Managing **Consumer Insights** and **Animal Health** and **Welfare** across McDonald’s Worldwide Supply Chain

Purdue University

November 9, 2012
We’re McDonald’s

69 million customers per day

33,500 restaurants

119 countries
Annual Shopping List
The Three-legged Stool: An Enduring Competitive Advantage
Creating Long-term Wealth and **Competitive Advantage**

**predictable and competitive pricing**

**innovative products and processes**

**quality food and packaging**

**safe, sustainable and assured supply**
Addressing Consumer Demands through Supply Chain

Jerome Lyman

WORLDWIDE SUPPLY CHAIN
Leading with Consumer Insights
Customers Want to Know…

What’s in it?

Where does it come from?

How is it prepared?
Permissibility: The Big Picture

- Customers define permissibility across the following areas:
  - Quality
  - Choice
  - Nutrition
  - Experience
Perception Trumps Reality

“Never let the facts get in the way of a good story”
Consumers Don’t Trust Companies to Provide the Facts…

Net Trust in Institutions,* Average of 22 Countries, 2012

*Net trust equals “a great deal of trust” and “a fair amount of trust” minus “just a little trust” and “no trust at all.”
... And the “Facts” Vary Depend on Where You Stand

For you to consider a large company responsible to society, what are the most important things it should do? Anything else?
McDonald’s picks a trans-fat-free oil

McDonald’s fries are now trans-fat-free in U.S., Canada

McDonald’s to pay $8.5M in trans fat lawsuit

McDonald’s picks a trans-fat-free oil

Money

USA Today

WORLDWIDE SUPPLY CHAIN

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Quality, Safety and Affordability Key Issues for Food Industry

Most Important Issue the Food Industry Needs to Address
Unprompted, Top Mentions, by Region, 2012

- **Product quality**: North America 6, Europe 13, Asia 31, Africa 21, Latin America 24
- **Food safety**: North America 24, Europe 7, Asia 22, Africa 14, Latin America 11
- **Affordability**: North America 9, Europe 8, Asia 8, Africa 26, Latin America 12
- **Nutrition/health**: North America 8, Europe 10, Asia 4, Africa 8, Latin America 10
- **Additives/pesticides**: North America 10, Europe 8, Asia 5, Africa 5, Latin America 5
- **Adequate food supply**: North America 4, Europe 3, Asia 2, Africa 3, Latin America 3
- **GM food / biotechnology**: North America 6, Europe 6, Asia 1, Africa 2, Latin America 1
- **Product freshness**: North America 0, Europe 3, Asia 3, Africa 4, Latin America 3

Thinking about the Food Industry, what would you say is the most important issue it needs to address
## It’s Not What You Say… It’s What They Hear

<table>
<thead>
<tr>
<th>Farmer Says</th>
<th>Consumer Hears</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our methods are proven and safe</td>
<td>Your methods tamper with nature</td>
</tr>
<tr>
<td>We keep food affordable…</td>
<td>…but at what expense to quality?</td>
</tr>
<tr>
<td>Most farms are family run…</td>
<td>…but beholden to big processors</td>
</tr>
<tr>
<td>We care about our lands and animals</td>
<td>You will take shortcuts to be profitable</td>
</tr>
<tr>
<td>We need to produce more to feed the world</td>
<td>You want to produce more to sell to the world</td>
</tr>
<tr>
<td>We need a secure food supply</td>
<td>You want subsidies</td>
</tr>
<tr>
<td>We have the safest food supply in the world</td>
<td>Pesticides, antibiotics and hormones may not be safe in the long-run</td>
</tr>
</tbody>
</table>
Consumers Generally Split in Recognizing Progress Made on Key Issues

<table>
<thead>
<tr>
<th>Issue</th>
<th>Good job (5+6+7)</th>
<th>Average job (4)</th>
<th>Poor job (1+2+3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offering good, nutritious menu choices</td>
<td>36</td>
<td>23</td>
<td>31</td>
</tr>
<tr>
<td>Giving back to communities</td>
<td>34</td>
<td>21</td>
<td>23</td>
</tr>
<tr>
<td>Being environmentally responsible</td>
<td>31</td>
<td>26</td>
<td>29</td>
</tr>
<tr>
<td>Making restaurants environmentally friendly</td>
<td>31</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Treating employees fairly</td>
<td>29</td>
<td>23</td>
<td>27</td>
</tr>
<tr>
<td>Ensuring ingredients come from fair supply chain</td>
<td>28</td>
<td>24</td>
<td>26</td>
</tr>
<tr>
<td>Ensuring ingredients conserve natural resources</td>
<td>27</td>
<td>22</td>
<td>28</td>
</tr>
</tbody>
</table>

