

Case A: McDonald's Environmental Strategy

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Introduction

Rooted in Ray Kroc's founding principles of Quality, Service, Cleanliness & Value (Q.S.C. &V.), McDonald's management has always believed in being a leader in issues that affect their customers. This philosophy is evident in McDonald's involvement in various community projects regarding education, health care, medical research, and rehabilitation facilities. These activities help the corporation to extend their image beyond fun and entertainment into social responsibility.

However, in the late 1980s, McDonald's began to face criticism for its environmental policies, especially those surrounding polystyrene clamshell containers. In 1987, McDonald's replaced CFCs, the blowing agent used in clamshell production, with weaker HCFC-22's after facing public criticism that CFC usage was contributing to ozone depletion. But this change was not enough for many grass-roots environmental groups that, led by the Citizens Clearinghouse for Hazardous Waste (CCHW), united in establishing a "Ronald McToxic Campaign" consisting of restaurant picketers and an organized effort to mail clamshells back to Oak Brook headquarters. When McDonald's later tested trash-to-energy on-site incinerators, CCHW quickly named the project "McPuff." By 1989, school children, the backbone of McDonald's customer base, founded a group called "Kids Against Polystyrene." Although they were not the only fast-food restaurant facing criticism for disposable packaging, McDonald's could not afford to let this situation escalate. One of their primary competitors, Burger King, was winning praise for its paperboard containers, which were claimed by some to be biodegradable.

Company Background

McDonald's Corporation grew from a single drive-in restaurant in San Bernardino, California, in 1948, to the largest food-service organization in the world. In 1991, McDonald's owned \$13 billion of the \$93 billion fast-food industry, operating 12,400 restaurants in 59 countries including company-owned restaurants, franchisees, and joint ventures. In the U.S. alone, more than 18 million people visit a McDonald's daily.¹ Exhibits 1-3 contain McDonald's 1991 income statement and balance sheet as well as an 11-year financial summary for the company. McDonald's management intends to continue growing by: 1) maximizing sales and profits in existing restaurants, 2) adding new restaurants, and 3) improving international profitability.

Ray Kroc based his empire on the fundamental principles of Quality, Service, Cleanliness, and Value (Q.S.C. &V.) and developed tangible goals and specific operating practices to carry out his vision. An extensive team of field auditors monitor these practices, which are communicated to employees through continuing education that includes videotaped messages from Kroc himself. These values were integrated into McDonald's three strategic priorities for 1991, stated in the Annual Report as follows:

- to enhance the message that McDonald's is value-driven on behalf of its customers by emphasizing their profitable value-meal combinations;
- to provide exceptional customer care by exceeding customer expectations, including finding ways to add personal touches that go beyond convenient locations, quick service, clean restaurants, and quality products;
- to remain an efficient producer while maintaining quality by looking to innovations in food processing, construction, and design operations that will increase global profits.

Approximately 80 percent of McDonald's restaurants are franchises, paying a percentage of their monthly revenue for centralized marketing research and R&D. Franchise fees cover roughly the costs of corporate services; thus, if the franchises are not making money, neither is the corporation. This mutual dependence is considered by management to be a corporate strength. McDonald's Corporation revenues are derived from franchise fees plus company restaurant sales. The Corporation operates approximately 16 percent of U.S. McDonald's restaurants, and a higher percentage of international restaurants since they usually enter new countries with company restaurants and then franchise them after they are well established. McDonald's typically receives over 20,000 franchise inquiries per year. Twenty-year franchises are awarded to applicants after extensive screening, and additional restaurants are allocated to franchisees with proven records of success.

McDonald's management style may be described as "tight-loose" --the corporation sets overall quality standards, but the franchisees are given the freedom to make localized decisions. Many new product innovations, such as the Filet o' Fish and the Egg McMuffin, originated with franchisees. Recently, McDonald's has increased its new product development efforts, responding to customer's concern for nutrition. However, Tom Glasglow, Vice President and Chief Financial Officer, is concerned with maintaining the focus that has made McDonald's successful: in the 1991 Annual Report he stated, "We're in the business of serving a small number of products that have mass appeal. That's our niche."

McDonald's is the second-best-known global brand and intends to maintain this level of consumer awareness with a \$1 billion marketing budget.² 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. High brand recognition is particularly important as many customers are impulse purchasers, often selecting McDonald's over competitors by the convenience of the location. Glasglow, discussing how McDonald's customers distinguish it from the

¹ Environmental Defense Fund and McDonald's Corporation. *Waste Reduction Task Force Final Report*. Oak Brook, IL: McDonald's, 1991. p. 22.

² McDonald's Corporation. *McDonald's 1991 Annual Report*. Oak Brook, IL: McDonald's. p. S4.

competition, stated, “We are the easiest. The place that satisfies customers best, and gives them the best value.” The emphasis McDonald’s places on customer convenience is manifested in McDonald’s self-description as a leader in the quick-service industry, rather than the fast-food industry.

A typical McDonald’s may serve as many as 2,000 people per day, 60-70 percent of whom take their food outside the restaurant. McDonald’s depends on the ability of their crew to be able to prepare hot, fresh food and to serve it to their 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. **Exhibit 4** shows how all food flows from the back of the kitchen to the front as it is prepared, and is placed in a heated food “bin” awaiting customer delivery. Servers at the counter or drive-through window collect items from the bin and drink stations for customers. 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 and to use this information to prepare various menu items in the right quantities and at the right times in order to have the food ready for their customers when they arrive. Food may be stored in the bin for up to ten minutes before it is discarded.

