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McDonald's *All Day Breakfast* Launch: The Strategic Value of McDonald's Supply Chain

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This case study is written in two parts at two different points in time. The first part, set in early July 2015, describes the decision by McDonald's management to propose to its franchise owners the addition of All Day Breakfast to the menu options. Please answer the question at the end of part I prior to proceeding to part II. The second part is a reflection on how the Supply Chain Management Team approached the task of readying the supply chain and the restaurants for this introduction.

Oakbrook, Illinois. When Steve Easterbrook assumed control as CEO of McDonald's Corporation in January 2015, it was assumed by insiders and outsiders alike that things were about to change.

Since its founding by Ray Kroc in 1955, the company had experienced extraordinary periods of growth and success – most recently from 2003 through 2013 - interrupted by brief lulls, and, in some cases, declines as it attempted to adjust to changes in its environment. Year 2014 was such a lull period: revenues were down 2.4%, domestic same store sales were off 2.1%, net income was down nearly 15%, and return on beginning equity, while still impressive, was down from 37% in 2013 to 30% in 2014. Reflecting this performance, McDonald's stock price, by mid-December 2014 was off 16% from its peak value achieved the previous year. One analyst, at the time, described the company as "being on the wrong side of history" as younger consumers were opting for healthier food and new, upscale quick service restaurant (QSR) chains. Shake Shack, 5 Guys, and Chick-fil-A were carving out niches in an already crowded, mature QSR space.

Furthermore, while the chain had previously faced competition within its own sector —the QSR industry— there were now multiple new, creative, rapidly growing food and food delivery channels. Traditional grocery chains were offering multiple choices in both stage of preparation (fresh produce and groceries to fully prepared meals) and convenience in distribution from (restaurant pick up, online ordering, and home delivery). Online retailer Amazon was offering large selections of both non-perishable and fresh food products with rapid delivery options. In September 2015, Google announced it would partner with Whole Foods and Costco to deliver fresh food and groceries to several US test markets. The online behemoth already offered non-perishable groceries via partnerships with Target, Costco, and Fairway Market. Other companies such as fast growing upstarts Blue Apron and HelloFresh were offering attractively priced, weekly home delivery of gourmet kits: all ingredients and recipes to prepare fresh, nutritious upscale meals in-home. Each of these new food channel choices represented a change in the industry landscape, creating additional competition for consumers' meal dollars. McDonald's now faced the classic "threat of substitutes" from Michael Porter's Five Forces model, not just threat of competitors.

Early in his tenure, Mr. Easterbrook described McDonald's as a "modern progressive burger company" that would "be more progressive around our social purpose in order to deepen our relationships with communities on the issues that matter to them." The changes this description would require in his first year were large. Importantly, this message signaled that McDonald's recognized the critical importance of listening to consumers and responding to their needs.

The rapid spread of mobile technology and social media created more complexity for any large corporation seeking to control its narrative. McDonald's needed to "join the online conversation."

One group about to feel the impact of Mr. Easterbrook's vision was McDonald's US Supply Chain Management Team. Not only had he announced that by 2017, its U.S. restaurants would only use chickens that are "raised without antibiotics important in human medicine," he was also considering a bold new initiative dubbed All Day Breakfast. This initiative held the potential to expand the Company's consumer base from its historical roots of children and young families to a broad section of the population currently lost to competitors and alternate channels.

A New Perspective on Competitive Advantage

The nature of competitive advantage in business is changing in response to powerful forces in the business environment. Historically, companies have relied on product attributes, brand identity, proprietary technologies, trade secrets, patents and other intellectual property supported by advertising and promotion to create market niches. These niches were relatively defensible as long as information transfer was slow, communication was limited, patent and trademark laws were effectively enforced, and companies could control the message delivered to consumers.

Today, many companies are finding the underpinnings of the competitive landscape to be evolving. Traditional competitive advantages are proving to be transitory: less reliable, less sustainable moats protecting market niches. In their place, relationship-based and human capital-based capabilities that enable companies to quickly and decisively exploit short-lived opportunities are creating long-lasting advantages.

Forces contributing to this changing business environment include:

Technological Innovation: The impact of technology on competitive advantage is multi-faceted:

- Technology is allowing companies to offer consumers products higher in quality, safer, more convenient (in terms of preparation, packaging, and delivery), and lower in price. All of these facets suggest greater opportunities for product and service differentiation.

- Technology is enabling food marketers to more reliably and more economically deliver these differentiated product attributes to the consumer. Employing today's technology, food marketers can more effectively predict demand and can more efficiently coordinate with suppliers to ensure an adequate supply of products are delivered on time without incurring the cost of stocking excessive inventories.

- Virtually free communication and instantaneous information flow is facilitating more rapid imitation of product features and product offerings, shortening the lifespan and degrading the value of traditional product attribute-based competitive advantages.

- Technology is facilitating the rise of new competition in many industries, as Uber, Amazon, Airbnb, Facebook, and Alibaba have demonstrated. Each of these companies is a new business model firmly based on information/communication technology that has disrupted traditional competitive advantages.

- The rise of social media has had a mixed effect. On one hand, social media is creating opportunities for companies to receive rapid, unfettered consumer and public opinions, concerns, and desires. By "joining the online conversation," and listening to stakeholders, companies can gain insights and respond more quickly and appropriately to their demands. On the other hand, social media is empowering consumers and activist groups to provide feedback, share opinions, and organize to effect changes in company behavior. Consumer dissatisfaction can no longer be readily isolated. Widespread distrust of institutions and traditional media have shifted how companies try to earn consumers' trust. For all of these reasons, the ability of companies to control the narrative is declining. Today, businesses must vie for favorable public reviews without appearing to try too hard or appearing inauthentic.

Globalization: Similarly, globalization is multi-dimensional in its impact on competitive advantage. Global sourcing and marketing of food products increase the array and decrease the seasonality of products enjoyed by today's consumers. Globalization dramatically increases the complexity associated with creating and managing supply chains to provide consumers a consistent experience - a particularly important aspect of maintaining brand strength. Laws protecting intellectual property rights are not universally accepted or globally enforced. Companies that operate globally face significant risks in destabilized and emerging markets, which often make up a disproportionate portion of their growth. Companies procuring globally must also address consumer concerns regarding working and trade conditions within the source countries.

Changes in Consumer Interests and Behavior: Consumer needs and concerns continue to evolve, deepen, diversify, and segment. Where once product array and price were of paramount importance, now quality, convenience, nutrition, and safety have been elevated on the priority list. Today, consumers are demanding much more from the food they consume, including how and where foods are available, and how they are produced, processed, and distributed. A growing number of consumers are focusing on social, environmental, and animal welfare issues that, heretofore, were entrusted largely to the discretion of the producer. These "credence attributes" often influence consumers' perceptions of taste and quality. Increasingly, consumers not only "eat with their eyes" but also with their conscience.

Multiple food categories are experiencing a decline in brand loyalty as sectors of the population seek greater variety in their consumption experience. Many companies (e.g. breweries, coffee houses) are exploiting this consumer trend by introducing and promoting new, seasonal or "craft" offerings to generate consumer excitement.

Changes in Standards of Acceptability: As the food industry has responded to these divergent consumer demands, standards of acceptability have risen. A growing proportion of today's consumers demands near perfection in terms of food safety, food quality, food availability (no stock outs), and quality of the dining experience. These standards of acceptability are increasingly extending into the social, environmental, and animal welfare realms as well.

As a result of these forces, today's lasting competitive advantages are shifting away from product attributes toward performance capabilities: strong, responsive, difficult-to-replicate, relationship-based advantages capable of exploiting temporary opportunities by executing quickly, decisively, and near perfectly.

