tools necessary to accomplish McDonald's vision of sustainable sourcing." Langert, a co-leader of the SSCWG, had just discussed the group's preliminary findings with Muschetto.

As described in its latest Worldwide Corporate Responsibility Report and internal documents, McDonald's envisioned a sustainable supply chain "that profitably yields high-quality, safe products without supply interruption while creating a net benefit for employees, their communities, biodiversity and the environment." The SSCWG believed that McDonald's existing sustainable supply chain efforts led the restaurant industry; however, it also identified many issues McDonald's still needed to address in order to achieve its vision.

Muschetto agreed with the SSCWG's assessment. He knew that McDonald's had successfully influenced many of its suppliers to improve their social, environmental, and animal welfare impacts. In particular, he took pride in the steps McDonald's had recently taken with Cargill, a major supplier, to protect the Amazon rain forest in Brazil from destruction by soya farming. He and others in the company hoped that by understanding the relevant challenges and opportunities, McDonald's could build on that success and proactively pursue leadership of other sustainability efforts. In the process, he and his worldwide supply chain management team would have to answer some difficult questions:

- How should McDonald's prioritize sustainability relative to other supply chain goals (e.g., ensuring food safety and minimizing costs)?
- How should McDonald's reconcile different sustainability expectations and priorities around the world with the understanding that local practices sometimes impact the global brand?
- How should McDonald's engage suppliers, activists, and other stakeholders in its sustainable supply chain efforts?

Professor Ray A. Goldberg and Jessica Droste Yagan (KSG 2007) prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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As Muschetto gazed out his window on an unusually warm January day, he pondered these questions and remembered founder Ray Kroc's directive: "Whatever we are doing today, we can do better tomorrow."¹

McDonald's Supply Chain

*History*²

Ray Kroc, founder and first CEO of the McDonald's Corporation, opened the original McDonald's franchise in Des Plaines, Illinois in 1955. From the beginning, he sought to build an innovative supply chain system for his growing restaurant business. Unlike most contemporary fast-food franchisers who profited significantly by marking up the goods they required their franchisees to buy, Kroc aligned McDonald's interests with its franchisees' by profiting from excellent restaurant operations. He refused all gifts and special favors offered by suppliers; instead, he focused exclusively on securing the consistent supply, excellent quality, and volume pricing that would facilitate success in the restaurants.

Kroc and his staff made other supply chain innovations. Unlike other food retailers at the time, McDonald's established strict standards for the ingredients and appearance of each product; McDonald's staff often visited suppliers without warning to ensure their compliance. Kroc terminated those suppliers that could not consistently provide high quality and dedicated service but he rewarded those that did with loyalty and volume. In effect, he made his suppliers partners in his quest for fast-food greatness.

Success

Together with over 5,900 independent owner/operators (who own and operate more than 73% of all McDonald's restaurants), McDonald's serves more than 50 million people daily in over 30,700 restaurants in 118 countries. Total restaurant sales in 2005 of \$54.3 billion made it the largest foodservice retailer in the world (see **Exhibit 1** for historical financial information).

McDonald's supply chain has been an integral part of its success. Honorary Chairman and former CEO Fred Turner characterized McDonald's operations as a three-legged stool, with the employees, owner/operators, and suppliers as the three legs: "as with a stool, all three are essential, and all three have to be strong and balanced to succeed."³ John Helledy, Vice President of Purchasing for longtime supplier East Balt Bakery, agrees that "it has always been a collaborative approach. The three-legged stool is exactly how it is—they really work together. It's not just 'we produce, they buy'; it's 'we've got their back, they've got ours.'"⁴

Suppliers that met McDonald's demands and accepted the role of partner have benefited. Many early suppliers that did business with Kroc on a handshake have grown with McDonald's from small start-ups to industry leaders as McDonald's restaurants spent more than \$18 billion on purchases of

¹ McDonald's 2006 Worldwide Corporate Responsibility Report.

² History of McDonald's supply chain primarily from: John F. Love, *McDonald's: Behind the Arches*, New York: Bantam Books, 1995.

³ McDonald's 2006 Worldwide Corporate Responsibility Report.

⁴ Unless otherwise cited, all quotations in the case are from case writer interviews. (See **Exhibit 2** for a list of interviewees.)

food, paper, and toys in 2005. Its four largest purchases included beef, chicken, packaging, and dairy products, but the relative sizes of purchases shift as new products are introduced and customer preferences change.

Complexity

A global supply chain of this size comes with not only significant purchasing power but also tremendous management complexity. In McDonald's highly decentralized structure, managers at every level strive to support those who serve the customers: restaurant managers and owner/operators. This decentralization is guided by a concept recently articulated by McDonald's as "freedom within a framework." The framework provides a set of guidelines to strengthen McDonald's operational excellence and brand around the world by setting standards for, among other things, product ingredients, restaurant cleanliness, and use of the Golden Arches logo. Freedom applies to everything else, based on the belief that those closest to the customer are best positioned to make decisions.

In practice, global headquarters sets the parameters and performs functions that leverage the scale of the entire system but defers other decisions to more local managers. Area of the World (AOW) leaders manage McDonald's Europe, McDonald's North America, McDonald's Latin America, and McDonald's Asia/Pacific-Middle East-Africa (APMEA) almost like mini-corporations. Within AOWs, national (e.g., McDonald's Brazil) and sometimes sub-national (e.g., McDonald's U.S. Eastern Division) leaders have considerable autonomy to guide and serve the restaurants. Restaurant managers and owner/operators have the ultimate responsibility to serve the customer.

Supply chain management fits in this "freedom within a framework" structure. A global governance team, the McDonald's Supply Leadership Board (SLB) determines the framework needed to coordinate key supply chain management activities. The SLB includes Muschetto, the four AOW supply chain leaders, and McDonald's Corporate Vice President of Quality. The SLB is responsible for the supply chain model McDonald's uses as well as global standards for quality, business policies, and practices related to the supply chain. Each AOW supply chain management team oversees AOW standards and policies that build upon those at the global level. They also support country-level purchasing managers who oversee procurement decisions by local distributors. The country-level managers ensure that most products are sourced locally and that suppliers are in compliance with McDonald's guidelines and as well as unique local or national regulations. As Al Bryant, Vice President of Supply Chain APMEA, describes it, the McDonald's "supply chain isn't really one whole, it's lots of little supply chains pulled together."

In addition to the many levels of management and coordination required for a decentralized supply chain that buys large amounts of local products that meet many types of specifications, other complexities influence the purchasing power of the McDonald's system:

- Because of the importance of consistent supply despite threats from foodborne illnesses, natural disasters, and other uncontrollable circumstances, McDonald's supply chain must maintain contingency plans; this sometimes requires contracting with multiple suppliers of each product in each area.
- Because of the large volumes, high quality, and competitive prices McDonald's requires, there exist few alternative suppliers to those already in its system. McDonald's can and has changed suppliers when warranted, but such changes can be costly and disruptive.

- McDonald's is a significant purchaser but its power is often limited and varied. For instance, the McDonald's system in the U.S. buys only about 1.5% (by weight) of tomatoes in the U.S., and even though it is the largest beef purchaser in the U.S., it only represents approximately 3.5% (by weight) of the market.
- Food supply chains, both nationally and globally, tend to be highly fragmented and poorly integrated. For instance, in the U.S.:
 - The McDonald's system purchases hamburger patties from six approved vendors.
 - Each hamburger patty supplier purchases certain sections of cows from some combination of the approximately 30 abattoirs approved for supply into the McDonald's system.⁵
 - Each abattoir purchases fully-grown cows from many different feedlots and dairy farms.
 - Each feedlot purchases calves from hundreds or thousands of different ranchers. In 2005, feedlots purchased calves from 800,000 ranchers, each with an average herd of only thirty-eight cows.⁶

Linda Detwiler, animal health advisor to McDonald's and former U.S. Department of Agriculture (USDA) employee, provides an example of how these complexities force McDonald's to use different types of influence to affect its supply chain:

In the late 1990s, while I was at the USDA, I learned that there was a pneumatic stunning practice for cattle slaughter that was so powerful it pushed some brain matter into the animals' bodies. Several of us thought it should be prohibited but were unable to accomplish this due to questions about legal authority. I informed McDonald's and they rewrote their specifications within two weeks, bringing the change about through their supply chain as a buyer, which made other buyers also take notice. The U.S. government was finally able to ban the practice in 2004. There are other areas in which McDonald's specifications may not be able to enact a direct change. One example is the prohibition of high risk material and dead stock from being incorporated into all animal feed. McDonald's specifications are not on feed mills so the company had to work with others in the restaurant and pharmaceutical industries to encourage and support additional government regulations, which finally happened in 2006 in Canada.