1991 marked the introduction of “Series 2000” design restaurants. These buildings are approximately half the size of traditional restaurants, designed to accommodate nearly the same level of sales but requiring a lower real estate investment. Series 2000 restaurants are targeted toward both small towns and major metropolitan areas.

All of McDonald’s 600-plus suppliers are independent companies with whom long-term relationships have been developed. This strategy is intended to improve McDonald’s ability to focus its efforts on its core business - restaurant operations. Most suppliers operate on a cost-plus basis. McDonald’s often holds seminars and conferences for suppliers to discuss their needs.

JOINT TASK FORCE

Recognizing McDonald’s potential to influence public opinion through its 18 million daily customers, the Environmental Defense Fund (EDF) approached McDonald’s in 1989 to discuss environmental issues related to solid waste. At that time McDonald’s was facing environmental protests in the form of demonstrations, letters, and customers mailing their polystyrene clamshells back to the company. Realizing that young people, traditionally loyal McDonald’s customers, were demanding “greener” practices, McDonald’s stepped up its recycling efforts. However, several U.S. cities were proposing a ban on polystyrene packaging altogether. Caught between seemingly conflicting environmental goals, McDonald’s welcomed EDF’s help.

EDF is a national nonprofit organization that links science, economics, and law to create innovative, economically sustainable solutions to environmental problems. It was founded in 1967 by scientists on Long Island, New York, to fight the spraying of the pesticide DDT. Today, EDF has a professional staff of more than 110 people located in six offices, and has support from over 200,000 members and 100 private foundations.

McDonald’s and EDF created a joint task force to work together to understand the role of materials and packaging used at McDonald’s (see Exhibit 5 for a list of task force participants). Each member spent one day working in a restaurant, and the task force held meetings with McDonald’s food and packaging suppliers, toured McDonald’s largest distribution center, and plastics and composting facilities.

McDonald’s Environmental Strategy

One of the first results of the task force was the development of a strong company-wide environmental policy declaring that McDonald’s is committed to protecting the environment for future generations, and that it believes that business leaders must also be environmental leaders. The policy takes a total lifecycle approach to reducing and

managing solid waste: a sizable challenge, considering that each of McDonald's 8,600 U.S. restaurants³ 238 pounds of waste per day and each of its 34 U.S. regional distribution centers disposes of another 900 pounds of waste per day.⁴

McDonald's has also been active in educating its customers about the company's environmental activities and positions. Brochures are available in restaurants informing customers about McDonald's position on such topics as ozone depletion, the rain forest, and packaging.

McDonald's is working to translate this environmental commitment into specific actions. In order to live up to its environmental policy, McDonald's Environmental Affairs Officer has been given the authority to enforce adherence to standards, and reports directly to the Board of Directors on a regular basis. McDonald's also plans to continue to seek counsel with environmental experts to take advantage of opportunities to improve its environmental performance on an ongoing basis. As part of its waste reduction action plan, McDonald's has committed to reviewing annually all food-service products and packaging items to identify opportunities for source reduction. McDonald's realizes that in order to achieve its waste reduction goals, it must collaborate with its suppliers. To promote collaboration, it has developed an annual environmental conference intended to train suppliers and has included environmental issues in its annual supplier reviews and evaluations.

The following initiatives were proposed by the task force.

Source Reduction

McDonald's had already initiated several waste reduction efforts when EDF contacted it, but the ensuing discussions led to a proposal calling for a joint task force to create "a framework, a systematic approach and a strong scientific basis for McDonald's solid waste decisions."⁵ The EPA's waste management hierarchy became the foundation for task force efforts.⁶

In the joint task force report, "waste reduction" was defined as any action that reduces the amount or toxicity of municipal solid waste, prior to incineration or landfill. "Source reduction" takes an even stronger environmental position than recycling by reducing the weight, volume, or toxicity of products or packaging prior to their use. Because source reduction decreases or eliminates waste at its point of generation, thus creating less to be reused, recycled, incinerated, or landfilled, the EPA gave it the highest priority on the waste management hierarchy. The task force identified the source reduction projects shown in Exhibit 6, which are being implemented as a result of revised supplier specifications. Annual waste characterization studies will be conducted to determine a baseline against which to measure future goals.

Consistent with McDonald's management style, the task force reasoned that its waste management strategy would have to be implemented in a tight-loose fashion, as centralized plans alone could not take into account all the differing local and regional waste disposal practices, infrastructures, and costs. They also realized that in many cases there was not one obvious solution to a problem. In fact, trade-offs involving environmental impacts, costs, and performance requires complicated decision-making. For example, increasing the content of recycled paper in packaging may diminish the strength of the paper, requiring increased packaging thickness to compensate for decreased performance. In addition, when a packaging alternative significantly reduces the weight of material to be disposed, the material still might not have an existing recycling infrastructure.

³ The Task Force Study collected data for McDonald's 8,600 domestic restaurants only.

⁴ Environmental Defense Fund. *Task Force Report*. pp. 31-34.

⁵ *Ibid.*, p. 3.

⁶ The waste management hierarchy developed by the EPA - reduce, reuse, recycle, and incinerate/dispose - prioritizes solid waste practices and is widely accepted.

McDonald's has made substantial progress in its source reduction efforts over the past 20 years. For example, McDonald's "average meal" in the 1970s - a Big Mac, fries and a shake - required 46 grams of packaging. Today, it requires 25 grams, a 46 percent reduction.⁷ McDonald's has also reduced the weight of packaging in its sandwich wraps, hot cups, and napkins, removed corrugated dividers in some shipping cases, and switched to bulk containers wherever possible. A summary of source reduction accomplishments is provided in Exhibit 7, which lists packaging changes approved for implementation in 1990.

