McDonald's and the Triple Bottom Line: A Case Study of Corporate Sustainability

Ben Rowley
University of Central Arkansas

Mark E. McMurtrey
University of Central Arkansas

In the not too distant past, people would grow a significant portion of their own food. But in much of today's developed economies, sustenance is simply bought at retail outlets. The supply chain management and its linkage to quality food production and innovation at McDonald's will be examined. Specific examples of modifications in supply chain strategy as they extend into new market areas globally (in India) will be discussed. The efforts of the company to satisfy the demands of the triple bottom line will be addressed, including some basics of corporate responsibility, successes, and where problems still exist for McDonald's.

INTRODUCTION

The basics of understanding how food is obtained, from farm to fork, is an interesting prospect. In the not too far distant past, many individuals would grow a significant portion of their own produce. Some might have even raised and maintained animals for their meat and other food products, such as milk. But in much of today's developed economies, food is simply bought at retail outlets and, to a much lesser extent, at local farmer's markets. These outlets include supermarkets, with an astounding variety of fresh food products readily at hand, and restaurant retail outlets such as McDonald's. The services provided, and standards enforced, in such an operation is worth of scholarly inquiry.

A variety of businesses operate in the supply end for these retailers, producing the food that will eventually be sold. Distributors often serve as middlemen in the process, acting as commodities agents between producers and retailers. Global industrialization has led to the concentration of the supply end of the food production/distribution business, much like what has been observed for other industries (e.g. automobile production, shipbuilding, and chemicals) (Lillford, 2008). In fact, it could be predicted that the immediate future will result in several general trends in the food supply chain business based on these previous events in other industries. For example, primary production will become further concentrated to areas with best practices, capital, climate and soils for best yields. Processers will move operations to regions with cheaper labor and better markets. Retailers will branch out into areas with the most growth potential. Global players will form strategic alliances with each other and potentially become less technically innovative, relying instead on their sheer scale difference to overcome lesser players (Lillford, 2008).

While these predictions are important to understanding the possible future of food supply chains, it's also important to consider the logistics side of supplying food. As food is a perishable commodity, proper handling and long-distance cold chains are important to avoid waste and product loss (Taylor and Fearne, 2006). Understanding and assessing variability in consumer demand is also critically important to avoid spoiled unsold product. Proper alignment of activity along the production chain with consumer demand, including timeliness of order placement, order delivery, stocking, and real-time assessment of stock present and demand for new stock, are all critical to maximizing profit and minimizing waste in the food retail business (Taylor and Fearne, 2006).

This topic is clearly very large and very diverse, and most likely beyond the scope of a small research paper such as this. As such, this paper will focus on the global retail fast-food corporation McDonald's. The supply chain management and its linkage to quality food production and innovation in this corporation will be examined. Specific examples of modifications in supply chain strategy as McDonald's extends into new market areas globally (in India) will be discussed. The efforts of the company to satisfy the demands of the triple bottom line will be addressed, including some basics of corporate responsibility, successes, and where problems still exist for McDonald's. While this paper will not be exhaustively comprehensive on the topic, it should still provide an overview of the good and the bad of McDonald's supply chain management and overall corporate responsibility measures.

MCDONALD'S AS A TOP GLOBAL FOOD SUPPLY CHAIN

McDonald's ranked #3 on the 2012 Gartner's Supply Chain Top 25 list. This list has been published since 2004, and is ranked based on the idea of demand-driven leadership. The model used, as described by Gartner's revolves around three basic areas: Supply management, Demand management, and Product management. McDonald's first earned its spot on the list in 2010, and has moved up the list in each subsequent year. The overall composite score for this listing involves opinion voting, three-year weighted ROA, inventory turns, and three-year weighted revenue growth (Hofman and Aronow, 2012).

While each company on this ranked list deals with its logistics and demands differently, the authors cite several commonalities among the top 25. These key characteristics include four basic characteristics: 1.) an outside-in focus, 2.) embedded innovation in supply chain, 3.) extended supply chains as networks, and 4.) being excellence addicts (Hofman and Aronow, 2012).