The Case for *All Day Breakfast*

McDonald's Corporation consists largely of franchised stores: 36,899 in 120 countries. In 2016, 85% of the stores were franchisee-owned, while 15% were owned by McDonald's.[1] Under the franchising agreement, McDonald's owns (or secures the long term lease for) the land and building. The franchisee provides a percentage of the initial capital required via investment in equipment, signs, seating and décor and through reinvesting in the business over time. Company revenues consist of sales from Company-operated stores (63% of 2014 revenue), franchise rent and fees (23% of 2014 revenue), and franchise royalties (12% of 2014 revenue). Franchise rent and fees consist of an initial fee plus rent for the land and building owned by McDonald's. Franchise royalties are a percentage of sales paid by the franchisee to McDonald's. Thus, the Corporation's success is dependent on the profitability at the individual store level.

The economics of individual stores can be characterized as high fixed cost, modest variable cost businesses with strong gross margins. The high fixed costs include the franchise fee, rent for the land and building, labor and benefits, energy, property taxes, business licenses and fees, and debt service. Variable costs consist of food raw materials, operating supplies, often-increasing labor costs, and royalties. Given this cost structure, volume throughput (number of patrons per day) is a key success factor. Any initiative that expands the daily number of patrons purchasing high margin products improves the economics of the franchisee and revenue to McDonald's Corporation.

In evaluating the *All Day Breakfast (ADB)* proposal, management identified a key trend that helped drive decisions on its earlier successful initiatives and campaigns. The demographics of the world population in general, and the U.S. population in particular, are changing. The average age is rising while the number of young consumers (an historical McDonald's target market) is not growing as fast as the number of customers "graduating" from their McDonald's years. The company had targeted and positioned itself to serve this younger market in its product line, advertising, promotional activities, restaurant layout, and even its spokesperson, Ronald McDonald. As its customers aged and "graduated," the company needed to continuously develop a new base of young customers just to stay even. Developing new customers is always more expensive than retaining existing customers.

As an alternative to losing these once loyal customers, the company could reach out to its existing or previous customers by making its product offerings and dining experience more relevant to the young adult. To reach these customers in transition, McDonald's needed to stay in touch with what young adult consumers wanted: a great meal, at a great price, served quickly every day. They needed to create deeper customer relationships and the ability to design irreplaceable experiences to create longer-lived advantages.

This thought process provided impetus to introduce Premium Roast coffee in 2006, followed by iced coffee and tea, then specialty coffee drinks including lattes, mochas and seasonal flavors. In 2010, the company expanded the menu choices by introducing two fruit smoothie products: Wild Berry Smoothie and Strawberry Banana Smoothie. In 2011, Fruit and Maple Oatmeal was added. These new products were positioned to appeal to a broader demographic profile and new consumer preferences, thus attracting more patrons to McDonald's restaurants. They provided the company new items to advertise and promote that were more in line with consumer preferences, a key to keeping the restaurant chain fresh and relevant. These products provided value by addressing current consumer concerns for a balanced diet and calorie management.

All Day Breakfast was a logical extension of expanding consumer choice to drive additional patron throughput. The company already offered most of the All Day Breakfast product line in the breakfast menu. Despite their restricted hours from opening to 10:30 am, breakfast items represented 25% of restaurant sales. The breakfast menu items were already favored by nutritionally-conscious consumers. Shifts in demographics and the economy had led to more Americans being engaged in shift work versus traditional 9-5 employment. Other food outlets were successfully serving breakfast to consumers whose breakfast needs extended beyond the traditional morning hours.

McDonald's early adoption of social media to communicate with its stakeholders provided support for extending breakfast items beyond 10:30 am. Social media indicated that breakfast, offered beyond the traditional morning hours, was popular among consumers. With its limited hours for breakfast, McDonald's restaurants were losing these potential sales. If breakfast were offered 24 hours a day, the Company could potentially expand its customer base from its historical roots of children and young families to a broader section of the population.

Finally, industry statistics supported extending the hours breakfast items were offered. The domestic fast food breakfast market was over $32 billion in 2013. From 2007 to 2012, breakfast sales at fast-food restaurants rose by an average of 4.8 percent per year. Concurrently, lunch and dinner at those same restaurants have been flat or declining.

Testing the Market

On March 29, 2015, McDonald's announced it would test market All Day Breakfast in its 94 San Diego-area restaurants. The test, scheduled for launch on April 19, 2015, would be supported with marketing tactics which included promotional coupons for breakfast items mailed and e-mailed to area residents. The most popular breakfast items – the Egg McMuffin, breakfast burrito and hot cakes platforms – would be available all day, but McGriddles and biscuit sandwiches would continue to be offered only from opening to 10:30 am.

While there was general excitement over the new initiative, there were also some concerns among franchise owners and McDonald's restaurant managers. During the busy lunch hours, breakfast items would compete with burgers and chicken for limited grill space. Customer service times – a critical metric in the QSR industry — could be effected. Operational complexity would increase, particularly during the most critical hours. Further, it was anticipated that some customers would be tempted to trade down from higher priced burgers to lower priced breakfast items in their purchases. Gearing up for such a significant change would require considerable planning and coordination with suppliers of both food and restaurant equipment.

McDonald's would observe restaurant operations in these test stores and survey San Diego customers on their purchasing experiences over the following several weeks. This information would provide important data for how to proceed.

By mid-May 2015, sales data from the test market were indicating solid same-store sales growth attributable to All Day Breakfast. The data also confirmed that equipment constraints, especially grill space, were creating operational bottlenecks. If *ADB* were to be expanded regionally or nationally, substantial equipment purchases would be required by franchisees. Much of this equipment would require long lead times from order to delivery dates.

In July 2015, recognizing the potential favorable impact on its fourth quarter and ongoing financial performance, McDonald's company and owner-operator leadership endorsed the national launch of All Day Breakfast. The final launch decision was contingent on further franchisee approval (votes by co-ops of owner-operators) by the end of August. They set an aggressive timeline for its launch.

McDonald's US Supply Chain Management

McDonald's U.S. Supply Chain Management (SCM) is a unique, *dis-integrated* system. In serving nearly 27 million U.S. customers each day, the company does not produce, warehouse, or transport any of its equipment, food, packaging or other supplies; all of its supply chain is outsourced. Suppliers are independently owned and operated to keep the relationship at arm's length and to allow each company the ability to focus on and leverage its area of expertise. The supply chain is built on a balance of demonstrated results and long-term relationships, with suppliers that are flexible, responsive, and willing to invest for the long-term benefit of the relationship. SCM is responsible for managing these relationships and the performance of the supply chain system.

The decision in July 2015 to launch *All Day Breakfast (ADB)* presented SCM and the supply chain partners a challenging timeline to plan and execute. The supply chain consists of dozens of independent strategic and non-strategic suppliers, as well as their secondary suppliers. It is no minor feat to prepare the supply chain to act in concert in servicing the needs of 13,700 mostly independently-owned restaurants spanning the country to serve more customers a broader, nationally-promoted menu. Initial and replenishment quantities of food items would need to be forecast from very limited data. The supply chain must be notified and prepared to produce, ship and handle the additional volume generated by the *ADB* initiative. For some commodities (notably eggs and hash browns), these increased volumes could impact entire industry segments. Logistics must be arranged to support the transport from supplier to hub or distribution center, from hub to distribution center where applicable, and from distribution center to restaurant. Restaurant equipment must be ordered, manufactured, shipped, delivered, and installed. Each restaurant must be adequately stocked with initial food and packaging supplies. Replenishment quantities must be properly staged in distribution centers and in some cases, redistribution hubs. Sales and inventories must be monitored closely to be sure adequate, but not excessive, replenishment inventories are maintained. The test market experience for *ADB* would be used to generate the national forecast, but the number of markets and the restaurant count involved in the test were both much lower than typical for forecasting a national launch. Therefore, each link in the supply chain must be prepared for an inaccurate demand forecast – too high or too low – and be prepared to immediately adjust. This "certainty about forecast uncertainty" would be especially challenging for fresh agricultural products such as the fresh-cracked eggs in the Egg McMuffin product line, especially in the wake of the spring-summer 2015 outbreak of avian influenza which had impacted McDonald's suppliers.