As an example, orange juice had been shipped, stored, and served in individual containers. These have been replaced by concentrate mixed at the restaurant, resulting in a packaging reduction of two million pounds per year. In addition, a new Coke delivery system that pumps syrup directly from delivery trucks to storage tanks eliminates the need for intermediate containers, saving an additional two million pounds of packaging annually. Weight reductions, reductions in secondary packaging, and increased use of bulk packaging has reduced packaging by 24 million pounds annually.⁸

Further, McDonald's purchases materials from suppliers that use more benign manufacturing processes, such as non-chlorine-bleached paper bags, and has switched to french fry cartons made from mechanically pulped rather than chemically pulped paper.

When new opportunities for source reduction have been identified, operating practices are engineered and researched using one to five restaurants as test sites. During this process, customer perceptions are carefully monitored; past reductions have been imperceptible to most customers.

Reuse

Identifying immediately feasible opportunities for the reuse of materials was a difficult assignment for the task force as the time required to handle, collect, and clean materials would impact McDonald's ability to provide high-volume fast food. In addition, the committee's investigation showed that opportunities varied greatly according to behind-the-counter and over-the-counter operations.

Over-the-counter options are currently limited as McDonald's customers expect fast service even at peak times of the day. McDonald's operations are designed to anticipate the content of customer orders and to prepare food just before the customers arrive. However, McDonald's does not feel it can anticipate *where* its customers will choose to eat, and most reuse options require different packaging for dine-in or take-out customers. Repackaging food after the customer arrives or delaying its preparation until the order is taken would lengthen service time. Further, sanitation issues were also a concern of the task force, as single-serve, disposable packaging had basically eliminated the potential of packaging-related contamination. Dishware storage, both in the restaurant and behind-the-counter, and the placement of dishwashing equipment are potentially difficult in McDonald's already tightly designed kitchens. Consideration was also given to the environmental trade-offs of the dishwashing process, as it would require energy, water, and detergents.

Behind-the-counter opportunities appeared more promising: an on-premise study indicated that that is where 80 percent of restaurant waste was generated. **Exhibit 8** shows the breakdown of over-the-counter and behind-the-counter waste based on a two-restaurant, one-week audit. Several easily implemented reuse options existed for behind-the-counter waste including the reuse of plastic (rather than cardboard) disposables, shipping trays for bakery items, and plastic shipping pallets that last at least three times longer than wooden pallets.

Recycling

⁷ Environmental Defense Fund. *Task Force Report*. p. 42.

⁸ McDonald's Corporation. *McDonald's Packaging — The Facts*. Oak Brook, IL: McDonald's, 1990. p. 7.

Recycling efforts take two forms: use of products made from recycled materials, and the recycling of post-consumer/post-industrial waste. Many of the technical aspects of post-production recycling of both plastic and paper have already been exploited by suppliers' internal reuse operations for scrap. However, little recycling has been done of post-consumer plastic and paper materials due to contamination problems. Unlike glass and metal, where food residue and bacteria contamination can be burned off, foam and paperboard are not easily cleaned.

McDonald's tries to use recycled materials whenever possible. For example, it is one of the largest users of recycled paper in the U.S. However, packaging that has direct contact with food, which constitutes approximately 42 percent of McDonald's packaging, is strictly regulated by the FDA not to contain post-consumer recycled materials. Therefore, McDonald's strives to increase the recycled content for nonfood packaging, such as corrugated boxes, which must be made of 35% recycled material according to a 1990 mandate. In addition, it uses recycled paper for nonfood items such as Happy Meal boxes, carry-out drink trays, and paper towels.

In April 1990, McDonald's announced the McRecycle Program, a commitment to spend \$100 million annually on the use of recycled materials, especially in the building and renovation of its restaurants. In 1991, it surpassed its goal, purchasing more than \$200 million of recycled materials. It also created a clearinghouse of "environmental" product suppliers, which has received over 8,000 calls since the 800 number was published.

The focus of McDonald's recycling efforts on post-consumer, in-store waste has been polystyrene recycling. In 1989, McDonald's launched a polystyrene recycling effort followed by a 1990 packaging brochure stating, "Polystyrene foam is easily recycled." Ken Harman, chair of the National Polystyrene Recycling Center (NPRC), said,

1990 is going to be a pivotal year for polystyrene recycling. It will be the year that polystyrene recycling gains momentum due, in part, to the efforts of recycling facilities like our Plastics Again Center. . . and the commitment of institutional cafeterias, schools, and private companies.

However, implementation of McDonald's recycling program highlighted an inherent limitation of any recycling option - that is, benefits are only realized for the packaging that is actually collected and recycled.

McDonald's experimented with three different point-of-discard methods to educate and assist customers in separating their trash, but customers were generally either confused or overwhelmed by the instructions. In communities that did not have an existing curbside recycling program, participation was much lower than in communities where customers were already accustomed to sorting their trash.

Internal logistical problems increased recycling costs. A typical McDonald's restaurant produced five to ten bags of incorrectly separated materials, creating disposal problems. And the bulkiness of the clamshells made three pickup times a week a necessity, incurring expensive hauling costs as 90% of plastic is comprised of air. Further, the NPRC required incoming materials to be free of paper and food contamination, a standard that was not then being realized. To respond to this problem, McDonald's experimented with material recovery facilities to sort, clean, and consolidate materials, but the cost proved to be prohibitive.