Dick Crawford, Vice President of Government Relations, adds, "Most people perceive the 'food industry' as monolithic: that continuum from farm, to the processor, and then to the restaurant. The truth is that the restaurant industry often has more in common with the average consumer than we have with the grower or processor." To mitigate some of these challenges, McDonald's has supported more vertical integration in its supply chain and has succeeded in some product areas such as chicken. Supply chain managers also believe that continued consolidation in food production and processing industries might also help to mitigate some of the complexity by removing steps between McDonald's and its raw material producers.

⁵ An abattoir is a meat-processing plant.

⁶ Ray A. Goldberg, Carin-Isabel Knoop, and Mary Shelman. "Friona Industries: Delivering Better Beef," HBS No. 906-405. (Boston: Harvard Business School Publishing), 2005.

Leadership

Working with the SLB and his staff, Muschetto leads the development and implementation of major supply strategies, including the sustainable supply chain vision. He began working for McDonald's in 1977 and has held leadership positions in finance and supply chain management. In the latter, he has led key initiatives including building an effective supply chain in Asia to provide high-quality Happy Meal premiums and establishing the SLB to formalize the use of local expertise to set global policies. Muschetto reflected: "The requirement, or opportunity, to develop supply strategies that enable McDonald's to be competitive in all markets and be recognized as a responsible brand has been challenging and fun."

Sustainable Supply Chain

Quality, food safety, and competitive prices have always concerned McDonald's supply chain management; in recent decades, social responsibility and the more holistic goal of sustainability have also earned official recognition. McDonald's employees point to three primary motivations that contribute to the increased importance of supply chain sustainability: assuring supply chain continuity, "doing the right thing," and protecting consumer trust in the McDonald's brand.

At its most basic level, a sustainable supply chain must consistently deliver the right products at the right times for the long term. Accordingly, the McDonald's Sustainable Supply Chain vision begins with "a supply system that profitably yields high-quality, safe products without supply interruption." In 2000, suppliers of the Filet-O-Fish fish product told McDonald's that their catches were severely declining. The supply chain management team immediately initiated discussions with its internal CSR team and outside experts to support sustainable fisheries. Gary Johnson, Senior Director of Worldwide Supply Chain Proteins, recalls that "catches were going down and quotas were being reduced by governments, but there were black markets forming. We could not have the fisheries out of control." For McDonald's, overfishing represented not only a threat to marine biodiversity and fishermen's livelihoods but also a real threat to its ability to meet customer demand for Filet-O-Fish sandwiches.

Beyond protecting supply chain continuity, "doing the right thing" is a common mantra at McDonald's. Today's employees trace the sentiment back to Ray Kroc's leadership but it is kept alive by the personal beliefs and motivations of individuals: as APMEA's Bryant states, "I want my children to inherit a clean, sustainable world." Many at McDonald's also acknowledge a special responsibility to do the right thing because the company is a leader in its industry and in the larger business community. As explained by J.C. Gonzalez-Mendez, Senior Vice President of Supply Chain Management for McDonald's North America, "This is the price of leadership. We touch so many people throughout our system and in many industries."

With many different perspectives around the world, the "right" choice is not always clear, so McDonald's makes decisions in large part by understanding the concerns of its customers. CEO Jim Skinner asserts "listening to our customers is still the right thing to do. It always has been and it always will be. Customers will tell us if there are issues with our products and services. . . . Customers will let us know if they have concerns over whether we're acting socially responsible."⁷ Consumer concerns are not only a proxy for issue importance but also help to prioritize sustainability initiatives that will most reinforce trust in the McDonald's brand, its most valuable asset.

⁷ McDonald's 2006 Worldwide Corporate Responsibility Report.

Global Initiatives

McDonald's has progressed toward understanding and improving the social and environmental impacts of its supply chain since the late 1980s. In 2003, it created the global Supply Chain Vision and Guidelines (see **Exhibit 3**) to direct its efforts. Sustainable supply chain performance as a whole (for direct suppliers) is measured by the Supplier Performance Index, the scoring system McDonald's uses to measure, recognize, and reward all aspects of supplier performance. Highlights of past and current initiatives include the following:

Social and economic In 1993, McDonald's developed its Code of Conduct for Suppliers, which outlines expectations of suppliers relating to employment practices. It asserts that "McDonald's will refuse to approve or do business with those who do not uphold [the Code], in action as well as words." Since 1999 McDonald's has audited a "significant and representative" number of suppliers to assure Code compliance. As of 2005, 89% of total food, packaging, and tier-1 equipment suppliers had signed an acknowledgement agreeing to comply with the Code of Conduct.

Environmental McDonald's supply chain sustainability efforts began with an environmental focus. In 1989, in the midst of public allegations that cattle ranching was causing Amazon deforestation, it issued a Rain Forest Policy which stated that "McDonald's does not, has not and will not permit destruction of tropical rain forests for our beef supply. We do not, have not and will not purchase beef from rain forest or recently deforested rain forest land." McDonald's global environmental policy followed in 1990, stating, among other things, that McDonald's would reduce packaging and work with suppliers to manage solid waste, conserve and protect natural resources, and encourage environmental values and practices. It worked to implement the policy in partnership with the NGO Environmental Defense. As of 1999, McDonald's had eliminated 150,000 tons of packaging and recycled more than one million tons of corrugated cardboard.

In 2001, McDonald's began partnering with the NGO Conservation International (CI) to develop sustainable fishery guidelines for managing fishery quality, fish stock status, and marine conservation. As of 2005, McDonald's had used the guidelines to shift more than 18,000 metric tons of fish purchases to more sustainable sources. CI also worked with McDonald's to develop a more comprehensive environmental sustainability framework for its supply chain: as a result, in 2004 McDonald's launched a pilot test of the Environmental Scorecard with key product suppliers (potatoes, poultry, pork, beef, and buns) to measure water use, energy consumption, solid waste production, and air emissions of suppliers. Pilot results showed that most suppliers reduced environmental impacts between 2003 and 2004; in 2005 McDonald's began expanding the Scorecard to all direct suppliers of key products in its top nine markets.

Animal welfare With the guidance of its Animal Welfare Council, in 2000 McDonald's issued its Animal Welfare Guiding Principles, designed to ensure that animals in McDonald's supply chain are "free from cruelty, abuse, and neglect." According to Dr. Temple Grandin, Professor of Animal Science at Colorado State University, who worked closely with McDonald's to develop and implement the principles, "in cattle slaughter, 'there is the pre-McDonald's era and the post-McDonald's era—it's like night and day.'"⁸ All abattoirs in McDonald's supply chain are audited each year for animal welfare compliance. In 2005, 91% of all abattoirs received a passing score initially, and 99% of the rest addressed concerns and passed a second audit. Those that did not pass were either terminated or required to follow a strict plan for remediation and improvement.

⁸ Michael Pollan, *The Omnivore's Dilemma*, New York: Penguin Press, 2006.

In 2003, after experts asserted that the overuse of growth-promoting antibiotics compromised the health of animals and created human resistance to antibiotics, McDonald's issued its Global Antibiotics Policy for Farm Animals to control and minimize the use of antibiotics in the supply chain. All direct suppliers that are vertically integrated and have control over the animals raised (primarily chicken suppliers) have eliminated growth hormones.

McDonald's Europe

Like McDonald's supply chain management as a whole, sustainable supply chain efforts are decentralized: local business units are encouraged to build on global policies and programs to meet local needs. McDonald's Europe in particular has responded to the specific concerns of its employees, customers, and legislators by pursuing additional sustainable supply chain efforts.