Examining McDonald's specifically for each of these four characteristics is telling. An outside-in focus means designing a supply chain with the end product or consumer in mind. To this end, McDonald's routinely involves its testing kitchens and marketing staff at its corporate headquarters with its suppliers and its customers. This is termed the company's "three-legged stool" approach (Petrak, 2005). Products are regularly and randomly pulled from restaurants into McDonald's laboratories for testing. This method is also employed at suppliers for the company. Quality and consistency are top priorities, and adjustments will be made if either of these factors begins to falter.

Embedded innovation in supply chain methods is also a high priority at McDonald's. In 2000, the company formed a partnership with Sysco Corp., Cargill Inc., and Tyson Foods Inc. in a first of its kind online supplier unification effort. This would produce a web-based marketplace to foster connections and ease communications barriers between suppliers, distributors, and operators (Waters, 2000). Innovations aren't strictly limited to communications methods, however. The ground hamburger suppliers for McDonald's are continually working with the company to improve the quality and consistency of their mutual product. In one example at the Otto & Sons facility, a new method of grinding the meat increased both traits in the product and provided a benefit to the entire meat industry. Representatives from the companies discussed how there had been no real innovation in the process in over 50 years, so the time was right for moving into the 21st century (Young, 2005). This is just one example of the specific food-handling innovations that McDonald's has asked for and received from its supply chain constituents.

Moving to make supply chains into extended networks is another common characteristic of successful companies' supply chains. McDonald's has sought to do this in a number of ways, helping its suppliers to form product category councils for beef, poultry, pork, produce, and potatoes (among others) (Petrak,

2005). These councils help the company to form these extended networks, facilitating communication and innovation among chains of suppliers and ultimately helping the company deliver a more consistent, quality product. In just one example of their benefit, the original technology and methods for successfully freezing beef patties came out of the McDonald's beef council. This method is now used across the industry today (Petrak, 2005; Young, 2005).

The term "excellence addicts" is an interesting one. The term "addict" implies someone who can't help themselves from engaging in an activity repeatedly. This term, coupled with "excellence," implies a company trend towards striving for excellence in a repeated and deliberate fashion. McDonald's has exhibited this addiction in its repeated and dogmatic drive for quality and consistency. This is illustrated in its relationships with its suppliers, bringing them to corporate headquarters and visiting their sites repeatedly throughout the year to foster closer contacts (Young, 2005; Petrak, 2005). It's illustrated in the e-commerce mechanisms they have initiated to promote stronger ties and easier communication (Waters, 2000). And it is illustrated in their long-term and repeated efforts to obtain feedback from customers AND suppliers in relation to their final products through quarterly/yearly food quality symposia (Giblin and Redman-Steen, 2007).

The authors reporting on the Gartner ranking of McDonald's also cite three observed trends in the supply chains of each company on their list. These include: 1.) supply chain risk management and resilience, 2.) simplification, and 3.) a shift toward multi-local operations (Hofman and Aronow, 2012). McDonald's facilitates supply chain risk management and resilience by using multiple suppliers, but working closely with them to achieve close consistency (Young, 2005).

While simplification isn't necessarily the case with McDonald's efforts, its drives towards consistency help make production at individual restaurants more simplified. When an individual restaurant doesn't have to worry that its supplies will be different from another restaurant, their management and owners have one less worry on their minds (Petrak, 2005). Last but not least, the feature of using multi-local operations is clearly evident in McDonald's processes. In its ground beef suppliers, McDonald's uses companies in Illinois, Oklahoma City, Nebraska, Pennsylvania, and California. Due to its concerted efforts to work with these suppliers for uniformity, the system has the benefit of being local to individual restaurants, yet with enough flexibility to shift production around the country (and potentially the world) depending on needs of the chain as a whole (Young, 2005). Clearly, McDonald's exemplifies the three observed trends cited by the Gartner list authors in its supply chain management practices and principles, helping its overall success.