Throughout this time, McDonald's continued to work with suppliers to develop packaging that was consistent with curbside recycling programs, to support the recycling of material that leaves the restaurant via takeout orders.

Composting

Composting is still in the formative stage. Therefore, much of the task force's work centered on gaining a better understanding of McDonald's composting options. Composting is an attractive disposal alternative as it diverts organic waste from landfills and incinerators and it improves soil quality.

Almost 50 percent of McDonald's waste stream consists of paper packaging and food organics that could be composted. McDonald's is reviewing the compostability of its packaging and studying materials such as the coatings used on its paper-based packaging to determine if they impair compostability. Where possible, it will replace materials that are not compostable with materials designed for compostability.

To make composting a viable option, McDonald's is investigating how to: 1) collect and separate materials, 2) balance the cost and environmental trade-offs of composting methods, and 3) identify markets for composted products.

McDonald's began testing the compostability of nine packaging items in January 1991. Several months later, nine McDonald's restaurants in Maine began sending their waste to Resource Conservation Services, a nearby composting company. Data from these tests will be used to determine the proper conditions for composting McDonald's waste and to determine the quality of the final compost product.

The Future

Environmental groups play an increasingly important role in influencing policy (See **Exhibit 9** for an overview of leading environmental groups). Furthermore, during the past decade, membership in many of the leading environmental groups doubled in size. This growth may be attributed to both the public's concern that industry and government are not adequately addressing environmental issues and to public confidence in environmental groups. In fact, a recent study conducted by Golin/Harris Communication, Inc. found that 80 percent of those studied believe "some" of what environmental groups report while less than 40 percent believe "some" of what businesses report.⁹

The joint task force was one of the first collaborative efforts involving a leading environmental organization and a major corporation aimed at improving corporate solid waste practices. It posed opportunities and challenges for both sides. EDF wanted to create a model approach that could be used by other companies, yet it risked criticism from other environmentalists. McDonald's needed a way to respond to public criticism of their environmental practices, but knew that potential task force disagreements could be embarrassing.

An early outcome of the task force was McDonald's adoption of the waste management hierarchy. The hierarchy served as a means to guide early decision making, but the long-term success of the program will depend on both parties' ability to manage the partnership.

EDF's President Fred Krupp said, "Environmentalists and industry alike will be waiting to see what McDonald's does with the task force options and recommendations. That will be the ultimate test of this effort's success."

⁹ Foundation for Public Affairs. *Public Interest Group Profiles, 1992-93*. Washington: Congressional Quarterly, 1992.

EXHIBIT 1: MCDONALD'S CORPORATION CONSOLIDATED STATEMENT OF INCOME

| <i>(In millions of dollars, except per common share date)</i> | Years ended December 31 | | |
|---|-------------------------|-----------------|-----------------|
| | 1991 | 1990 | 1989 |
| Revenues | | | |
| Sales by Company-operated restaurants | \$4,908.5 | \$5,018.9 | \$4,600.9 |
| Revenues from franchised restaurants | 1,786.5 | 1,620.7 | 1,464.7 |
| Total revenues | 6,695.0 | 6,639.6 | 6,065.6 |
| Operating costs and expenses | | | |
| Company-operated restaurants | | | |
| Food and packaging | 1,627.5 | 1,683.4 | 1,560.3 |
| Payroll and other employee benefits | 1,259.2 | 1,291.0 | 1,174.4 |
| Occupancy and other operating expenses | 1,142.4 | 1,161.2 | 1,043.1 |
| | 4,029.1 | 4,135.6 | 3,777.8 |
| Franchised restaurants-occupancy expenses | 306.5 | 279.2 | 240.6 |
| General, administrative and selling expenses | 794.7 | 724.2 | 656.0 |
| Other operating (income) expense-net | (113.8) | (95.3) | (46.5) |
| Total operating costs and expenses | 5,016.5 | 5,043.7 | 4,627.9 |
| Operating income | 1,678.5 | 1,595.9 | 1,437.7 |
| Interest expense-net of capitalized interest of \$26.2, \$36.0, and \$29.8 | 391.4 | 381.2 | 301.9 |
| Non operating income (expense)-net | 12.3 | 31.6 | 21.4 |
| Income before provision for income taxes | 1,299.4 | 1,246.3 | 1,157.2 |
| Provision for income taxes | 439.8 | 444.0 | 430.5 |
| Net income | \$ 859.6 | \$ 802.3 | \$ 726.7 |
| Net income per common share | \$ 2.35 | \$ 2.20 | \$ 1.95 |
| Dividends per common share | \$.36 | \$.33 | \$.30 |

The accompanying Financial Comments are an integral part of the consolidated financial statements.