Through the McDonald's Agricultural Assurance Programme (MAAP), launched in 2001, each major product bought by McDonald's purchasers in Europe has detailed production standards that reflect policies for environment, agricultural practices, animal welfare, animal nutrition, animal medication, transparency, and genetics. Each standard has both short- and long-term components to distinguish minimum requirements from continuous improvement. In 2004, 31%–89% of products (depending on the purchasing category) were purchased from MAAP-compliant suppliers. McDonald's Europe has also begun to use independent certification schemes that support its MAAP standards; it recently made a commitment to introduce "sustainable coffee from certified sources" such as Rainforest Alliance and Utz Kapeh.

In 2006, McDonald's Europe undertook a complete reassessment of its supply chain sustainability impacts and policies. European management conducted internal research and met with key stakeholders, including suppliers, to ensure the accuracy of their conclusions and the viability of their expectations for improvement. The assessment resulted in a goal for 2007 of fully mapping key supply chains and assessing carbon footprints for beef, chicken and potatoes. A dedicated supply chain management position is currently being filled to support continued implementation.

Leadership

Bob Langert has worked on sustainable supply chain efforts at McDonald's for most of his career. He started at McDonald's in 1983 as a distribution manager for the Midwest Region then moved to other areas of responsibility related to the environment, energy management, animal welfare, Ronald McDonald's Children's Charities, and emerging issues management. While working at McDonald's, he earned his MBA from the Kellogg School of Management at Northwestern University. As Vice President of CSR, he coordinates all CSR efforts within the company. He is often heard saying that he has "ketchup in his veins" and he sits on the board of Net Impact.⁹

Soya in the Amazon

Background

On April 6, 2006, Greenpeace posted an article titled "McAmazon" (see **Exhibit 4**) and a 64-page report entitled "Eating up the Amazon" on its web site. They specifically indicted McDonald's for the

⁹ Net Impact is a global network of MBAs dedicated to using business to make a positive impact on the world.

destruction of endangered parts of the Amazon rain forest in Brazil. "McAmazon" started with a direct assault on the McDonald's brand:

It is a globally known symbol: the golden arches can be seen in many countries around the world. But whatever the fast food giant wants you to believe the golden arches stand for, McDonald's today stands for rain forest destruction. And that is one very 'Unhappy Meal' for the planet.

Greenpeace's research¹⁰ alleged that one of McDonald's largest Chicken McNugget suppliers in Europe (Sun Valley Foods, owned by Cargill) fed its chickens soya from recently deforested Amazon land in Brazil. Greenpeace accused Cargill, one of the major soya purchasers in Brazil (and globally), of "spurring the incursion of illegal farms and building infrastructure to deliver Amazon soya to global markets." According to Greenpeace, around 1.2 million hectares (about twice the size of the U.S. state of Delaware) of soya were planted in place of Brazilian Amazon rain forest in 2004–05.

Greenpeace acknowledged that McDonald's supply chain was only one small piece of a much bigger market for soya in Europe: McDonald's Europe's supply chain accounted for only about 0.6% of Cargill's Brazilian soya, and less than 0.5% of that was estimated to come from the Amazon area. But McDonald's strong connection to Cargill as a buyer of many other products and its brand recognition made it a powerful agent for change. John Sauven, Greenpeace UK's Acting Executive Director and the soya campaign leader, explained:

The only reason McDonald's was on our radar was their direct link with Cargill. We wanted to find the biggest point of leverage on Cargill and we knew McDonald's does a lot of business with them on many products. They [McDonald's U.S.] even named Cargill the [2005] Supplier of the Year.

As a result, Greenpeace focused its attack on McDonald's brand. On the first day of the campaign, dozens of Greenpeace activists dressed in seven-foot chicken costumes chained themselves to several McDonald's restaurants in the U.K.; other U.K. restaurants were plastered with posters of Ronald McDonald holding a chainsaw.

McDonald's Response

Not surprisingly, Greenpeace's aggressive public campaign quickly got McDonald's attention. Within hours, McDonald's Europe had solicited input from Cargill, McDonald's global leadership, and McDonald's Brazil; within days, they had engaged with Greenpeace to discuss resolutions.

McDonald's attributes part of the quick response to the prior existence of the Rain Forest Policy for beef: management did not have to start from scratch to understand the importance of the issue. They understood that if McDonald's "does not, has not and will not permit destruction of tropical rain forests" for beef, it also could not knowingly permit destruction of rain forests for soya. Karen Van Bergen, Vice President of Corporate Relations for McDonald's Europe and leader of McDonald Europe's response, noted that when McDonald's "had the meeting with Greenpeace they [Greenpeace] had so much information and brought concrete facts, so there was only one way to address it." The much more complicated question was how McDonald's, given its relatively limited purchasing power, could influence actions so far removed in its supply chain.

McDonald's could have pulled out and refused to allow soya from Brazil in its supply chain as long as the problem persisted. This solution was both unacceptable and impractical. Francesca

¹⁰ "Eating up the Amazon," Greenpeace International, April 2006.

DeBiase, Vice President of Supply Chain for McDonald's Europe, could not support disengaging: "Pulling out would not help. We wanted to make it work long-term in Brazil." DeBiase and others wanted McDonald's sustainability efforts to evolve from doing less harm to doing more good, and doing more good meant considering the impacts on local farmers and employees as well the rain forest. Flavia Vigio, Director of Communications for McDonald's Brazil agreed:

The biggest challenge was making sure all interests were respected, both globally and from a local sustainability standpoint. Often times, local farmers are not aware of their long-term impact on the environment; they live by traditional culture and need the immediate resources their work provides them. We have to work with the government to expand their awareness, as well as with the soya crushers to balance their supply needs.

Pulling out was impractical for two reasons. First, McDonald's European supply chain purchased Brazilian soya because European customers demanded non-genetically modified (GM) products, and only Brazil could provide a large enough cost-effective source of GM-free soya.¹¹ Second, McDonald's did not have and did not want a reputation for walking away from problems. Jerome Lyman, Vice President of Supply Chain Latin America notes that McDonald's has "relationships around the globe—we can't have a reputation for bailing. Consumers and NGOs want solutions."

Alternatively, McDonald's could have extended the McDonald's Rain Forest Policy to soya and demanded that suppliers find a way to solve the problem on their own. Not only did long-standing norms of partnership and cooperation with its suppliers preclude such an approach, but also McDonald's did not have sufficient purchasing power to make such a demand credible. As Europe's Van Bergen put it, "we were big, but not big enough to move forward alone."

After deciding to remain active in the Brazilian soya market and to participate in the resolution, McDonald's reached out to its partners and advisors for help. Cargill worked to understand the situation and devise a response that would satisfy McDonald's concerns, those of its other customers, its own business constraints, and Greenpeace's and other NGOs' demands. In addition to meeting frequently with Greenpeace (including the first such meeting for Cargill) to discuss options and expectations, McDonald's and Cargill began meeting jointly and separately with other NGO partners. These advisors provided greater insight into the problems in the Amazon and the pros and cons of possible solutions.

When it became clear to Cargill and McDonald's that a meaningful solution required an industry-wide effort, McDonald's worked with other large European food retailers to urge Cargill's competitors to get involved. As a result, most major soya traders began discussions with the Brazilian Association of Vegetable Oil Industries and Brazil's National Association of Grain Exporters about how soya farming in Brazil might continue without disrupting the rain forest or other environmentally fragile areas. They created the Soya Working Group (including growers, processors, and NGOs) and met in Brazil to discuss the issue; by late July 2006 all major soya buyers announced their commitment to a two-year moratorium on purchasing soya from deforested areas in the Amazon region. During the moratorium, procedures would be put in place to distinguish soya sourced from previously deforested land from soya sourced from land deforested for soya farming after July 2006 (the policy would only apply moving forward). In addition, all parties are exploring longer-term solutions to the pressures of soya production on the Amazon ecosystem.

¹¹ McDonald's Brazil was not actually purchasing soya from any of the affected areas.