EXAMPLE OF MCDONALD'S GLOBAL REACH - INDIA

McDonald's has a modest presence in India today, with approximately 30 restaurants in 5 different cities. 95% of the ingredients served in the restaurants are sourced locally (Behera, 2009). The chain opened its first restaurant in India in 1996. However, this was no small undertaking. Due to cultural dietary differences between India and the US, the entire menu had to be reworked from the ground up. Vegetarian items had to remain completely separated from meat items. Beef and pork were excluded due to Hindu and Muslim religious beliefs. Even sauces had to remain completely vegetarian (egg free) (Dutta, 2005). The company spent approximately 6 years prior to opening its first Indian store developing the resources, connections, government approvals, and capacities it would need to adequately conduct its business in the new market (Dutta, 2005).

Supply chain issues also existed. As the country was so far geographically from McDonald's traditional US distribution centers, food items needed to be supplied locally for freshness and quality. This presented two major problems as the company began the process of preparing for stores to open in the new market: 1.) at that point in time, many local Indian suppliers had no real business procedures or replicable policies, and 2.) a proper cold chain was essentially nonexistent at the time. In point of fact, when McDonald's first began investigating opening restaurants in India, it is estimated there were only 200 refrigerated trucks total in the country (Behera, 2009).

To alleviate the first problem, McDonald's spent several years helping local Indian supply companies to bring their business procedures into the latter half of the 20th century. This was a two-way process; McDonald's needed the local suppliers to be highly effective and consistent in order to run their business effectively. The local suppliers needed McDonald's (at first) to help them become better businesses. Because of this two-way process, a number of suppliers have now developed their businesses well beyond simply supplying McDonalds' needs. Examples include Dynamix Dairy (which supplies cheese to McDonald's, but also now supplies casein, skim milk powder, and other dairy products to Nestle, Britannia, and Tropicana) and Cremica (which developed its own lines of sauces, biscuits, and breads in addition to those supplied to McDonald's Indian operations. (Dutta, 2005). These are prime examples of the ways in which McDonald's helps push other companies to develop further and become leaders in their own fields while increasing its own business potential.

As to the second problem, McDonald's quickly realized that it wouldn't be efficient to bring in numerous refrigerated trucks early in their development of the Indian market. As the new restaurants got off the ground, need for cold transport wasn't as crucial. However, it would eventually become more important to have a greater volume capacity for cold transport. To temporarily and efficiently solve the problem, the company pioneered the use of mixed-temperature shipping trucks. Part of the truck would be refrigerated, while part of it could store frozen goods. This allowed for far more effective and affordable shipping of smaller amounts of materials to restaurants early in the burgeoning market (Behera, 2009).

The development of McDonald's restaurants in India, along with the required supply chains for locally-sourced and culturally-approved food, presents a strong piece of evidence for the company's position on the Gartner's list. The company clearly has the potential to read needs in new markets and work within those markets to both solve supply chain problems and develop local companies for food sources, building the communities and economies they expand into.

MCDONALD'S, CORPORATE RESPONSIBILITY, AND THE TRIPLE BOTTOM LINE

The triple bottom line is a combination of economic prosperity, environmental stewardship, and social responsibility. In today's business world, companies are attempting to enact and maintain a degree of what is known as corporate responsibility – being good citizens in the global community while still turning a profit. Corporate responsibility can be seen as an overarching theme to the triple bottom line, looming over each aspect of it and helping companies guide policy and procedure in day to day operations.

In the food industry, there are several issues that are beginning to become more prominent in regard to corporate responsibility. These include the use of genetically-modified organism (GMO) foods, animal welfare practices, use of antibiotics and growth hormones in livestock, giving back to communities, sustainable and fair-trade agriculture prospects, health/safety and labor/human rights concerns (Maloni and Brown, 2006). Again, it is beyond the scope of this paper to address each of these items comprehensively for McDonald's. However, a few examples and some discussion should suffice to provide a quick overview of the efforts of the company to live up to a high degree of corporate responsibility, promoting its triple bottom line.