Discussion Question

It is July 2015. You are the senior manager of McDonald's Supply Chain Management Team. You have been in top level management discussions regarding the possible implementation of the All Day Breakfast for three months, monitoring the limited test market data. You have just been notified that the initiative, assuming approval by the franchise operators (results of their vote will be known by September 1) is a go: *ADB* will be launched nationally at 13,700 restaurants the first week of October. What are your top priorities?

Part 2

Early in July 2015, McDonald's management announced its decision to launch *All Day Breakfast* nationally. Based on the successful test market data and the potential positive financial impact of *ADB*, the launch date of October 1 was announced. This aggressive launch date would create a number of challenges for the Supply Chain Management Team.

The Challenges

The challenges to a flawless *ADB* launch were considerable:

Uncertain Demand: The speed to market imperative of the *ADB* launch necessitated that the supply chain be prepared for any volume increase. A successful *ADB* launch would increase demand for McDonald's breakfast food items. But, by how much? Any significant increase could run up against supplier capacity constraints for some food items, constraints that would need to be addressed in advance.

ADB had been tested in local markets earlier in the year to gauge its popularity. However, results from these test markets were not necessarily reliable indicators of actual demand on a national scale. If forecasts proved too optimistic, McDonald's suppliers and franchisees could be investing too heavily in inventories and the logistics to support this inventory. If the demand forecasts significantly under-estimated demand, the company risked stocking out of product and disappointing customers, an even greater misstep which would surely attract the attention of competitors, social media, and Wall Street.

Vulnerable Egg Supply: Highly pathogenic avian influenza (HPAI) H5 infections had been reported in U.S. domestic poultry in 15 states from December 2014 through June 2015. Infections within egg laying flocks were concentrated in the Midwestern states of Iowa, Nebraska, Minnesota, Wisconsin, and South Dakota. Nearly 42 million laying hens in these four states – 38% of the region's and 14% of the nation's laying flock - had been wiped out.

The National Center for Disease Control was warning that H5 outbreaks in birds in the United States could recur in the fall and winter 2015. This highly contagious poultry disease generally requires quarantining production facilities and destroying infected flocks, therefore posing considerable risk to those dependent on a reliable egg supply.

As a result of the avian influenza outbreak, McDonald's egg supply chain had lost 46% of its suppliers' dedicated laying hens. Available shell egg capacity for McDonald's as of July 2015 was 83,000 cases per week. Its projected needs could be as high as 145,000 cases/week. Egg supplies nationwide were tight after 7 months of flock destruction and future supplies were uncertain. McDonald's animal welfare standards required additional steps and oversight before qualifying new producers, and meant that not all producer facilities could qualify, further adding to the complexity the supply chain faced before and during the launch of *ADB*.

Constrained Hash Brown Capacity: Global manufacturing capacity for McDonald's specification of hash brown patties is limited. Three North American potato processors supply 100% of McDonald's U.S. hash browns and a significant percentage of its global hash brown requirements. The anticipated increase in hash brown demand resulting from *ADB* would push the limits of the approved suppliers' production capacity. Without proper coordination, it could also disrupt promotional activities beyond McDonald's U.S. market. In addition, oil quality plays a very important role in hash brown quality, and McDonald's and its suppliers used a unique zero-TFA oil blend.

Original English Muffin Capacity and Transition: McDonald's English muffin sourcing posed multiple challenges. First, production capacity among its suppliers was tight and not evenly distributed across regions. If sales reached the high-end forecast, McDonald's would not have adequate supplier capacity in the right place, so regional shortages were probable. Distribution was not homogeneous, as some fresh and frozen muffins were distributed via distribution centers and/or re-distribution hubs, while some bakers were close enough to their end users to distribute fresh using direct-store-delivery. This multi-modal, multi-level supply chain was not yet on-boarded to McDonald's supply chain integration platform which provided suppliers and McDonald's one shared view of demand. Lastly, the Company decided, nearly concurrent with the *ADB* decision, to transition from a newer formula containing a unique finely milled whole grain flour, back to the 100% unbleached flour in its English muffin recipe. To avoid confusion, it was important that the muffin transition in the restaurants be completed prior to the *ADB* launch.

Margarine to Butter Transition: In January 2015, McDonald's formalized its Food Vision and Product Road Map. This document drove the decision to convert from an easy-to-use liquid margarine to real butter. This decision would have significant consequences to suppliers and restaurant operations. Margarine and margarine suppliers would be phased out; butter would be phased in, butter suppliers added, and restaurant crews re-trained. *ADB* would greatly increase butter needs. In February 2015, just ten months prior to the *ADB* launch, McDonald's had only one active butter supplier.

Carrier Capacity Constraints: The transportation market was chronically very tight: trucking capacity was in high demand and short supply. Two transportation issues could potentially result in unacceptable inventory shortages: weather disruptions or sales exceeding forecast. If sufficient carrier capacity were not pre-negotiated, the excess loads would necessarily be tendered through the brokerage channel, an unreliable and costly alternative.

Equipment and Timing: Well before the launch decision was made, the equipment team faced a dilemma: how to meet the equipment requirements of each restaurant by the launch date when: (a) the launch was not yet a certainty, and (b) the needs of each restaurant were not known. The decision to launch – requiring support from both corporate senior leadership and franchisees — would not be made until it was too late to meet the equipment requirements. The equipment team could not wait until decisions were finalized to begin its preparations, but making commitments to suppliers absent a firm decision exposed all parties to considerable risk.

The dimensions of its dilemma were significant:

> **Manufacturing constraints:** The proposed *ADB* national launch, if approved, would be launched almost concurrently with the *Original English Muffin* initiative. Together, these two initiatives would require additional toasters, egg cookers, and other equipment at each of the 13,700 domestic restaurants. Potentially, a restaurant could need up to 31 new equipment items, including small wares like spatulas and butter brushes. Fifty percent of the equipment would need to be ready for shipment in August. The approved manufacturing capacity for this specialized equipment was limited and insufficient. Some items needed in late August for restaurant training were manufactured in Asia. Given these constraints, equipment orders would need to be placed by June to provide time for manufacturing, transporting, delivering, and installing.

Uncertainty of Equipment Requirements: Prior to placing orders with manufacturers, a forecast of additional equipment requirements was needed. But McDonald's had never before launched a project like *ADB* under these time constraints, so no historical data for an equipment forecast was available. Equipment needs would vary by restaurant. *ADB* operating procedures were still in development in the limited test markets, so robust data and information did not yet exist to determine individual restaurant equipment needs. Only by surveying each of the 13,700 restaurants could an accurate forecast be produced. But to avoid unnecessary disruption to the restaurants, surveys would not be allowed until the probability of the launch was high, i.e. after the franchisee voting process began. This prolonged the already significant uncertainty on the true equipment needs.