Outcomes

McDonald's response to the Greenpeace campaign was viewed widely as a success. Only 120 days after its McAmazon campaign began, Greenpeace published "McVictory" on its website (see **Exhibit 5**) with a picture of Ronald McDonald hugging a tree, and a statement: "In an historic deal that has impacts far beyond the golden arches and into the global agricultural market, McDonald's is now the leading company in the campaign for a moratorium on the expansion of soya farming in the Amazon."¹² Greenpeace's Sauven even published a congratulatory article in the U.K.:

I cannot say it came naturally to Greenpeace to jump into bed with the world's largest fast-food company. But it is a fact that the company immediately recognised [sic] the nature of the problem and sought not simply to put its own house in order, but to use its might to push a multimillion-dollar industry towards a more sustainable future. For that, McDonald's European executives must be congratulated.¹³

In an interview, Sauven added,

We expected a longer time frame. We thought it would be a tough nut to crack, that it would take a long, global campaign of at least two or three years. But we were surprised. It took only six months to get everyone to the table and agree on a moratorium. Having McDonald's come on board in a strong way was powerful. They got engaged instead of walking away. That was a sea change in terms of the impact of our campaign. They became allies to help move it forward, and that encouraged other retailers to wade in and get involved. With so many retailers on board, the producers had to act.

Cargill also recognized McDonald's contribution. According to Jerry Rose, Corporate Vice President at Cargill,

Cargill had been working for two years with The Nature Conservancy on farmer practices and compliance with the Brazilian Forest Code in the Santarem area before McDonald's got involved. McDonald's involvement made protecting the Amazon a bigger, more inclusive effort . . . it was McDonald's direction and engagement that encouraged Cargill to lead the Brazilian industry on the Amazon soya issue. They pushed real conversations, compromises, and positive, powerful outcomes.

McDonald's Europe is proud of the outcome but sensitive to the fact that the threat to the Amazon has not been removed completely. According to Europe's Van Bergen, "we have to maintain the dialogue—it's a first step. . . . We want to make sure it leads to a sustainable policy in the end." Nonetheless, European consumers seem impressed. According to Greenpeace's Sauven: "Europeans were surprised about McDonald's response. . . . McDonald's is often seen as the devil incarnate here and people were impressed that they would do something that Greenpeace would partner on."

Brazilians have had mixed reactions. The Brazilian government supported the agreement; it had made strides in improving the enforcement of its own laws against Amazon rain forest destruction and welcomed additional efforts. Some Brazilians accused the Europeans and Americans, whose governments subsidize farmers, of trying to limit an important source of economic development for Brazil.

¹² "McVictory," Greenpeace (U.K.), July 25, 2006.

¹³ John Sauven, "The odd couple," *The Guardian*, August 2, 2006.

McDonald's leadership recognizes important lessons from the ongoing soya initiative. First, the company must proactively understand the impacts of its entire supply chain in order to address critical issues and avoid surprises. As Europe's DeBiase put it, "I was surprised about the soya problem and that upset me. It made all of us want to better understand all of our impacts so that we could avoid being surprised again." Second, having open and constructive dialogues with all stakeholders helps resolve issues. Finally, McDonald's can use its influence to lend credibility to important issues and move solutions forward even where it does not directly control the outcomes.

Achieving the Vision

Partially in response to the lessons learned from the soya challenge in Brazil, McDonald's formed the SSCWG in the summer of 2006 to chart a path to holistically and proactively addressing social and environmental issues in its supply chain. Members represented Worldwide Supply Chain Management, AOW Supply Chain Management, Corporate Citizenship, Corporate Relations, Communications, and Social Accountability. The "Sponsor's Direction to the Team" was to

Develop the strategies and tools necessary to accomplish McDonald's vision of sustainable sourcing. A sustainable supply system will yield high quality, safe products without supply interruption while creating a net benefit for employees, their communities, the environment, and animal welfare. Do this in a way that is feasible, scientifically-based and affordable for our System.

The SSCWG "Opportunity Statement" stated:

McDonald's social and environmental footprint includes the impacts of its many layers of producers and processors around the world. By working with suppliers to proactively manage those impacts in a positive way, we can improve brand trust among consumers and other public stakeholders, and we can be a sustainability leader by facilitating realistic solutions to complicated issues.

The members of the SSCWG agreed that McDonald's had several challenges to overcome and opportunities to leverage as it progressed towards the sustainable supply chain vision.

Challenges

Complex supply chain McDonald's ability to affect sustainability in its supply chain varies significantly. Some suppliers grew up with the McDonald's system and are dedicated to serving McDonald's and anticipating its needs. Other suppliers are large in their own right; while McDonald's is an important customer for them, they have many other large customers vying for their attention. Some, like Cargill, sell small portions of many products to McDonald's, making them a significant corporate supplier only in total.

Even when McDonald's can influence its direct suppliers, it cannot necessarily create industry change: its suppliers might not have influence in their respective industries, the industry might be too fragmented, or suppliers might only adjust the McDonald's segment of their production. For instance, even though its Sustainable Fisheries guidelines seem to be improving the sustainability of its own fish supply, McDonald's buys less than 1% of all white fish sold around the world and supply chain's Johnson acknowledges that competitors still buy from over-fished areas.

Complexity also creates difficulties and longer implementation time for suppliers. According to Dennis Treacy, Vice President of Environmental and Corporate Affairs at pork supplier Smithfield Foods, "when multiple customers send different guidelines and just say 'comply,' there's confusion and inefficiency. We can't meet them all." McDonald's can help solve the problem and has in some cases, he adds: "Bob Langert and I helped push the convening of the National Pork Board to discuss some conformity in animal welfare standards, as well as other quality issues."

Finally, purchasing power does not always translate into rapid changes in operating practices. According to Devin Cole, Vice President and General Manager of the McDonald's Business Unit at chicken supplier Tyson Foods, "Large size does not necessarily lend itself to snap decisions and changes. When you have big effects, you have to think it through and it takes time . . . long-term, cost effective supply is a serious challenge itself." Gwen Ruta, Director of Corporate Partnerships at Environmental Defense adds,

It's easy to say McDonald's can snap its fingers, but it's as much a captive of suppliers as it is a master of them. It goes both ways. There are not a lot of companies that have the capacity to supply McDonald's what, when, and how much it needs. McDonald's is great about working with suppliers, but in a way they kind of have to. And they are willing to walk away, but they don't want to.

Because of this management complexity, Muschetto believes that it is important for McDonald's "to be realistic about what we commit to. We can't change every industry, but we can help influence those who want to supply us."

Cultural differences Sometimes the "freedom within a framework" approach works well for supply chain sustainability efforts. The Animal Welfare Guiding Principles state general beliefs about preventing animal suffering, but each AOW can have slightly different specific standards designed to implement those beliefs. For instance, halal foods (those permissible under Islamic law), require a particular method of slaughter, so McDonald's has specific animal welfare standards that meet halal requirements in the parts of the world where customers demand it.

In other cases, sustainable supply chain efforts (and CSR efforts more generally) challenge the "freedom within a framework" approach. While customers in different parts of the world have different definitions of and priorities for sustainability, the globally connected nature of activists and interest groups means that local decisions can reverberate and impact the global brand. As Muschetto puts it, "cultural and religious norms vary significantly, so it has to be up to each AOW to apply the guidelines. We have to be sure they add to and build upon global guidelines but not detract and not put the global brand at risk."

Even when they agree on the same goals in concept, AOWs start from different positions and progress at different speeds. For instance, while all AOWs might support McDonald's environmental commitment, the average European supplier is likely to start from a better position on the Environmental Scorecard than the average Chinese supplier. That is why, according to APMEA's Bryant, McDonald's needs to stay focused not on particular benchmarks but on "high standards and continuous improvement." Mats Lederhausen, a former senior executive and currently a senior advisor to McDonald's, adds that McDonald's wants "to be recognized as a leader in each area of the world," fully realizing that this may mean substantively different things in each culture.