Source: 1991 McDonald's Annual Report

EXHIBIT 2: MCDONALD'S CORPORATION CONSOLIDATED BALANCE SHEET

| <i>(In millions of dollars)</i> | December 31, | 1991 | 1990 |
|---|--------------|-------------------|-------------------|
| Assets | | | |
| Current assets | | | |
| Cash and equivalents | | \$ 220.2 | \$ 142.8 |
| Accounts receivable | | 238.4 | 222.1 |
| Notes receivable | | 36.0 | 32.9 |
| Inventories, at cost, not in excess of market | | 42.6 | 42.9 |
| Prepaid expenses and other current assets | | 108.8 | 108.3 |
| Total current assets | | 646.0 | 549.0 |
| Other assets and deferred charges | | | |
| Notes receivable due after one year | | 123.1 | 102.2 |
| Investments in and advances to affiliates | | 374.2 | 335.2 |
| Miscellaneous | | 278.2 | 250.0 |
| Total other assets and deferred charges | | 775.5 | 687.4 |
| Property and equipment | | | |
| Property and equipment, at cost | | 12,368.0 | 11,535.5 |
| Accumulated depreciation and amortization | | (2,809.5) | (2,488.4) |
| Net property and equipment | | 9,558.5 | 9,047.1 |
| Intangible assets—net | | 369.1 | 384.0 |
| Total assets | | \$11,349.1 | \$10,667.5 |
| Liabilities and shareholders' equity | | | |
| Current liabilities | | | |
| Notes payable | | \$ 278.3 | \$ 299.0 |
| Accounts payable | | 313.9 | 355.7 |
| Income taxes | | 157.2 | 82.6 |
| Other taxes | | 82.3 | 68.6 |
| Accrued interest | | 185.7 | 133.2 |
| Other accrued liabilities | | 201.4 | 194.9 |
| Current maturities of long-term debt | | 69.1 | 64.7 |
| Total current liabilities | | 1,287.9 | 1,198.7 |
| Long-term debt | | 4,267.4 | 4,428.7 |
| Security deposits by franchisees and other long-term liabilities | | 224.5 | 162.7 |
| Deferred income taxes | | 734.2 | 695.1 |
| Shareholders' equity | | | |
| Preferred stock, no par value; authorized-165.0 million shares; issued-9.9 and 6.9 million | | 298.2 | 199.7 |
| Guarantee of ESOP Notes | | (286.7) | (196.5) |
| Common stock, no par value; authorized-1.25 billion shares; issued-415.2 million | | 46.2 | 46.2 |
| Additional paid-in capital | | 201.9 | 173.7 |
| Retained earnings | | 5,925.2 | 5,214.5 |
| Equity adjustment from foreign currency translation | | 32.3 | 46.7 |
| | | 6,217.1 | 5,484.3 |
| Common stock in treasury, at cost; 56.5 and 56.1 million shares | | (1,382.0) | (1,302.0) |
| Total shareholders' equity | | 4,835.1 | 4,182.0 |
| Total liabilities and shareholders' equity | | \$11,349.1 | \$10,667.5 |

The accompanying Financial Comments are an integral part of the consolidated financial statements.

EXHIBIT 3: 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 |
| System-wide sales | \$19,928 | \$18,759 | \$17,333 | \$16,064 | \$14,330 | \$12,432 | \$11,001 | \$10,007 | \$8,687 | \$7,809 | \$7,129 |
| 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 |
| System-wide sales by type | | | | | | | | | | | |
| 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 |
| Average sales, restaurants open at least 1 yr. (in 1,000s) | 1,658 | 1,649 | 1,621 | 1,596 | 1,502 | 1,369 | 1,296 | 1,264 | 1,169 | 1,132 | 1,113 |
| 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 |
| Financial position at year-end | | | | | | | | | | | |
| 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 |
| Per common share | | | | | | | | | | | |
| 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 |
| System-wide restaurants at year-end | \$12,418 | \$11,803 | \$11,162 | \$10,513 | \$9,911 | \$9,410 | \$8,901 | \$8,304 | \$7,778 | \$7,259 | \$6,739 |
| 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 |
| Systemwide restaurants at year-end: | | | | | | | | | | | |
| 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 |
| Number of countries at year-end | 59 | 53 | 51 | 50 | 47 | 46 | 42 | 36 | 32 | 31 | 30 |