Owner-Operator Approval Constraints: McDonald's independent owner-operators organize themselves into regional cooperatives and vote on nationally advertised campaigns. The Owner-Operator vote would occur from July 31 to August 31, 2015. Final results would not be known until September 1. Without approval for advertising *ADB*, there would be no initiative. This late approval process posed several challenges for the equipment team: (1) the dates were well beyond the June date equipment suppliers needed firm commitments to manufacture; (2) the process delayed the start of the restaurant survey, essential for determining individual restaurant equipment needs; (3) the final approval date was 12 days beyond the deadline to begin equipment distribution to the restaurants to meet Operations' timeline. As a result of these constraints, the team needed to complete its 13,700 surveys in less than three weeks: July 17 through August 3. It also burdened the equipment team with the additional risk of preparing shipments for nearly 50% of restaurants before the final endorsement by all parties on September 1, 2015.

Warehousing Requirements: Since large quantities of equipment would be manufactured and inventoried prior to the final decision to launch, warehouse space would be needed to store and efficiently consolidate loads for shipment. This space would need to be arranged prior to final approval of the initiative.

Shipping Constraints: Anticipating that, if *ADB* were approved, the team would be tasked with shipping to 13,700 restaurant locations in less than 30 days, the daily shipping capacity was determined to be insufficient. Additional transportation capacity would be needed.

Financial Exposure: The practical necessity of committing to equipment purchases prior to *ADB* approval posed a significant financial risk.

Addressing the Obstacles

To overcome these multiple obstacles, SCM called upon the strengths of its supply chain.

Supply Chain Values: At the forefront of these strengths are the Supply Chain Values that bond suppliers to work together for the common good, often called "System First" behavior. Comments from SCM team leaders highlight the importance these values played in the successful launch of *ADB*:

> Several values were in play with our equipment plan, foremost the "Three Legged Stool" (representing the shared success of suppliers, franchisees and the corporation) and "System First." We worked together with the suppliers and the NLC Operators Equipment Team as one team with a common goal. Our suppliers received nothing down and no payments until after the introduction of the *ADB* initiative. Everyone involved exhibited the System First mentality: We are all in it to Win
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> Our suppliers reacted by making McDonald's their priority customer; we call this System First behavior. English muffin, hash brown, and egg suppliers moved away from other business to assure production capacity and supply for McDonald's restaurants and customers. In some cases, this meant that our suppliers moved away from more profitable business in favor of the additional McDonald's volume.
>
> All of our values were demonstrated by SCM and our suppliers.

Transparency, Inclusion, Trust: The complexities of executing on a tight schedule required all parties to work in concert from a common, but flexible, plan. Changes in the plan affected multiple parties, so each partner needed a voice in the decision process and each party needed to be aware as plans changed. Noted one team leader:

> We were very transparent with our suppliers, including them in all the conference calls and trusting that everyone was doing their best to succeed in a very challenging situation.

Long Term Relationships: A transactional model could not have delivered the launch of All Day Breakfast. Suppliers demonstrated a willingness to invest for the long-term benefit of the relationship, often at the expense of more lucrative short-term transactions. Responding to the question, "what specific strengths of Supply Chain Management did you see contributing to the success of the *ADB* launch?" one team leader replied:

> The partnership we have with our suppliers. The plans, commitments, and expenses were all very high risk endeavors: less than 6 months to introduce the initiative, 2 months for early manufacturing, 45 days for food and packaging supply planning, less than 30 days for deployment and delivery of equipment; and over $20MM in equipment commitments with no down payment.

System First: Multiple suppliers (potatoes, English muffins, eggs) prioritized the McDonald's initiative. Cargill Kitchen Solutions was able to increase the available weekly egg supply from 83,000 to 120,000 cases in a short egg market still reeling from the avian influenza epidemic. Hot cake capacity was increased by 25% as suppliers prioritized McDonald's over alternative customers. Hotcake syrup capacity was increased by 15% by increasing line time without increasing cost to McDonald's. Contingency trucking capacity was held in reserve from the tight carrier market to assure McDonald's would be adequately serviced. These actions demonstrate the commitment of supply chain partners to the SCM principle that long-term synergistic relationships outperform the sum of short-term individual transactions.

Shared Risk/Shared Reward: Orders for 1000 egg cookers and 100 muffin toasters were placed in May, well before the final decision to proceed had been made. This order entailed risk to all involved as a decision to abort *ADB* prior to its launch would result in a sharing of the negative financial impact. Despite this risk, all parties enthusiastically supported the orders, manufacturing proceeded on the tight schedule, and delivery was on time.

Sharing Innovative Ideas and Best Practices: The value of sharing ideas and successful practices is expressed by one team coordinator:

> We had several suppliers on conference calls daily, covering updates and sharing what was working for them. If a supplier designed a useful document, it was shared with other suppliers. One supplier developed the All Day Breakfast Equipment Cookbook and shared it with its competitor to support the Brand. Many concepts, documents, and approaches were

shared among suppliers contributing to the successful *ADB* introduction. At the conclusion of the launch, McDonald's facilitated a Post Mortem meeting to capture lessons learned that were shared with all participants.

The suppliers' long history of engagement and commitment to these values provided the foundation for SCM to galvanize the supply chain: to mobilize people from multiple organizations, supported by technology and shared values to work together, unified as one team, aligned and focused on the common goal.

Analytics and Technology: McDonald's had invested in sophisticated supply chain integration systems including: Efficient Assured Supply (EAS), which provides suppliers, distributors and McDonald's one shared view of demand and inventory, and Restaurant Order Proposal (ROP), which reduces the burden on the restaurant managers while improving accuracy of replenishment ordering. Because of this commitment to systems, SCM was able to mobilize resources to collect and process meaningful data and generate timely, actionable reports. Its supply chain integrator, HAVI, was a focal point in this effort.

HAVI's role in *ADB* was to collect and process data into information essential to keep McDonald's and its suppliers and logistics partners informed. This task included collaboratively forecasting demand for each item, tracking inventory quantities at the various nodes (supplier, hub, and distribution center), monitoring actual to forecast usage in the restaurants, identifying variances and their causes, and alerting the supply chain partners so they could respond appropriately.

Following the innovative format created by SCM, HAVI issued its report weekly at first. The report (powered by EAS and ROP) was set up to show three demand scenarios (explained below) covering 28 items. It provided easily understood, color-coded early warning alerts for items where aggregate days of supply were approaching the lead times necessary to create and deliver more inventory. It also provided a single view of demand that was available to all supply chain partners facilitating management of inventory. Using this report, the SCM team quickly achieved the balance of providing sufficient inventories delivered on a timely basis without incurring the cost of stocking excessive quantities.

Anticipatory Management and Flexibility: Based on test market results, SCM forecasted three levels of demand - low, most likely, and high - with a supply plan for each. Early HAVI reporting showed *ADB* hitting the most likely forecast. But those reports assumed all restaurants had launched in a predictable fashion well before the launch date. Actually, many restaurants began offering *ADB* much closer to the advertised launch than expected. This situation was revealed about two weeks before the launch via ad hoc reporting created by the HAVI Analytics and McDonald's Business Insights Teams. These reports showed actual demand exceeding the high end forecast by 10-30%. This updated data enabled the SCM team to quickly implement its high-end demand supply plan in time to assure supply.

Within 10 days of launch, analytics showed that at some restaurants were actually ordering in excess of their sales, thus building unnecessary inventories. By creatively analyzing its system inventory information, SCM pinpointed five items that were at risk due to excessive ordering.