Prioritization Even within the same local area, disagreements over sustainability priorities often occur and difficult tradeoffs are inevitable. Within Brazil, for instance, some people support preserving its natural resources at all costs, while others believe that its farmers should have the autonomy to grow and support their communities above all else. Further, should efforts to protect

the Amazon rain forest be emphasized above those to protect other fragile ecosystems in Brazil? Further disagreements exist over the definition of "rain forest": where does it end and something less "valuable" begin? Governments have long struggled to reconcile valid opposing interests such as these; now multinational corporations like McDonald's face the same challenge. According to APMEA's Bryant:

Some areas, like fish, are obvious because we need them for our stable supply chain. For other priorities, we see where we have an impact, where we can make an impact, and what is the cost-benefit tradeoff . . . we can't just respond to interest groups because there are too many with different views. They care about their issues but not about the others . . . whose definition of sustainability would we follow?"

Some suggest that McDonald's should not waste time debating its options, but rather pick a few projects and move forward. According to Senior Vice President of Restaurant Innovation and former supply chain leader, Ken Koziol, "They [NGO stakeholders] said just take action . . . but we decided we had to disregard that. We didn't want to take action hastily only to find out we did something to make matters worse." Others within the company suggest that McDonald's is avoiding trade-offs and trying to please too many interest groups. They would prefer that McDonald's carefully study what issues it impacts most and focus on those.

To balance these various viewpoints, McDonald's relies heavily on expert and consumer opinions to determine priorities. It uses advisory groups such as the Animal Welfare Council and International Scientific Advisory Council to understand the latest research on animal welfare and other issues. But consumer preferences come first, sometimes even at the expense of sustainability. North America's Gonzalez-Mendez illustrates that point:

Some changes are harder than others because consumers push back. We were using brown bags because they are more environmentally friendly, but consumers felt they made the food seem less clean and fresh than white bags, so we switched back. We committed to offset that setback with other changes.

Just as consumer preferences drive store design and menu choices, so too do they play a significant role in supply chain sustainability strategy at McDonald's; but the signals they send are not always clear.

Cost constraints Some of McDonald's sustainability initiatives are financially beneficial: when it eliminates packaging weight or reduces energy use, it also saves money. Other initiatives might improve long-term profitability intangibly through enhanced brand trust, but cost the company in the short term. For a company that competes in a low-price, value-driven market, paying more for inputs is not a decision made lightly.

Consumers value the environment but they seem to value convenience and low prices more. As North America's Gonzalez-Mendez puts it,

As an industry leader, being a socially responsible company is the green fee. People expect companies like McDonald's to be responsible, but they don't necessarily want to pay for it. . . . There's a huge difference between what people say and what people do. They [U.S. customers] said they wanted to be environmentally conscious and recycle, but what they really meant was we want McDonald's to be environmentally conscious, not us. Our customers eventually rejected our in-store recycling efforts.

To remain competitive, McDonald's must pursue its sustainability vision in a way that supports its need for competitive pricing. Muschetto contends that McDonald's has "to understand there is a

cost of doing most of these things. We have to make a profit, and our competitors are not doing these things." Price sensitivity applies to customers around the world. Even in Europe, where the public is more concerned about sustainability impacts, supply chain leader DeBiase warns that "we always want to be ahead of customers, but consumers are still price sensitive. We have to balance being sensitive to price and doing what's right."

Suppliers also recognize the significant challenge of cost to sustainability efforts. According to Tyson's Cole:

We want to do things, but we also need the consumer to care about it, to understand the costs. The public needs to desire to know more, to be more involved in where their food comes from—they don't understand the tradeoffs for low cost of food in general. . . . we can't get so far ahead on these issues that none of us could afford to eat at McDonald's. We have to do this profitably—people depend on us for jobs . . . everyone has to decide at what cost these things are important."

NGOs agree that consumers will not pay more for sustainable products but believe that "affordable" sustainability solutions benefit the entire movement. Environmental Defense's Ruta suggests that "McDonald's has been able to make progress at McDonald's prices, which is great for society. It keeps sustainability from being a luxury item."

Opportunities

Leadership position McDonald's leads its industry on many sustainability issues. Its suppliers are virtually unanimous in their assertion that McDonald's stands out among their customers. According to Louise Locke, CSR Officer at East Balt Bakery, "McDonald's is definitely on the leading edge on all these issues. They have to be—they're the king of the mountain." Tom Kaszas, Chief Engineer, Environment at french fry supplier McCain Foods Limited agrees that "McDonald's is the leader. No one else is doing anything remotely like this." NGO leaders agree. CI's Buchanan adds, "McDonald's is clearly ahead of the pack in the restaurant category, and in the broader area of food and agriculture, they are one of the leaders."

McDonald's can leverage its leadership position in many ways. As evidenced by its role in soya sustainability in Brazil, it can make an impact beyond what its actual buying power would suggest. Tyson's Cole notes that "the size and scope of McDonald's has allowed the industry to make progress much quicker. Others follow their standards . . . their impact is greater than just the percentage of total business, because they set the standards in consumers minds." Being able to set the standards in consumers' minds is valuable because it allows McDonald's to create sustainability solutions that dovetail with its own business needs, rather than having to comply with standards set by a competitor. According to Restaurant Innovation's Koziol adds, "We know if we do it first, on our timetable, with the right people, everyone else has to play catch up. McDonald's wants to be the one to define success."

McDonald's leadership has also earned credibility with NGO and government partners. When Espersen, a Danish fish supplier, first tried to convince the European Union to enact stricter standards for fishing to ensure sustainability, it had difficulty. It made more progress after McDonald's joined the discussion. When "McDonald's comes to the meeting with you," says Espersen President and CEO Klaus Nielsen, "they listen."

Finally, McDonald's commitment to its leadership position also builds credibility with suppliers and gives them confidence to make the investments necessary for progress in sustainability. Tyson's

Cole values this commitment: "McDonald's has a culture of being the leader for the long term—they're not just trying to be popular today."

Supplier relationships Any progress toward a sustainable supply chain vision relies on suppliers themselves. McDonald's closeness with its suppliers presents an opportunity to use their expertise to design the most efficient paths to sustainability. As Bruce Feinberg, Senior Director of Worldwide Supply Chain, observes, "McDonald's doesn't produce anything, so we need suppliers to get things done. We have to use collaboration to establish the frameworks. . . . They are closer to issues and can figure out the best solutions."

Suppliers value that approach. According to East Balt's Helledy, "They don't just say 'what do you have?' They say 'how can we work together to improve?' With McDonald's it's more of a partnership—it comes down to that." McCain's Kaszas adds, "Other customers send extensive environmental questionnaires but they don't involve us in the development of their programs and they don't ask for feedback. McDonald's says, 'Here's what we want. How can we do this?' Getting the supplier involved, making it their idea is key."

By listening to suppliers and using their expertise, McDonald's better understands the challenges they face and helps them get past barriers like cost. For instance, Espersen's Nielsen points out that the fishing industry was aware of the problem with unsustainable fish catches in certain areas, but Espersen did not establish a comprehensive approach until McDonald's got involved:

We would have done it sooner or later because it was necessary, but we would have done it later without McDonald's. McDonald's freed our hands to get it done. . . . Higher costs don't matter if you believe it's the right approach and your buyer wants it and if they're willing to move from one species to another, even if it means a higher cost.

Because McDonald's listens to its suppliers and comprehends the challenges they face, it tries not to make the process too painful. Europe's DeBiase explains that McDonald's is "reducing fish from the Baltic very quietly. We don't want to call out particular suppliers publicly; we want to work together with them to fix issues over time." Government Relations Crawford adds, "It's better to use a carrot than a stick. You don't get great suppliers by beating them up. You have positive incentives, you share best practices, and you hold them accountable. It is a matter of continuous improvement." CI's Buchanan agrees that this can be a benefit for sustainability: "other companies have more immediate leverage for quick changes because they can make credible demands to walk away, but McDonald's won't do that and suppliers know they won't be dropped overnight. Instead, they work together and look for long-term solutions."