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

EXHIBIT 4: SCHEMATIC OF MCDONALD'S EXISTING FOOD DELIVERY SYSTEM

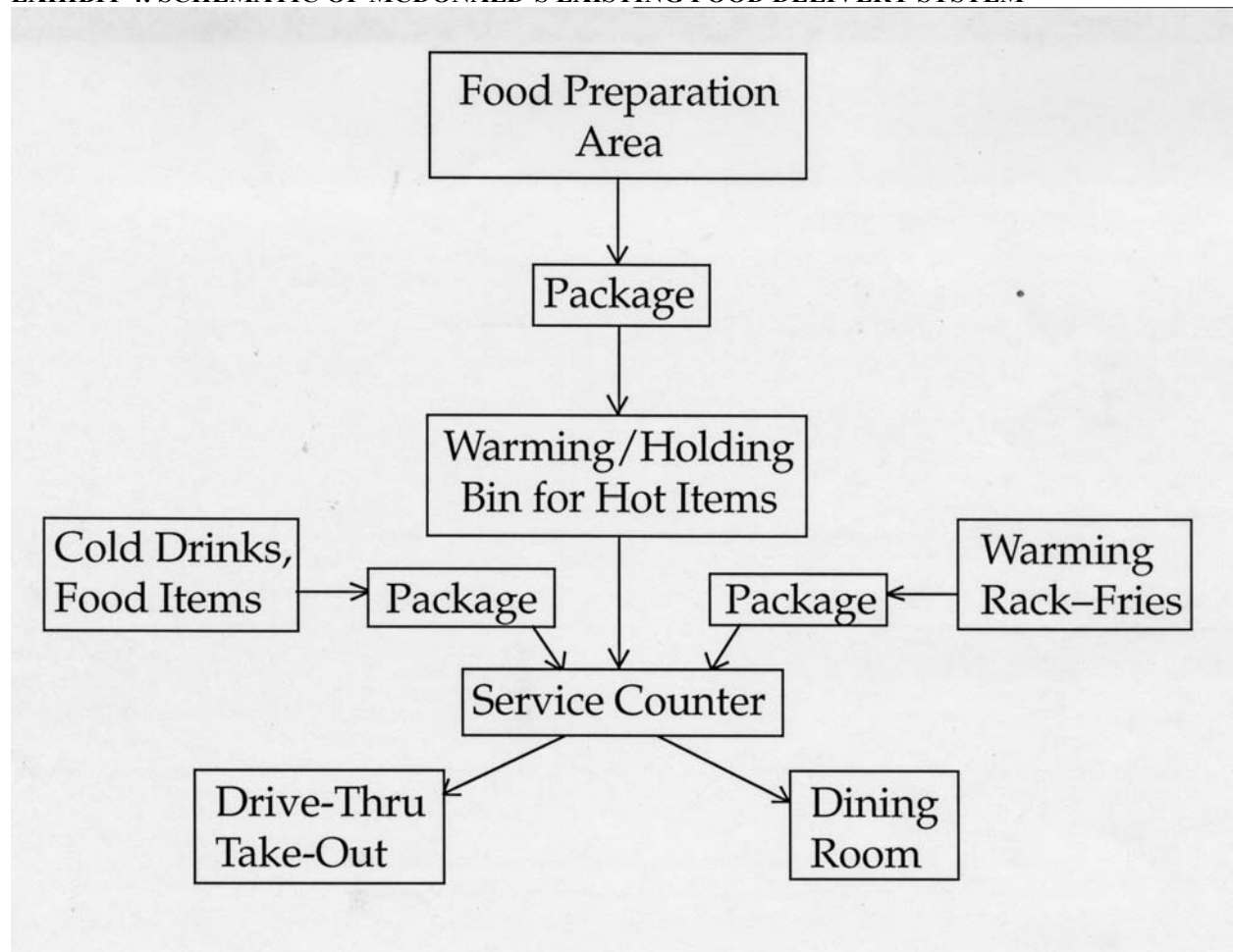


EXHIBIT 5: BIOGRAPHIES OF TASK FORCE MEMBERS

Tern K. Capatosto, Director of Communications, McDonald's Corporation. Ms. Capatosto joined the Corporation in 1984 and is responsible for managing McDonald's interaction with local and national news media as well as providing communications counsel, support, and training to the company's corporate and regional management and local owner-operators. Since 1988, she has also held specific responsibility for environmental issues, working with Operations, Purchasing, Environmental Affairs, and other key departments within McDonald's on the company's environmental initiatives. Ms. Capatosto has received numerous awards for leadership and outstanding performance, including McDonald's President's Award in 1987. Before joining McDonald's, Ms. Capatosto was a Captain in the U.S. Marine Corps. She holds B.A. degrees in Psychology and Music from the University of Utah.

Richard A. Denison, Senior Scientist, EDF. Mr. Denison, who holds a Ph.D. in Molecular Biophysics and Biochemistry from Yale, specializes in hazardous and solid waste management issues ranging from waste reduction and recycling to the health effects and regulatory requirements of landfilling and incineration. Prior to joining EDF in 1987, Mr. Denison was an Environmental Analyst at the U.S. Congress' Office of Technology Assessment and also conducted cancer research in a postdoctoral position at the University of California, San Francisco. He has authored numerous papers and reports on solid and hazardous waste management, and a recent book, *Recycling and Incineration: Evaluating the Choices*.

Robert L. Langert, Director of Environmental Affairs, The Perseco Company. Bob Langert is responsible for managing projects related to source reduction, recycling and other waste management alternatives for the Perseco Company, the exclusive packaging purchaser for McDonald's. His responsibilities include assisting in the coordination of McDonald's recycling initiatives across the country, and working with an extensive group of packaging suppliers on waste reduction initiatives. Prior to joining the McDonald's family, Mr. Langert was an operations manager for a McDonald's distributor, Perlman-Rocque, and served as Midwest logistics manager for the American Hospital Supply Corporation. He holds an M.B.A. degree from Northwestern University.

Keith Magnuson, Director, Operations Development Department, McDonald's. Mr. Magnuson works on developing new operating systems and improving store operations for the company's restaurants worldwide. Most recently, he has been involved in the development of McDonald's in-store recycling programs, packaging source reduction, and other environmental initiatives. Over the past 17 years, his positions have included store manager, area supervisor, field consultant, and operations development manager. He attended the University of Maryland.

S. Jackie Prince, Staff Scientist, EDF. Ms. Prince conducts research on a variety of solid waste issues, including recycling technologies and the use of product life cycle assessments in evaluating consumer products. Ms. Prince holds Master's degrees in Public and Private Management and Environmental Studies, and received her B.S. in chemical engineering, all from Yale. She is a former Project Manager/Engineer for the Waste Management Division of the U.S. Environmental Protection Agency, Region 1, where she received the 1986 EPA Award For Excellence. She is the author of *Wetlands Assessments at Hazardous Waste Sites* and *Assessment of PCB Contamination in New Bedford Harbor*.

John F. Ruston, Economic Analyst, EDF. With a Master of City Planning degree from MIT, Mr. Ruston works on issues that link economic development and environmental quality. He is co-author of *Coming Full Circle: Successful Recycling Today*; *Recycling and Incineration: Evaluating the Choices*; and *The Economic Case for Recycling: Evidence From the Brooklyn Navy Yard Hearings*. Mr. Ruston received his B.S. from the University of California at Davis, where he also completed graduate work in economics and computer modeling.