Once again, SCM was able to quickly respond by placing these five *ADB* items on an intensive form of managed supply, assuring supply while preventing restaurants from over-ordering. Within five days of the managed supply decision - only 15 days into the launch - restaurant order quantities were reduced to an acceptable margin of safety with no stock outs across the system.

Management of the transportation requirements (carrier capacity constraints) and the hub system also illustrates anticipatory management and flexibility in SCM. Armada is McDonald's third party logistics supplier. It has two responsibilities: to manage the in-bound transportation requirements between suppliers to distribution centers and hubs and to control the hub (or re-distributor) network. Hubs are redistribution warehouse facilities used to manage lower turnover items, and occasionally to forward position inventory to manage forecast uncertainty. In each role, Armada was instrumental in proactively addressing issues and creating flexibility to respond. Its effectiveness was enhanced by the HAVI reports that forecast individual load demands seven days in advance.

Given the tight transportation market and potential for weather disruptions or forecast error, contingency plans for carrier capacity were required. In addition to arranging carriers per its normal process, Armada arranged with select strategic carriers to act as contingency capacity should weather or unforeseen demand result in carrier shortages. When actual demand exceeded the high end forecast by 10%, Armada turned to these strategic carriers, thus avoiding costly and unreliable brokerage carriers. This contingency capacity allowed Armada to respond reliably to special transportation requests such as non-standard line of supply routes, i.e. from back-up suppliers or inventory transfers from distribution center to distribution center.

As manager of the hub system, Armada also participated in anticipatory management and actions. Recognizing the degree of uncertainty in initial demand forecasts, Armada, at the instruction of SCM, moved inventory of some constrained items further forward in the supply chain to create inventory buffers and facilitate quicker reaction to inventory variability should it occur. Once *ADB* had launched and actual demand was known, hub inventory was redeployed as needed.

Finally, solving the equipment team's dilemma (equipment and timing) required flexibility, anticipatory management and trust. McDonald's and its suppliers would be forced to take a risk together – commit to equipment orders and supplementary services (e.g. trucking and warehousing) before the *ADB* decision was made. McDonald's was willing to assume the financial risk on purchasing equipment due to the tight timeline. Among many supplier concessions in the risk sharing arrangement, suppliers would receive no payment until *ADB* was launched. Additional concessions from suppliers were likely should the project be rejected.[2]

The equipment team's success at sourcing, managing, and deploying equipment for 13,700 domestic restaurants in under 4 months is representative of how SCM met the complexities and challenges of this project. In less than 3 weeks, 13,700 kitchen equipment surveys were completed, roughly one-third the time required historically. In fewer than 60 days after the surveys, over 192,000 pieces of equipment – 425 equipment packages per business day - were delivered to McDonald's restaurants in time for installation and restaurant crew training.

Total execution time, from kitchen survey to equipment delivery, was compressed from seven-months (historical average) to just two months. Despite the multitude of obstacles, the equipment team rose to the challenge, managed the unavoidable risks, and met the aggressive timetable to keep the *ADB* launch on time.

Supplier Collaboration, Planning, and Alignment: Weak links or missed assignments could jeopardize the success of the initiative and negate the efforts of all other supply partners. Thus, collaboration, planning, and alignment of supply chain partners were key to a successful launch.

Each supplier understood McDonald's expectations to assure supply and to inform the Company of any risks to assured supply. Weekly, and sometimes daily, calls were held to update and align suppliers. Each supplier was provided with weekly *All Day Breakfast* sales information, at a level actionable to its team, to support their ability to adapt to actual sales once the launch was underway. In addition, McDonald's facilitated regular "war room" calls aligning all areas of the business — marketing, operations, customer satisfaction, equipment, suppliers, logistics, and the distribution centers.

The power of a coordinated, collaborative effort was demonstrated on multiple fronts. Through collaborative efforts of Cargill Kitchen Solutions, HAVI Supply Planning, SCM, and Quality Support Leadership, a fully functional contingency plan for the vulnerable egg supply was prepared and ready for implementation if needed. Shell egg capacity was boosted to support the supply plan within 60 days, a remarkable achievement given the state of the egg industry. The Quality Systems team qualified 12 new egg producer farms - more than doubling McDonald's approved egg producers — without compromising quality or animal welfare standards. Lines of supply were adjusted frequently to adapt to where the highly perishable shell egg supply was available. HAVI and Armada coordinated with Cargill Kitchen Solutions to create a daily dynamic routing scheme to cover the entire country from multiple shipping points. For a period of time, distribution centers were receiving product every day because supply was too tight to deliver several days or a week's supply at once, as would be typical. After building this supply and logistics capability, the Strategic Supply team, Quality Systems team, Cargill Kitchen Solutions, the egg producers, Armada, and HAVI successfully collaborated to deliver over 25 million shell eggs in the first month of launch.

The Supplier Quality Support (SQS) team also exemplifies the power of SCM's collaborative effort. This team is composed of suppliers who survey customer experiences at McDonald's restaurants to identify and provide early warning of potential issues. During the first five weeks of the launch, SQS completed over 950 restaurant surveys providing operators and the company with valuable feedback used to improve operations and enhance training. SQS was called upon to investigate an apparent imbalance between hotcake sales and syrup utilization. Over 100 surveys were conducted within 48 hours to identify the source of the problem. The surveys revealed that 15% of the restaurants routinely were offering more than the standard one-syrup-per-order. Fifty percent of the restaurants in two regions were issuing two-syrups-per-order. This data was instrumental in engaging Operations to reinforce correct procedures.

Contingency Planning and Execution: Recognizing its susceptibility to Murphy's Law, SCM anticipated potential and probable bottlenecks and designed extensive contingency plans to address them. An early step in contingency planning was developing supply plans for each of the three levels of forecasted demand. Beyond this step, potential risks and bottlenecks were identified. In addition, due to the ever present threat of another Avian Influenza outbreak, specific contingency plans were developed and aligned across SCM, Marketing, and Operations.

Hash Brown Capacity: SCM addressed this issue in three ways. First, because of the shared supplier base, the US Supply Chain Management team coordinated with the Global team to understand their hash brown needs and planned promotions. Second, the three North American potato suppliers were notified several months in advance of the *ADB* promotion to begin pre-building frozen hash brown inventories. These inventories alleviated daily manufacturing constraints that otherwise might constrain supply. Third, a contingent hash brown supplier was approved. This additional source was available to all global markets including the United States.

The English muffin capacity constraint was addressed by building and freezing contingency inventory at manufacturers who had available production capacity, then shipping this extra product from one region to another when demand proved to be above the high end of the forecast. The Original English Muffin transition from part whole grain to 100% unbleached flour was expedited over 30 days and completed just as *ADB* was launched.

Seven additional butter suppliers were approved between February and July to increase sourcing flexibility addressing the transition from margarine to butter.

Contingency transportation carrier capacity was arranged to avoid disruptions from weather or unexpectedly high demand. Hubs were managed with forward inventory to enable faster reaction and re-supply when sales exceeded the high end forecast. Field supply chain staff were leveraged to provide first hand feedback from the "front lines."

Rewarding Flexibility: In several product categories, the launch of *ADB* impacted supplier market share. Most suppliers embraced the need to pre-build inventory, a decision that can leave a supplier with slack line time and an idle work force if sales do not materialize. In one instance where the supplier doubted and did not pre-build per plan, another supplier who had proactively, and at their own risk, invested in additional capacity months earlier, was able to cover the markets that would have been shorted. More flexible or agile suppliers were able to react with additional production and picked up additional distribution centers, sometimes permanently.