Suppliers that consider themselves partners are more open to learning from McDonald's and staying in tune with the concerns of consumers. For instance, McCain was working on environmental sustainability even before McDonald's approached it to help create the Environmental Scorecard. But Kaszas acknowledges that McDonald's "helped crystallize it. They helped us get to the formal measurements we have now, because they helped us understand what the public was looking for."

McDonald's has been closely engaged with suppliers on sustainability issues in the past, but it seeks to become even more so. A 2006 letter from Muschetto to top suppliers stated:

We are pleased with our progress across a number of fronts . . . Given the future as we see it, though, we think it is a good point to take stock for a reassessment. What's working? What's not? What are the mega-trends for the future of our supply chain? What do we need to do to stay ahead? Given the breadth and importance of these complex sustainability issues, we want to invite you to help us with this rigorous reexamination of our priorities for the future.

The letter preceded a full-day Supplier Symposium for the CEOs of the top fifteen global suppliers at McDonald's headquarters in August 2006. In addition to discussions about menu innovation and nutrition strategy, Langert facilitated a two-hour discussion about sustainability at McDonald's and how suppliers could support it. Questions about implementation remain, but suppliers reacted positively to the symposium and McDonald's sustainability vision. McDonald's supply chain leaders seek to leverage these partners and their growing interest in sustainability.

Partnerships Partnerships have long been a source of opportunity for McDonald's supply chain sustainability efforts. When McDonald's partnered with Environmental Defense in the late 1980s it was such a success, according to Langert, that McDonald's decided to reach out to other groups to move supply chain sustainability issues forward. When activist groups called attention to animal welfare issues in the mid-1990s, they failed to propose solutions, so McDonald's reached out to animal welfare expert Dr. Temple Grandin for help. In recent years, McDonald's has continued to rely heavily on partnerships with experts and NGOs to advance its sustainability programs.

According to Langert, McDonald's experience working with partners continues to be an opportunity moving forward because "partners not only provide expertise, they lend credibility and can help build bridges." This was manifested in McDonald's response to the soya campaign and recognized by both sides as valuable. According to Greenpeace's Sauven, "We got to know each other quite well. Now we respect each other more and we understand each other more." McDonald Europe's Van Bergen agrees: "From here we can find other common areas of interest and profit from each other's wisdom. Of course we would rather have a dialogue than have people sitting in our restaurants dressed as chickens."

McDonald's is also just beginning to explore the opportunities available to work with other leading companies on sustainable supply chain efforts. It was successful in working with other European retailers to address the soya issue and it is a member of the Sustainable Agriculture Initiative, a group of food companies working to develop best practices for sustainable agriculture in their supply chains.

European leadership Because European customers and governments often identify and address sustainability issues earlier than the rest of the world, McDonald's Europe has more experience considering and addressing supply chain sustainability issues than other AOWs, and has made it a priority. Denis Hennequin, President of McDonald's Europe, focused on responsible supply chain management when speaking at the most recent McDonald's system-wide convention: "Corporate social responsibility is never to be seen as a cost, but always an investment. . . . Together, with our suppliers, we are responsible for what we buy, but also how we buy."

The McDonald's system as a whole has already learned from Europe's early forays into social and environmental responsibility issues and solutions. According to Restaurant Innovation's Koziol, "we were influenced by Europe. They helped us understand that we need to be a cause for good, not just preventing bad." Many within McDonald's recognize the opportunity to continue learning from Europe, both about what consumers in their areas of the world will likely become concerned about in the future, as well as the most effective ways to address particular sustainability issues.

Looking Forward

Muschetto reflected on McDonald's achievements as he considered the challenges and opportunities that he and Langert had discussed. His goal was to move beyond the sustainable soya initiative and other specific efforts to a more comprehensive sustainable supply chain strategy. He

believed that McDonald's could and should retain its position in the industry as a sustainability leader, but what was the best path to reach that goal? His mind wandered back to some of the key questions:

- How should McDonald's prioritize sustainability relative to other supply chain goals (e.g., ensuring food safety and minimizing costs)?
- How should McDonald's reconcile different sustainability expectations and priorities around the world with the understanding that local practices sometimes impact the global brand?
- How should McDonald's engage suppliers, activists, and other stakeholders in its sustainable supply chain efforts?

Exhibit 1 McDonald's Corporation Financial Information

11-YEAR SUMMARY

DOLLARS IN MILLIONS,
EXCEPT PER SHARE DATA

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Company-operated sales	\$15,352	14,224	12,795	11,500	11,041	10,467	9,512	8,895	8,136	7,571	6,863
Franchised and affiliated revenues	\$ 5,108	4,841	4,345	3,906	3,829	3,776	3,747	3,526	3,273	3,116	2,932
Total revenues	\$20,460	19,065	17,140	15,406	14,870	14,243	13,259	12,421	11,409	10,687	9,795
Operating income	\$ 4,022⁽¹⁾	3,541⁽²⁾	2,832⁽⁴⁾	2,113⁽⁵⁾	2,697⁽⁶⁾	3,330	3,320	2,762⁽⁷⁾	2,808	2,633	2,601
Income before taxes and cumulative effect of accounting changes	\$ 3,702 ⁽¹⁾	3,203 ⁽²⁾	2,346 ⁽⁴⁾	1,662 ⁽⁵⁾	2,330 ⁽⁶⁾	2,882	2,884	2,307 ⁽⁷⁾	2,407	2,251	2,169
Net income	\$ 2,602^(1,2)	2,279⁽²⁾	1,471^(4,8)	893^(5,9)	1,637⁽⁶⁾	1,977	1,948	1,550⁽⁷⁾	1,642	1,573	1,427
Cash provided by operations	\$ 4,337	3,904	3,269	2,890	2,688	2,751	3,009	2,766	2,442	2,461	2,296
Capital expenditures	\$ 1,607	1,419	1,307	2,004	1,906	1,945	1,868	1,879	2,111	2,375	2,064
Treasury stock purchases	\$ 1,228	605	439	687	1,090	2,002	933	1,162	765	605	321
Common stock cash dividends	\$ 842	695	504	297	288	281	265	239	221	203	181
Financial position at year end:											
Total assets	\$29,989	27,838	25,838	24,194	22,535	21,684	20,983	19,784	18,242	17,386	15,415
Total debt	\$10,140	9,220	9,731	9,979	8,918	8,474	7,252	7,043	6,463	5,523	4,836
Total shareholders' equity	\$15,146	14,201	11,982	10,281	9,488	9,204	9,639	9,465	8,852	8,718	7,861
Shares outstanding in millions	1,263	1,270	1,262	1,268	1,281	1,305	1,351	1,356	1,371	1,389	1,400
Per common share:											
Net income—diluted	\$ 2.04 ^(1,2)	1.79 ⁽²⁾	1.15 ^(4,8)	.70 ^(5,9)	1.25 ⁽⁶⁾	1.46	1.39	1.10 ⁽⁷⁾	1.15	1.08	.97
Dividends declared	\$.67	.55	.40	.24	.23	.22	.20	.18	.16	.15	.13
Market price at year end	\$ 33.72	32.06	24.83	16.08	26.47	34.00	40.31	38.41	23.88	22.69	22.56
Company-operated restaurants	9,283	9,212	8,959	9,000	8,378	7,652	6,059	5,433	4,887	4,294	3,783
Franchised restaurants	18,334	18,248	18,132	17,864	17,395	16,795	15,949	15,086	14,197	13,374	12,186
Affiliated restaurants	4,269	4,101	4,038	4,244	4,320	4,260	4,301	3,994	3,844	3,216	2,330
Total Systemwide restaurants	31,886	31,561	31,129	31,108	30,093	28,707	26,309	24,513	22,928	20,884	18,299
Franchised and affiliated sales⁽¹⁰⁾	\$38,926	37,065	33,137	30,026	29,590	29,714	28,979	27,084	25,502	24,241	23,051

(1) Includes \$191 million (\$130 million after tax or \$0.10 per share) of share-based and related compensation due to the adoption of the Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment," on January 1, 2005. See Summary of significant accounting policies note to the consolidated financial statements for further details.