Dan Sprehe, Environmental Affairs Consultant, Government Relations Department, McDonald's. Mr. Sprehe's duties include internal research on recycling and source reduction issues as well as serving as a McDonald's corporate spokesperson to environmental and government groups. He was previously a legislative analyst for the Illinois General Assembly's Senate Energy and Environmental Committee, where he helped draft legislation on numerous environmental issues, including the Illinois Solid Waste Management Act. Mr. Sprehe holds a B.S. in Political Science from Eastern Illinois University.

EXHIBIT 6: CURRENT SOURCE REDUCTION PROJECTS

| Project/Idea/Concept | Potential % Reduction |
|---|--------------------------|
| 1. Cold Cups: A. Use unbleached /non-chlorine bleached paper. B. Eliminate lids on in-store purchases. C. Drink-thru lid. | TBD* TBD TBD |
| 2. Sandwich Wraps: A. Explore different compostable barriers/coatings. B. Use unbleached /non-chlorine bleached paper. | TBD - |
| 3. Cartons: A. Replace medium and large fry cartons with bags. B. New glue seam on cartons. C. Replace hash brown carton with bag. D. Reduce amount of paperboard used in Happy Meal boxes. | 75% TBD 75% 20% |
| 4. Straws: A. Reduce gauge. B. Convert to unwrapped bulk. | 6% 20% |
| 5. Cutlery: A. Evaluate polypropylene. B. Test and evaluate starch-based materials. | TBD TBD |
| 6. Foam Cups & Breakfast Entrees: A. Look for environmentally preferred alternatives to polystyrene foam. | TBD |
| 7. Corrugated Shipping Containers: A. Continue examining ways to reduce amount of corrugated used in boxes. B. Test reusable plastic containers (distribution center to restaurant and raw material supplier to distribution center). C. Test recyclable coating for meat boxes. | TBD TBD TBD |
| 8. Inner Pack PE Film Wrap: A. Color-tint only those which are not recyclable. B. Convert all possible wraps to LDPE to enhance recyclability. | - - |
| 9. Condiment Packaging: A. Convert to 17 g. ketchup packet from current 11 g. packet. | - |
| 10. Other Unbleached Products: A. Coffee Filters B. Prep Pan Liners | TBD - |
| *TBD = To be determined | |

Source: Task Force Report

EXHIBIT 7:1990 SOURCE REDUCTION ACCOMPLISHMENTS

| Accomplishments | % Weight Reduction |
|---|---------------------------|
| • Redesign 16-oz. cold cup (one supplier). | 10.2% |
| • Reduce large cold cup. | 6.0% |
| • Reduce density of breakfast lids. | 14.5% |
| • Reduce density of slant McChicken package. | 0.6% |
| • Reduce density of small clamshell. | 8.5% |
| • Smaller napkin. | 21.0% |
| • Oriented unwrapped bulk cutlery. | 11.0% |
| • Convert to jumbo roll toilet tissue. | 23.0% |
| • Reduce gauge of sundae cup. | 9.0% |
| • Replace breakfast sandwich foam with sandwich wrap. | 59.0% |
| • Increase corrugated usage for 10:1 meat boxes. | 15.0% |
| • Replace sandwich foam with wraps: | |
| ◦ Weight | 1.0% |
| ◦ Volume | 90.0% |
| • Down-sized McD.L.T. package. | 32.0% |

*Note: Each change is based on its annual impact for that particular product line.