Flexibility of organizational design: SCM organizational design includes positions with deep industry expertise which manage categories of suppliers, as well as project management generalists who work across categories on new product launches. Promotions were nothing new to McDonald's, and the company and HAVI had processes and tools for promotions management. Those tools and the thinking that accompanied them – generally applicable to new product pipeline fill — had to be adapted for a situation where the pipeline was full but the volume would soar. Historically, promotions to existing core food were not actively managed by the category strategists, relying instead on these well-honed promotions processes. *ADB* required intensive engagement by the strategists because the sheer volume of the platform launch exceeded any historical product promotion. Deep category knowledge proved useful for rapidly redesigning supply strategies once the actual volume impacts were known. Had McDonald's – a veteran to promotions – rested on its laurels and proceeded with business as usual instead of reexamining roles and tools, they could not have been as successful with the launch of *ADB*.

Communication: A common theme among team leaders was the vital role a well-designed, disciplined communication process played in coordinating this complex effort. This process linked senior leadership, SCM, HAVI, the supplier community, and restaurant operations providing each with key, timely information essential to their performance.

> We had continuous communication internally and with all suppliers including daily supplier calls and weekly top management meetings.
>
> We relied on weekly and at times more frequent alignment and supply plan discussions with our bakers and hash brown suppliers.
>
> The great communication meant everyone had a seat at the table and was able to understand the needs and respond with each group's expertise.

Through daily communication with suppliers, daily and weekly HAVI reports, weekly meetings with senior management, and on-site feedback from suppliers and staff, SCM was effective at keeping all parties informed, aligned, and working toward the common goal. Each of the activities involved many players in the chain. All of the above was performed under intense time pressure, and in parallel to completion of other responsibilities. Thus, it was particularly important to continuously communicate the sense of urgency regarding all aspects of the project.

A key element of the project's communication was the project management reporting that kept SCM and senior leadership closely connected and aligned. The HAVI Total Network Inventory report, issued at least weekly, provided the hard data from which progress and supply chain performance could be evaluated. These data was used by the SCM team to validate and adjust supply plans, while maintaining alignment among the supply chain partners. SCM summarized key supply/inventory issues from this data and briefed senior leadership at least weekly. Based on this briefing, leadership was able to determine how best to prioritize its influence on the process.

The Field Supply Chain (FSC) also played an important role in maintaining effective communication and aligning actions among the regional leadership, owner-operators, and restaurants. When it was determined that restaurants were over-ordering relative to sales, restaurants were placed on aggressively managed supply quantities. This action triggered an emotional response from some owner-operators. Their reaction, in some cases, was to question whether the supply chain had adequate inventory to meet their needs. The Field Supply Chain staff was called upon to manage perceptions of scarcity versus reality. In rare cases where real shortages did exist, FSC staff worked with HAVI and the distribution centers to arrange for increased allocations.

But, in most cases, reported shortages were not real. Often, the perceived shortage was caused by inaccurate inventory records at the restaurant. In these situations, FSC's role was to: (a) assure the owners and restaurants that the managed supplies were adequate; and (b) work with the regions, owner-operators, and restaurants to communicate the imperative of maintaining accurate inventories and reporting daily inventory of critical items.

Confidence: Military training has long been based on presenting recruits with complex, difficult assignments, the successful completion of which generates group cohesiveness, pride, and confidence. Similarly, the successful launch of *ADB* established a confidence within SCM expressed in its simple, strong message to senior leadership: "SCM is ready!"

Reflecting on and summarizing how USSCM approached and overcame these multiple obstacles, one manager explained:

> Failure was not an option. We were able to overcome most [obstacles] by developing and invoking contingency plans, continuously communicating with daily updates, and focusing on the major issues of the day.

Summary and Conclusion

The successful launch of the *All Day Breakfast* demonstrates McDonald's U.S. Supply Chain Management's ability to quickly and efficiently execute a highly complex strategic initiative. Summarizing the key factors contributing to its successful launch, team leaders repeated common themes:

- Continuous, clear, concise communication; putting the best players in key positions to lead with commitment and accountability; seeing that leadership is committed to eliminate any barriers to success; providing operating managers the opportunity to elevate to leadership any challenges or issues not easily resolved at a lower level.

- The strong sense of partnership across all internal stakeholders, suppliers, and strategic partners.

- A must- do, no-excuses approach to supporting the system and to problem solving.

- Leveraging historical promotions processes and roles while taking nothing for granted and asking specialists to work together in new ways resulting in a highly agile response to the reality of sales much above forecast.

- Trust between partners, collaboration, a clear picture of success, standardized tools and processes, clean data, end-to-end visibility, and most importantly, skilled supply chain professionals all engaged and driving *ADB* success. A true example of the three-legged stool!

- The blend of technology and human capital advantages. Supply chain integration technologies clearly played a key enabling role. However, without the "speed of trust" and strong culture of mutual success with high performing suppliers, technology and analytics could not have carried the day.

Discussion Questions

1. In what ways does McDonald's U.S. SCM provide the company a competitive advantage?

2. How does this competitive advantage differ from other common advantages such as product-based advantages?

3. To what other potential stakeholder concerns might the power of McDonald's SCM be successfully applied?

4. How does the McDonald's experience in managing its supply chain through the *ADB* launch influence your thinking as a supply chain partner in your business?

5. Now that the impact of the *All Day Breakfast* has moved McDonald's to a new value plateau, what do you recommend the company do as its next strategic move?"

Appendix 1: Selected Company and Industry Statistics

McDonald's Comparable Sales

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
U.S. Restaurants	-2.60%	-2.00%	0.90%	5.70%	5.40%	1.80%	1.30%	-1.30%

Source: Company Reports

Quarterly Revenue and Earnings ($ billions)

	Revenue	Earnings
Q1 2013	6.62	1.3
Q2 2013	7.08	1.4
Q3 2013	7.32	1.52
Q4 2013	7.09	1.4
Q1 2014	6.7	1.21
Q2 2014	7.18	1.39
Q3 2014	6.98	1.07
Q4 2014	6.57	1.1
Q1 2015	5.96	0.81
Q2 2015	6.5	1.26
Q3 2015	6.6	1.3
Q4 2015	6.34	1.22
Q1 2016	5.9	1.1
Q2 2016	6.27	1.12
Q3 2016	6.4	1.28
Q4 2016	6.3	1.3

Source: Company Reports

Brand Value - Major Fast Casual Restaurants, 2016

Restaurant	McDonald's
McDonalds	88,654
Starbuck's	43,565
Subway	21,567
KFC	12,386
Pizza Hut	8,309
Chipotle	8,031
Domino's	4,869
Tim Horton's	4,673
Burger King	3,685
Panera	3,344

Source: Statista

Change in McDonald's U.S. Customer Count

Restaurant	McDonald's
2013	-1.60%
2014	-4.10%
2015	-3.00%
2016	-2.10%

Source: SEC Filing

Appendix 1 (continued): Selected Company and Industry Statistics

McDonald's	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Revenue ($Bil)	23.52	22.75	24.07	27.01	27.57	28.11	27.44	25.41	24.62
Franchise Rent and Fees	4.69	4.91	5.26	5.78	5.93	6.13	6.19	5.94	6
Company Operated Restaurants	16.6	15.5	16.2	18.3	18.6	18.9	18.2	16.5	15.5
Franchise Royalties	2.28	2.38	2.58	2.93	3.03	3.1	3.09	2.98	3.1
GAAP Net Income	4.3	4.55	4.95	5.5	5.47	5.59	4.76	4.53	4.7
Shares Mil	1,146	1,107	1,080	1,045	1,020	1,006	986	945	819
Key Ratios									
Net Margin %	18.34	20.01	20.55	20.38	19.82	19.87	17.34	17.82	19.09%
Asset Turnover	0.81	0.78	0.77	0.83	0.81	0.78	0.77	0.70	0.71
Return on Assets %	14.91	15.51	15.90	16.94	15.98	15.51	13.42	12.54	13.59
Financial Leverage	2.13	2.15	2.19	2.29	2.31	2.29	2.67	5.35	NM
Return on Equity %	30.1	33.2	34.51	37.92	36.82	35.69	32.97	45.43	191.93
Return on Invested Capital %	19.42	20.26	20.75	21.93	20.77	20.12	17.68	16.83	19.22