(2) Includes a net tax benefit of \$73 million (\$0.05 per share) comprised of \$179 million (\$0.14 per share) tax benefit due to a favorable audit settlement of the Company's 2000–2002 U.S. tax returns and \$106 million (\$0.09 per share) of incremental tax expense resulting from the decision to repatriate foreign earnings under the Homeland Investment Act.

(3) Includes pretax operating charges of \$130 million related to asset/goodwill impairment and \$160 million (\$21 million related to 2004 and \$139 million related to prior years) for a correction in the Company's lease accounting practices and policies (see Impairment and other charges (credits), net note to the consolidated financial statements for further details), as well as a nonoperating gain of \$49 million related to the sale of the Company's interest in a U.S. real estate partnership, for a total pretax expense of \$241 million (\$172 million after tax or \$0.13 per share).

(4) Includes pretax charges of \$408 million (\$323 million after tax or \$0.25 per share) primarily related to the disposition of certain non-McDonald's brands and asset/goodwill impairment. See Impairment and other charges (credits), net note to the consolidated financial statements for further details.

(5) Includes pretax charges of \$853 million (\$700 million after tax or \$0.55 per share) primarily related to restructuring certain international markets and eliminating positions, restaurant closings/asset impairment and the write-off of technology costs.

(6) Includes pretax operating charges of \$378 million primarily related to the U.S. business reorganization and other global change initiatives, and restaurant closings/asset impairment as well as net pretax nonoperating income of \$125 million primarily related to a gain on the initial public offering of McDonald's Japan, for a total pretax expense of \$253 million (\$143 million after tax or \$0.11 per share).

(7) Includes pretax charges of \$322 million (\$219 million after tax or \$0.16 per share) consisting of \$162 million of Made For You costs and \$160 million related to a home office productivity initiative.

(8) Includes a \$37 million after tax charge (\$0.03 per share) to reflect the cumulative effect of the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time the obligations are incurred. See Summary of significant accounting policies note to the consolidated financial statements for further details.

(9) Includes a \$99 million after tax charge (\$0.07 per share) to reflect the cumulative effect of the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), which eliminates the amortization of goodwill and instead subjects it to annual impairment tests. Adjusted for the nonamortization provisions of SFAS No. 142, net income per common share would have been \$0.02 higher in 2001 and 2000 and \$0.01 higher in 1999–1996.

(10) While franchised and affiliated sales are not recorded as revenues by the Company, management believes they are important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised and affiliated revenues and are indicative of the financial health of the franchisee base.

Exhibit 1 (continued)

Revenues

In both 2005 and 2004, consolidated revenue growth was driven by positive comparable sales as well as stronger foreign currencies.

Revenues

DOLLARS IN MILLIONS	Amount			Increase/(decrease)		Increase/(decrease) excluding currency translation	
	2005	2004	2003	2005	2004	2005	2004
Company-operated sales:							
U.S.	\$ 4,098	\$ 3,828	\$ 3,594	7%	7%	7%	7%
Europe	5,465	5,174	4,498	6	15	5	5
APMEA	2,453	2,390	2,158	3	11	-	7
Latin America	1,237	933	774	33	21	23	21
Canada	765	730	632	5	16	(2)	8
Other	1,334	1,169	1,139	14	3	14	3
Total	\$15,352	\$14,224	\$12,795	8%	11%	6%	6%
Franchised and affiliated revenues: ⁽¹⁾							
U.S.	\$ 2,857	\$ 2,697	\$ 2,445	6%	10%	6%	10%
Europe	1,607	1,563	1,377	3	14	3	3
APMEA	362	331	289	10	14	7	4
Latin America	90	75	85	20	(12)	15	(10)
Canada	183	168	146	9	15	1	7
Other	9	7	3	38	nm	38	nm
Total	\$ 5,108	\$ 4,841	\$ 4,345	6%	11%	5%	7%
Total revenues:							
U.S.	\$ 6,955	\$ 6,525	\$ 6,039	7%	8%	7%	8%
Europe	7,072	6,737	5,875	5	15	5	4
APMEA	2,815	2,721	2,447	3	11	1	7
Latin America	1,327	1,008	859	32	17	22	18
Canada	948	898	778	6	15	(2)	8
Other	1,343	1,176	1,142	14	3	14	3
Total	\$20,460	\$19,065	\$17,140	7%	11%	6%	7%

(1) Includes the Company's revenues from conventional franchisees, developmental licensees and affiliates.

Source: McDonald's Corporation's 2005 Financial Report.

Exhibit 2 Case Interviewees

Adams, Catherine: Corporate Vice President, Worldwide Quality, Food Safety, & Nutrition, McDonald's Corporation

Bryant, Al: Vice President of Supply Chain APMEA, McDonald's Corporation

Buchanan, John: Senior Director of Business Practices, Conservation International

Cole, Devin: Vice President and General Manager, McDonald's Business Unit, Tyson Foods

Crawford, Dick: Vice President of Government Relations, McDonald's Corporation

Daly, Jack: Senior Vice President, Corporate Relations, McDonald's Corporation

DeBiase, Francesca: Vice President of Supply Chain, McDonald's Europe

Detwiler, Linda A.: DVM Animal Health Consultant

Feinberg, Bruce: Senior Director of Worldwide Supply Chain, McDonald's Corporation

Gonzalez-Mendez, J.C.: Senior Vice President, Supply Chain, McDonald's North America

Helledy, John: Vice President of Purchasing, East Balt Bakery

Jaramillo, Rebecca: Chief Quality Execution Officer, McDonald's Europe

Johnson, Gary: Senior Director, Worldwide Supply Chain Proteins, McDonald's Corporation

Kaszas, Tom: Chief Engineer, Environment, McCain Foods Limited

Kenny, Keith: Senior Director, Sustainable Sourcing & Food Safety, McDonald's Europe

Koziol, Ken: Senior Vice President of Restaurant Innovation, McDonald's Corporation

Krueck, Else: Director, Environment and CSR, McDonald's Europe

Langert, Bob: Vice President of Corporate Social Responsibility, McDonald's Corporation

Lederhausen, Mats: Senior Advisor to McDonald's Corporation

Locke, Louise: Corporate Social Responsibility Officer, East Balt Bakery

Lyman, Jerome: Vice President of Supply Chain, McDonald's Latin America

Muschetto, Frank: Senior Vice President of Worldwide Supply Chain, McDonald's Corporation