* Note: Weighted using 2010 Annual Guest Counts for US, France, Germany, Australia and Brazil
Aiming for “The Smart Zone”

- Non-Profitable Area
- "Smart Zone"
- Maximum Shareholder Value
- Threat to Shareholder Value
- Public acceptance curve
- Law / compliance curve
- Illegal Area

Requirements

Time

WORLDWIDE SUPPLY CHAIN
McDonald’s Sustainability Framework

- Good Food
  - Food
  - Sourcing

- Good People
  - People

- Good Neighbor
  - Community
  - Planet

WORLDWIDE SUPPLY CHAIN
Fact or Fiction?

“McDonald’s just began its work in Animal Health & Welfare.”
Fact or Fiction?

“McDonald’s is committed to Animal Health & Welfare because of rising consumer awareness and sentiment.”
Fact or Fiction?

“Because McDonald’s relies on producers and processors, we only have a minor impact on positive Animal Health & Welfare changes.”
All The Facts

Fact    Fiction
1. Since the mid-1990s, we’ve partnered with recognized experts for the humane treatment of animals
2. Animal Health & Welfare is the right thing for McDonald’s to do - our ethics demand it and consumers expect it
3. We’ll make a difference through science, supplier partnerships, and our global brand leadership

Every journey begins with a first step
The Opportunity Is Significant …

- The rules have changed - what got us here wouldn’t get us there

- Balancing what Science says with what our customers demand

- “None of us is as good as all of us” - We’re all in this together
Consumers Link Animal Health & Welfare to Food Safety

- Nearly half of Europeans purchase animal welfare friendly foods because:
  - “The foods are healthier”
  - “The foods are better quality”
  - “The foods come from healthier animals”

Source: Datamonitor “Offering Ethicality and Sustainability in Food and Beverage” January 2010
Animal Welfare is Well-defined…

“Five Freedoms”

1. Freedom from hunger and thirst
2. Freedom from discomfort
3. Freedom from pain, injury and disease
4. Freedom from fear and distress
5. Freedom to express normal behavior

Source: Farm Animal Welfare Council
… but Misunderstood

- Most consumers do not understand animal welfare
  - Urbanization has shifted our perspective from animals kept on the farm as food or tools, to animals in the home kept as pets
  - We tend to humanize animals and infer our human condition to their experience

- Once reasons for animal welfare practices are explained, consumer opinion changes
  - No clear-cut answer
What to Say Is Not Clear

<table>
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<tr>
<th>Europe</th>
<th>The United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>European consumers are most concerned with chemicals and toxins, food poisoning, and diet-related disease</td>
<td>Most Americans believe battery cages and gestation crates/pens are unethical</td>
</tr>
<tr>
<td>Greatest increases in worry were regarding freshness, additives, colors and preservatives</td>
<td>However, 1 in 3 Americans do not care about either animal merriment or misery</td>
</tr>
<tr>
<td>Welfare of farm animals was most worrisome in Luxembourg, Portugal and Italy; least in Romania, Bulgaria and Hungary</td>
<td>When Americans learn about how hens and pigs are raised, they find they are being treated in a more unethical manner than originally thought</td>
</tr>
<tr>
<td>Since 2005, the percentage of EU citizens expressing worry about farm animal welfare practices has risen from 60% to 64%</td>
<td>A slight majority of people desire to ban livestock practices that they believe are unethical, even if products from animals raised in an ethical manner are available to them</td>
</tr>
</tbody>
</table>

Source: Canada’s Growing Forward “Socially Conscious Consumer Trends” October 2011
Leading Global Animal Health & Welfare

- Broiler Stunning
- Laying Hen Housing
- Cull Animal Health & Welfare
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