Source: Morningstar.com

Appendix 2: McDonald's Corporation -- Income Statements

Fiscal year is January-December. All values USD millions.	**2012**	**2013**	**2014**	**2015**	**2016**
Sales/Revenue	27.57B	28.11B	27.44B	25.41B	24.62B
Cost of Goods Sold Including D&A	16.75B	17.2B	16.99B	15.62B	14.42B
COGS excluding D&A	15.26B	15.62B	15.34B	14.07B	12.9B
Depreciation & Amortization Expense	1.49B	1.59B	1.64B	1.56B	1.52B
Depreciation	1.4B	1.5B	1.54B	1.44B	1.39B
Amortization of Intangibles	86.3M	86.3M	105.2M	117.7M	125.8M
Gross Income	10.82B	10.9B	10.46B	9.79B	10.2B
	2012	**2013**	**2014**	**2015**	**2016**
SG&A Expense	2.44B	2.41B	2.51B	2.43B	2.38B
Research & Development	-	-	-	-	-
Other SG&A	2.44B	2.41B	2.51B	2.43B	2.38B
Other Operating Expense	-	-	-	-	-
Unusual Expense	49.9M	14.5M	(43.4M)	158.7M	311.3M
EBIT after Unusual Expense	8.33B	8.48B	7.99B	7.2B	7.51B
Non Operating Income/Expense	97.2M	152M	(56.8M)	134.6M	182.6M
Non-Operating Interest Income	28M	15M	20M	9.5M	4M
Equity in Affiliates (Pretax)	143.5M	78.2M	(8.9M)	(146.8M)	54.8M
Interest Expense	517.1M	521.5M	570M	637.8M	884.3M
Gross Interest Expense	533M	537M	584.7M	647.2M	891.4M
Interest Capitalized	15.9M	15.5M	14.7M	9.4M	7.1M
Pretax Income	8.08B	8.2B	7.37B	6.56B	6.87B
Income Tax	2.61B	2.62B	2.61B	2.03B	2.18B
Income Tax - Current Domestic	1.32B	1.41B	1.27B	1.21B	1.17B
Income Tax - Current Foreign	1.16B	1.18B	1.43B	816M	1.55B
Income Tax - Deferred Domestic	150.4M	39.5M	(88M)	2.9M	(108M)
Income Tax - Deferred Foreign	(15.9M)	(14.3M)	(2.7M)	(4.3M)	(430.6M)
Income Tax Credits	-	-	-	-	-
Equity in Affiliates	-	-	-	-	-
Other After Tax Income (Expense)	-	-	-	-	-
Consolidated Net Income	5.46B	5.59B	4.76B	4.53B	4.69B
Minority Interest Expense	-	-	-	-	-
Net Income	5.46B	5.59B	4.76B	4.53B	4.69B
Extraordinaries & Discontinued Operations	-	-	-	-	-
Extra Items & Gain/Loss Sale Of Assets	-	-	-	-	-
Cumulative Effect - Accounting Chg	-	-	-	-	-
Discontinued Operations	-	-	-	-	-
Net Income After Extraordinaries	5.46B	5.59B	4.76B	4.53B	4.69B
Preferred Dividends	-	-	-	-	-
Net Income Available to Common	5.46B	5.59B	4.76B	4.53B	4.69B
EPS (Basic)	5.41	5.59	4.85	4.82	5.49
Basic Shares Outstanding	1.01B	998.4M	980.5M	939.4M	854.4M
EPS (Diluted)	5.36	5.55	4.82	4.8	5.44
Diluted Shares Outstanding	1.02B	1.01B	986.3M	944.6M	861.2M
EBITDA	9.87B	10.08B	9.59B	8.91B	9.34B

Source: Morningstar

Appendix 3: McDonald's Corporation -- Balance Sheets

Assets

Fiscal year is January-December. All values USD millions.	**2012**	**2013**	**2014**	**2015**	**2016**
Cash & Short Term Investments	2.34B	2.8B	2.08B	7.69B	1.22B
Cash Only	2.34B	2.8B	2.08B	7.69B	1.22B
Short-Term Investments	-	-	-	-	-
Total Accounts Receivable	1.38B	1.32B	1.21B	1.3B	1.47B
Accounts Receivables, Net	1.38B	1.32B	1.21B	1.3B	1.47B
Accounts Receivables, Gross	1.38B	1.32B	1.21B	1.3B	1.47B
Bad Debt/Doubtful Accounts	-	-	-	-	-
Other Receivables	-	-	-	-	-
Inventories	121.7M	123.7M	110M	100.1M	58.9M
Finished Goods	121.7M	123.7M	110M	100.1M	58.9M
Work in Progress	-	-	-	-	-
Raw Materials	-	-	-	-	-
Progress Payments & Other	-	-	-	-	-
Other Current Assets	1.09B	807.9M	783.2M	558.7M	2.09B
Miscellaneous Current Assets	1.09B	807.9M	783.2M	558.7M	2.09B
Total Current Assets	4.92B	5.05B	4.19B	9.64B	4.85B
	2012	**2013**	**2014**	**2015**	**2016**
Net Property, Plant & Equipment	24.68B	25.75B	24.56B	23.12B	21.26B
Property, Plant & Equipment - Gross	38.49B	40.36B	39.13B	37.69B	34.44B
Buildings	27.06B	28.54B	27.61B	26.9B	25.21B
Land & Improvements	5.61B	5.85B	5.79B	5.58B	5.47B
Computer Software and Equipment	-	-	-	-	-
Other Property, Plant & Equipment	577.7M	588.7M	617.5M	546.8M	500.4M
Accumulated Depreciation	13.81B	14.61B	14.57B	14.57B	13.19B
Total Investments and Advances	1.38B	1.21B	1B	792.7M	725.9M
Other Long-Term Investments	-	-	-	-	-
Long-Term Note Receivable	-	-	-	-	-
Intangible Assets	2.8B	2.87B	2.74B	2.52B	2.34B
Net Goodwill	2.8B	2.87B	2.74B	2.52B	2.34B
Net Other Intangibles	-	-	-	-	-
Other Assets	999.1M	1.13B	1.21B	1.34B	1.05B
Tangible Other Assets	999.1M	1.13B	1.21B	1.34B	1.05B
Total Assets	35.39B	36.63B	34.28B	37.94B	31.02B