Nielsen, Klaus: President and CEO, Espersen

Rose, Jerry: Corporate Vice President, Cargill

Ruta, Gwen: Director of Corporate Partnerships, Environmental Defense

Sauven, John: Acting Executive Director, Greenpeace UK

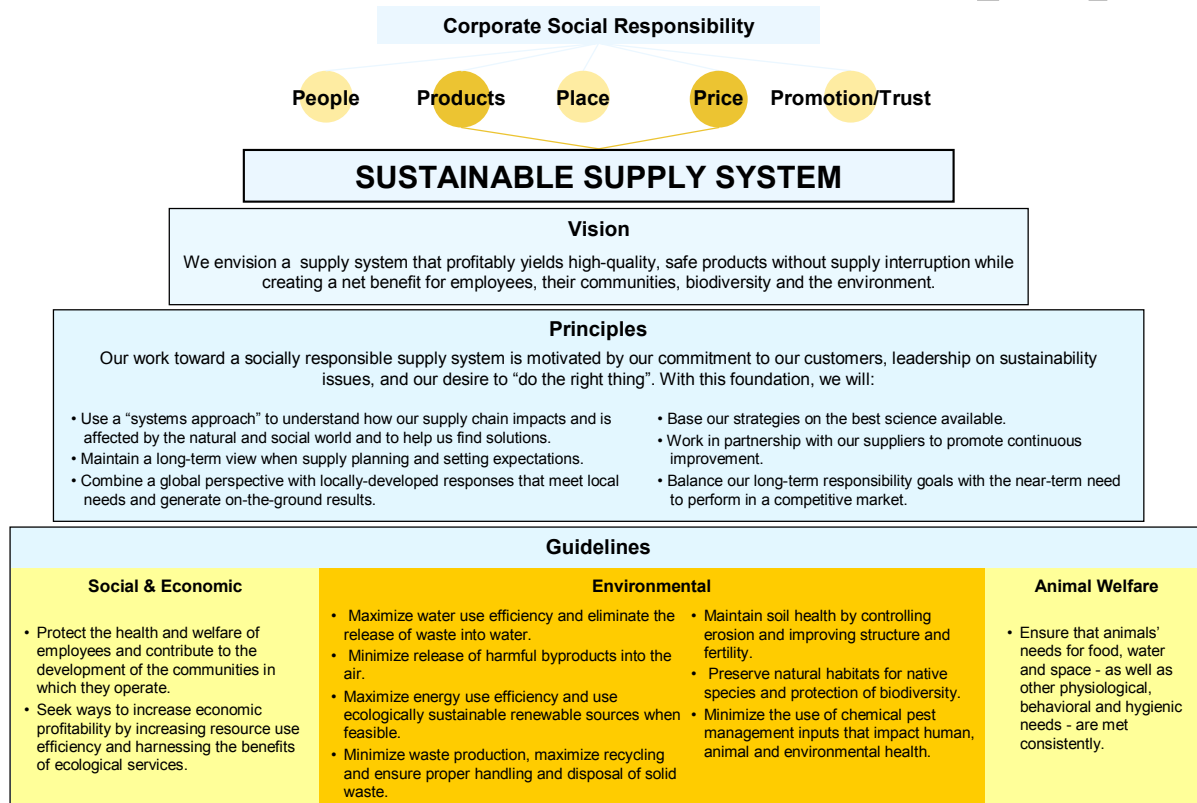
Treacy, Dennis: Vice President of Environmental and Corporate Affairs, Smithfield Foods

Van Bergen, Karen: Vice President, Corporate Relations, McDonald's Europe

Vigio, Flavia: Director of Communications, McDonald's Brazil

Source: Casewriter.

Exhibit 3



Source: McDonald's Corporation.

Exhibit 4



McAmazon
06 April 2006

International—It is a globally known symbol: the golden arches can be seen in many countries around the world. But whatever the fast food giant wants you to believe the golden arches stand for, McDonald's today stands for rainforest destruction. And that is one very 'Unhappy Meal' for the planet.

The Amazon rainforest needs no introduction; the mere mention of its name conjures up images of a huge untouched wilderness bursting with amazing life. But to McDonald's and a handful of huge soya traders, the Amazon means something completely different. It means cheap land and cheap labour. Cheap land because it is often stolen, cheap labour because some of the people who work cutting down the forest or work on the farms in the Amazon are actually slaves. You heard it right, slaves.

'How is this possible,' you ask? Well it goes something like this.

The soya traders encourage farmers to cut down the rainforest and plant massive soya monocultures. The traders take the soya and ship it to Europe where it is fed to animals like chickens and pigs. The animals are then turned into fast food products like McDonald's McNuggets and many other products found in fast food outlets and supermarkets.

The journey from rainforest to restaurant might sound simple enough but it has taken a year-long investigation using satellite images, aerial surveillance, previously unreleased government documents and on-the-ground monitoring to expose. What we found was a global trade in soya from rainforest destruction in the Amazon to McDonald's fast food outlets and supermarkets across Europe.

Most of the global trade in soya is controlled by a small number of massive traders: Cargill, Bunge and Archer Daniels Midland (ADM). In Brazil, this cartel plays the role of bank to the farmers. Instead of providing loans they give farmers seed, fertiliser and herbicides in return for soya at harvest: Bunge alone provided the equivalent of nearly US\$1 billion worth of seed, fertiliser and herbicides to Brazilian farmers in 2004.

This gives the companies indirect control over huge areas of land that used to be rainforest. Together, these three companies are responsible for around 60 percent of the total financing of soya production in Brazil.

The state of Mato Grosso is Brazil's worst in terms of deforestation and forest fires, accounting for nearly half of all the deforestation in the Amazon in 2003-04. In Mato Grosso, the governor, Blairo Maggi, is known locally as the 'Soya King'. His own massive soya company Grupo Andre Maggi controls much of the soya production in the state and since his election in 2002, forest destruction in Mato Grosso has increased by 30 percent.

Banks too have been caught up in the destruction of the Amazon. The International Finance Corporation (IFC), the private lending arm of the World Bank, wrongly assessed a loan to Grupo Andre Maggi as being of 'low environmental risk,' despite evidence to the contrary. Other banks have also lent huge sums of money to the company without conducting their own environmental or social impact audits.

So far, Rabobank, the Netherlands' biggest agricultural bank has lent over US\$330 million to Grupo Andre Maggi. Rabobank admitted that it didn't do its own assessment of the risk of the loans, simply accepting the (flawed) assessment of the IFC.

So fast food and supermarkets, soya traders and big banks are all trashing the Amazon rainforest.

If we can track soya beans more than 7,000km (4,400 miles) from farms in the Amazon to chicken products in Europe, there is no excuse for the food industry not to know where their feed comes from, and to demand the exclusion of Amazon soya from their supply chain.

Source: Greenpeace at <http://www.greenpeace.org/international/news/mcamazon-060406>, accessed on January 30, 2007.

Exhibit 5

**McVictory**

Victory as fast food giant pledges to help protect the Amazon
25 July 2006

International—In an historic deal that has impacts far beyond the golden arches and into the global agricultural market, McDonald's is now the leading company in the campaign to halt deforestation for the expansion of soya farming in the Amazon.

Thanks to enormous pressure from the thousands of emails and letters sent to their European headquarters by you, our supporters, McDonald's has agreed to stop selling chicken fed on soya grown in newly deforested areas of the Amazon rainforest.

Soya key driver of Amazon destruction

In recent years, the seemingly unstoppable expansion of soya farming in the Amazon had become one of the main threats to the world's largest rainforest. The soya wasn't being used to feed the world; instead it was used to feed farm animals destined for fast food and supermarket chains across Europe.

In April we launched our campaign exposing the food retailer's role in rainforest destruction. Our report, *Eating Up the Amazon*, detailed how McDonald's and other companies were implicated in deforestation, land-grabbing, slavery and violence. Since then there has been a sea change in attitude among the food industry towards the problem.

The result is that McDonald's and other big food retailers have worked with us to develop a zero deforestation plan. The plan will also help bring an end to the land-grabbing and social injustice that is rife in the Amazon.

Pressure for change

By committing to the plan, the companies' massive buying power has created a huge demand for soya that hasn't been grown in the ashes of the rainforest. This put pressure on the 'big five' soya traders - Cargill, ADM, Bunge, Dreyfus and Amaggi to come to the negotiating table with the future of large areas of the Amazon rainforest at stake.

In response to the pressure, the soya traders committed to a limited two year moratorium of buying soya from deforested areas. The two-year time frame of the soya traders moratorium risks being no more than a token gesture, unless the traders deliver real change to protect the Amazon.

Greenpeace is demanding that the moratorium stays until proper procedures for legality and governance are in place and until there is an agreement with the Brazilian Government and key stakeholders on long term protection for the Amazon rainforest. A working group will be established, made up of soya traders, producers, NGOs, and government to put in place an action plan.

Karen Van Bergen, Vice President of McDonald's Europe said, "When we were first alerted to this issue by Greenpeace, we immediately reached out to our suppliers, other NGOs and other companies to resolve this issue and take action. We are determined to do the right thing together with our suppliers and the Brazilian government, to protect the Amazon from further destruction."

"The two-year time frame set for the initiative is, we hope, indicative of the sense of urgency with which the soya traders wish to implement the governance programme and all of its conditions. We expect that should some of the measures take longer than the stated two years to implement, the moratorium would remain in existence until all commitments have been fulfilled."

There are some companies, however, who refuse to play ball. Kentucky Fried Chicken (KFC), have pointblank refused to discuss their role in Amazon destruction and so we need to show them how isolated they're becoming. Email the Colonel now and tell him that if Ronald McDonald can help protect the Amazon, so can he.

Source: Greenpeace at <http://www.greenpeace.org/international/news/McVictory-200706>, accessed on January 30, 2007.