One way that McDonald's attempts to be a responsible corporation is through promotion of sustainable farming methods. McDonald's joined Unilever and Nestle in pledging to shift to entirely sustainably-sourced palm oil by 2015. Clearcutting for palm tree plantation systems is a source of greenhouse gases, and the scales of the materials these companies use indirectly leads to a great deal of this negative outcome. By shifting to sustainable practices for palm oil, this negative climate effect can be mitigated to a certain extent (Scott, 2011).

Palm oil is not the only agricultural product that McDonald's has sought to obtain using sustainable methods. In Europe, the company has launched an initiative called Flagship Farms to showcase sustainability practices used by farms supplying McDonald's. Examples include soil, water, and energy use to animal welfare and employee well-being. One poultry farmer, for instance, supplies 25 million eggs per year to McDonald's from his 48,000 bird free-range flock. This program is meant to highlight

successful sustainability practices in agriculture to show other farmers and suppliers what can be done (Spackman, 2009).

A final example of McDonald's efforts at corporate responsibility can be found in its funding and support of the Ronald McDonald House. This entity provides housing and some limited indirect financial support for families whose children are undergoing treatment for life-threatening illnesses. The group is funded not only by McDonald's, but also by a number of the suppliers in its supply chain (Smith, 1994).

While these are each good examples, McDonald's isn't entirely without fault. Recently, negative publicity surrounding its employee payscales has begun to grow. Negativity surrounding its contributions to the growing American obesity epidemic has also continued to grow, despite efforts by the company to introduce and promote salad items and healthier low-fat options (Maloni and Brown, 2006; Petrak, 2005). Whether the positive efforts by the company outweigh the negative aspects of the business model remains to be seen, and will likely need to be addressed in the near future to avoid continued public backlash against the company.

CONCLUSION

In summary, McDonald's represents a company that is a solid player in supply chain management. As a global company, they understand what it takes to bring food from farm to fork effectively while still making a sizable profit. They also take significant steps to promote and effect corporate responsibility in both their own actions and in their respective supplier companies. While there is always improvement to be achieved, they are a company with many positive attributes to analyze and emulate in the global business arena.

REFERENCES

Behera, B. (2009). Supply chain best practices in India. *ASBM Journal of Management,* II(1), 134-142.

Dutta, D. (2005). Case study: McDonald's – creating an ecosystem, *Just-food,* 22-28.

Giblin, R. & Redman-Steen, L. (2007). Aligning the supply chain to serve a quality meal every time. *AgriMarketing,* 45(5), 46-47.

Hofman, D. & Aronow, S. (2012). The supply chain top 25: Raising the bar. *Logistics Management,* 51(9), 54-64.

Lillford, P. J. (2008). Food supply chains: Recent growth in global activity. *Innovation: management, policy & practice,* 10(1), 29-39.

Maloni, M. J. & Brown, M. E. (2006). Corporate social responsibility in the supply chain: An application in the food industry. *Journal of Business Ethics,* 68(1), 35-52.

Petrak, L. (2005). Shining the golden arches. *National Provisioner,* 60-73.

Scott, A. (2011). Corporate social responsibility: Greening the supply chain. *Chemical Week,* 173(8), 21-24.

Smith, C. (1994). The new corporate philanthropy. *Harvard Business Review,* 72(3), 105-116.

Spackman, P. (2009). McDonald's aims to showcase sustainable farming. *Farmers Weekly*, 150(26), 22.

Taylor, D. H. & Fearne, A. (2006). Towards a framework for improvement in the management of demand in agri-food supply chains. *Supply Chain Management: An International Journal,* 11(5), 379-384.

Waters, C. D. (2000). The big eMac: McD, partners spin B2B web on the internet. *Nation's Restaurant News,* 34(32), 44;96.

Woodhead, J. (2005). Behind the glossy reports, the food sector has a long way to go. *Corporate Responsibility Management,* 1(6), 12-13.

Young, B. (2005). The power of beef. *National Provisioner,* 219(10), 26-32.