Appendix 3 (Continued): McDonald’s Corporation -- Balance Sheets

Liabilities & Shareholders' Equity

	2012	2013	2014	2015	2016
ST Debt & Current Portion LT Debt	-	-	-	-	77.2M
Short Term Debt	-	-	-	-	-
Current Portion of Long Term Debt	-	-	-	-	77.2M
Accounts Payable	1.14B	1.09B	860.1M	874.7M	756M
Income Tax Payable	298.7M	215.5M	166.8M	154.8M	267.2M
Other Current Liabilities	1.96B	1.87B	1.72B	1.92B	2.37B
Dividends Payable	-	-	-	-	-
Accrued Payroll	1.37B	1.26B	1.16B	1.38B	1.16B
Miscellaneous Current Liabilities	587.7M	604.7M	563.7M	542.1M	1.21B
Total Current Liabilities	3.4B	3.17B	2.75B	2.95B	3.47B
Long-Term Debt	13.63B	14.13B	14.99B	24.12B	25.88B
Long-Term Debt excl. Capitalized Leases	13.63B	14.13B	14.99B	24.12B	25.88B
Non-Convertible Debt	13.63B	14.13B	14.99B	24.12B	25.88B
Convertible Debt	-	-	-	-	-
Capitalized Lease Obligations	-	-	-	-	-
Provision for Risks & Charges	-	-	-	-	-
Deferred Taxes	927.5M	1.03B	1.03B	1.17B	1.01B
Deferred Taxes - Credit	1.53B	1.65B	1.62B	1.7B	1.82B
Deferred Taxes - Debit	603.6M	621.4M	591.2M	532.8M	804M
Other Liabilities	1.53B	1.67B	2.07B	2.07B	2.06B
Other Liabilities (excl. Deferred Income)	1.53B	1.67B	2.07B	2.07B	2.06B
Deferred Income	-	-	-	-	-
Total Liabilities	20.09B	20.62B	21.43B	30.85B	33.23B
Non-Equity Reserves	-	-	-	-	-
Preferred Stock (Carrying Value)	-	-	-	-	-
Redeemable Preferred Stock	-	-	-	-	-
Non-Redeemable Preferred Stock	-	-	-	-	-
Common Equity (Total)	15.29B	16.01B	12.85B	7.09B	(2.2B)
Common Stock Par/Carry Value	16.6M	16.6M	16.6M	16.6M	16.6M
Retained Earnings	39.28B	41.75B	43.29B	44.59B	46.22B
ESOP Debt Guarantee	-	-	-	-	-
Cumulative Translation Adjustment/Unrealized For. Exch. Ga	852M	572.6M	(1.38B)	(2.73B)	(2.91B)
Unrealized Gain/Loss Marketable Securities	-	-	-	-	-
Revaluation Reserves	-	-	-	-	-
Treasury Stock	(30.58B)	(32.18B)	(35.18B)	(41.18B)	(52.11B)
Total Shareholders' Equity	15.29B	16.01B	12.85B	7.09B	(2.2B)
Accumulated Minority Interest	-	-	-	-	-
Total Equity	15.29B	16.01B	12.85B	7.09B	(2.2B)
Liabilities & Shareholders' Equity	35.39B	36.63B	34.28B	37.94B	31.02B

Appendix 4: McDonald's Corporation -- Cash Flow Statements

Operating Activities

Fiscal year is January-December. All values USD millions.	**2012**	**2013**	**2014**	**2015**	**2016**
Net Income before Extraordinaries	5.46B	5.59B	4.76B	4.53B	4.69B
Depreciation, Depletion & Amortization	1.49B	1.59B	1.64B	1.56B	1.52B
Depreciation and Depletion	1.4B	1.5B	1.54B	1.44B	1.39B
Amortization of Intangible Assets	86.3M	86.3M	105.2M	117.7M	125.8M
Deferred Taxes & Investment Tax Credit	134.5M	25.2M	(90.7M)	(1.4M)	(538.6M)
Deferred Taxes	134.5M	25.2M	(90.7M)	(1.4M)	(538.6M)
Investment Tax Credit	-	-	-	-	-
Other Funds	1.4M	115.9M	482.3M	287.6M	228.2M
Funds from Operations	7.09B	7.31B	6.79B	6.37B	5.89B
Extraordinaries	-	-	-	-	-
Changes in Working Capital	(123.1M)	(191.4M)	(63.6M)	167.9M	167M
Receivables	(29.4M)	56.2M	27M	(180.6M)	(159M)
Accounts Payable	124.1M	(60.7M)	(74.7M)	(15M)	89.8M
Other Assets/Liabilities	(27.2M)	(44.4M)	(4.9M)	44.9M	28.1M
Net Operating Cash Flow	6.97B	7.12B	6.73B	6.54B	6.06B

Investing Activities

	2012	**2013**	**2014**	**2015**	**2016**
Capital Expenditures	(3.05B)	(2.82B)	(2.58B)	(1.81B)	(1.82B)
Capital Expenditures (Fixed Assets)	(3.05B)	(2.82B)	(2.58B)	(1.81B)	(1.82B)
Capital Expenditures (Other Assets)	-	-	-	-	-
Net Assets from Acquisitions	(158.5M)	(181M)	(170.5M)	(140.6M)	(109.5M)
Sale of Fixed Assets & Businesses	394.7M	440.1M	489.9M	554.2M	1.06B
Purchase/Sale of Investments	-	-	-	-	-
Purchase of Investments	-	-	-	-	-
Sale/Maturity of Investments	-	-	-	-	-
Other Uses	(354.3M)	(108.2M)	(40.9M)	(19.7M)	(283.5M)
Other Sources	-	-	-	-	-
Net Investing Cash Flow	(3.17B)	(2.67B)	(2.3B)	(1.42B)	(1.16B)

Appendix 4 (Continued): McDonald's Corporation -- Cash Flow Statements

Financing Activities

	2012	2013	2014	2015	2016
Cash Dividends Paid - Total	(2.9B)	(3.11B)	(3.22B)	(3.23B)	(3.06B)
Common Dividends	(2.9B)	(3.11B)	(3.22B)	(3.23B)	(3.06B)
Preferred Dividends	-	-	-	-	-
Change in Capital Stock	(2.29B)	(1.54B)	(2.96B)	(5.78B)	(10.87B)
Repurchase of Common & Preferred Stk.	(2.62B)	(1.78B)	(3.2B)	(6.1B)	(11.17B)
Sale of Common & Preferred Stock	328.6M	233.3M	235.4M	317.2M	299.4M
Proceeds from Stock Options	-	-	-	-	-
Other Proceeds from Sale of Stock	328.6M	233.3M	235.4M	317.2M	299.4M
Issuance/Reduction of Debt, Net	1.2B	535.3M	1.5B	9.76B	2.67B
Change in Current Debt	(117.5M)	(186.5M)	510.4M	589.7M	(286.2M)
Change in Long-Term Debt	1.32B	721.8M	992.5M	9.17B	2.96B
Issuance of Long-Term Debt	2.28B	1.42B	1.54B	10.22B	3.78B
Reduction in Long-Term Debt	(962.8M)	(695.4M)	(548.1M)	(1.05B)	(822.9M)
Other Funds	128.7M	80.8M	58.1M	(7.6M)	(3M)
Other Uses	(13.6M)	(11.8M)	(12.8M)	(58.7M)	(3M)
Other Sources	142.3M	92.6M	70.9M	51.1M	-
Net Financing Cash Flow	(3.85B)	(4.04B)	(4.62B)	735.3M	(11.26B)
Exchange Rate Effect	-400,000	58.7M	(527.9M)	(246.8M)	(103.7M)
Miscellaneous Funds	0	0	0	0	0
Net Change in Cash	(51.4M)	462.6M	(720.8M)	5.61B	(6.46B)
Free Cash Flow	3.92B	4.3B	4.15B	4.73B	4.24B

Source: Morningstar

Endnotes

1. At its November Investors Day meeting, McDonald's indicated its intent to sell as many as 4000 company-owned/operated stores by 2018. This would increase the percentage of franchise stores to 93%.

2. To help mitigate this risk, contingency plans were drafted to sell some of this equipment to McDonald's restaurants in other countries.