Source: Task Force Report

EXHIBIT 8: MCDONALD'S ON-PREMISE WASTE STUDY

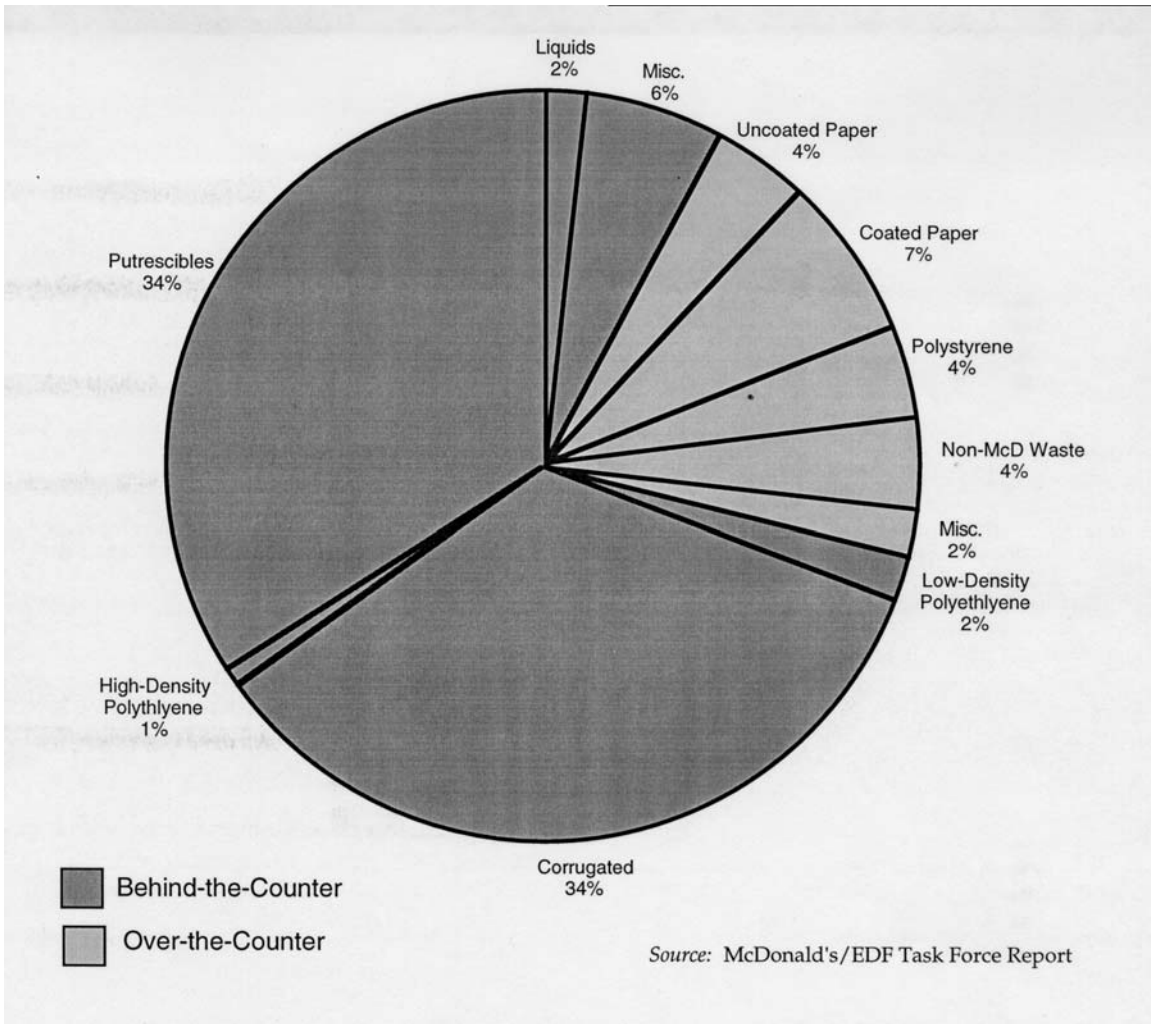


EXHIBIT 9: DESCRIPTIONS OF SOME ENVIRONMENTAL GROUPS

Citizen's Clearinghouse for Hazardous Waste (1981)

Mission: To assist grassroots leaders in creating and maintaining local community organizations that fight toxic polluters and environmental hazards.

Budget: \$689,908 (1990)

Membership: Not available

Conservation International Foundation (1987)

Mission: To help develop the capacity to sustain biological diversity, ecosystems, and ecological processes that support life on Earth.

Budget: \$8.9 million (1991)

Membership: 55,000 individuals

Earth First! (1980)

Mission: The preservation of natural diversity.

Budget: None

Membership: Not available

Environmental Defense Fund (1967)

Mission: Committed to a multidisciplinary approach to environmental problems, combining the efforts of scientists, economists, and attorneys to devise practical, environmentally sustainable solutions to these problems.

Budget: \$15.1 million (1990)

Membership: 150,000 individuals

Friends of the Earth (1990)

Mission: To work at the local, national, and international levels to protect the planet; preserve biological, cultural, and ethnic diversity; and empower citizens to have a voice in decisions affecting their environments and lives.

Budget: \$3 million (1990)

Membership: 50,000 individuals

Greenpeace USA (1971)

Mission: To preserve the environment through international campaigns in the areas of toxic waste, disarmament, ocean ecology, energy and atmospheric preservation, and rainforest preservation.

Budget: \$34 million (1990)

Membership: 2.1 million individuals

Izaak Walton League of America (1922)

Mission: To defend America's soil, air, woods, waters, and wildlife through its local chapters, state divisions, and a national headquarters in the U.S. capitol.

Budget: \$1.8 million (1990)

Membership: 52,700 individuals

National Audubon Society (1905)

Mission: Long-term protection and the wise use of wildlife, land, water, and other natural resources; the promotion of rational strategies for energy development and use; the protection of life from pollution, radiation, and toxic substances; and solving global problems caused by overpopulation and the depletion of natural resources.

Budget: \$35.8 million (1990)

Membership: Not available

Natural Resources Defense Council (1970)

Mission: Dedicated to conserving natural resources and improving the quality of the human environment.

Budget: \$16 million (1990)

Membership: 170,240 individuals

The Nature Conservancy (1951)

Mission: To preserve plants, animals, and natural communities that represent the diversity of life on Earth by protecting the land and waters they need to survive.

Budget: \$68 million (1990) Membership: 580,000 individuals; 405 corporations

Sea Shepard Conservation Society (1977)

Mission: To protect and preserve marine wildlife and habitats for future and present generations.

Budget: \$600,000 (1990)

Membership: 17,000 individuals

Sierra Club (1892)

Mission: To explore, enjoy, and protect the wild places of the earth; to practice and promote the responsible use of the earth's ecosystems and resources; to educate and enlist humanity to protect and restore the quality of the natural and human environment; and to use all lawful means to carry out these objectives.

Budget: \$35 million (1990)

Membership: 650,000 individuals

Wilderness Society (1935)

Mission: Devoted primarily to the preservation of wilderness and the proper management of our country's public lands and natural resources. Budget: \$17.9 million (1990)

Membership: 383,000 individuals

World Wildlife Fund

Mission: To conserve nature by using the best available scientific knowledge and advancing that knowledge to preserve the diversity and abundance of life on earth and the health of ecological systems by protecting natural areas and wild populations of plants and animals, including endangered species; to promote sustainable approaches to the use of renewable natural resources; and to promote more efficient use of resources and energy and the maximum reduction of pollution.

Budget: \$54 million (1991)