MICHIGAN
ROSS SCHOOL OF BUSINESS

William Davidson Institute
AT THE UNIVERSITY OF MICHIGAN

case 1-428-679
January 1995

McDonald's (C): Sustaining McDonald's Environmental Success

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 nonprofit 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.[1] In the U.S. alone, more than 18 million people visited a McDonald's each day.[2] 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.[3] 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 percent of company revenues were derived from franchise 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 percent 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,

GlobaLens
Published by GlobaLens, a division of the William Davidson Institute at the University of Michigan.