McDonald's Corporation

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Statistics:
Public Company
Incorporated: 1955
Employees: 413,000
Sales: $17.14 billion (2003)
Stock Exchanges: New York Chicago Euronext Paris German Swiss
Ticker Symbol: MCD
NAIC: 722211 Limited-Service Restaurants; 533110 Lessors of Nonfinancial Intangible Assets (Except Copyrighted Works)

Company Perspectives:
McDonald's is the world's leading food service organization. We generate more than $40 billion in Systemwide sales. We operate over 30,000 restaurants in more than 100 countries on six continents. We have the benefits that come with scale and a strong financial position. We own one of the world's most recognized and respected brands. We have an unparalleled global infrastructure and competencies in restaurant operations, real estate, retailing, marketing and franchising. We are a leader in the area of social responsibility. We actively share our knowledge and expertise in food safety and are committed to protecting the environment for future generations. Yet, we have not achieved our growth expectations for the past several years. So, our challenge is to leverage our strengths to profitably serve more customers more ways more often.

Key Dates:
1948: Richard and Maurice McDonald open the first McDonald's restaurant in San Bernardino, California.
1954: Ray Kroc gains the rights to set up McDonald's restaurants in most of the country.
1955: Kroc opens his first McDonald's restaurant in Des Plaines, Illinois; he incorporates his company as McDonald's Corporation.

1960: The slogan, "Look for the Golden Arches," is used in an advertising campaign.
1961: Kroc buys out the McDonald brothers for $2.7 million.
1963: Ronald McDonald makes his debut.
1965: McDonald's goes public.
1967: The company opens its first foreign restaurant in British Columbia, Canada.
1968: The Big Mac is added to the menu.
1973: Breakfast items begin to appear on the menu, with the debut of the Egg McMuffin.
1974: The first Ronald McDonald House opens in Philadelphia.
1975: The first McDonald's drive-thru window appears.
1979: The children's Happy Meal makes its debut.
1983: Chicken McNuggets are introduced.
1985: McDonald's becomes one of the 30 companies that make up the Dow Jones Industrial Average.
1998: The company takes its first stake in another fast-food chain, buying a minority interest in Colorado-based Chipotle Mexican Grill.
1999: Donatos Pizza Inc. is acquired.
2000: McDonald's buys the bankrupt Boston Market chain.
2002: Restructuring charges of $853 million result in the firm's first quarterly loss since going public.
2003: McDonald's sells Donatos in order to refocus on its core hamburger business.

Company History:

Since its incorporation in 1955, McDonald's Corporation has not only become the world's largest quick-service restaurant organization, but has literally changed Americans' eating habits--and increasingly the habits of non-Americans as well. On an average day, more than 46 million people eat at one of the company's more than 31,000 restaurants, which are located in 119 countries on six continents. About 9,000 of the restaurants are company owned and operated; the remainder are run either by franchisees or through joint ventures with local businesspeople. Systemwide sales (which encompass total revenues from all three types of restaurants) totaled more than $46 billion in 2003. Nine major markets--Australia, Brazil, Canada, China, France, Germany, Japan, the United Kingdom, and the United States--account for 80 percent of the restaurants and 75 percent of overall sales. The vast majority of the company's restaurants are of the flagship McDonald's hamburger joint variety. Two other wholly owned chains, Boston Market (rotisserie chicken) and Chipotle Mexican Grill (Mexican fast casual), along with Pret A Manger (upscale prepared sandwiches), in which McDonald's owns a 33 percent stake, account for about 1,000 of the units.

Early History

In 1954 Ray Kroc, a seller of Multimixer milkshake machines, learned that brothers Richard and Maurice (Dick and Mac) McDonald were using eight of his high-tech Multimixers in their San Bernardino, California, restaurant. His curiosity was piqued, and he went to San Bernardino to take a look at the McDonalds' restaurant.

The McDonalds had been in the restaurant business since the 1930s. In 1948 they closed down a successful carhop drive-in to establish the streamlined operation Ray Kroc saw in 1954. The menu was simple: hamburgers, cheeseburgers, french fries, shakes, soft drinks, and apple pie. The carhops were eliminated to make McDonald's a self-serve operation, and there were no tables to sit at, no jukebox, and no telephone. As a result, McDonald's attracted families rather than teenagers. Perhaps the most impressive aspect of the restaurant was the efficiency with which the McDonald's workers did their jobs. Mac and Dick McDonald had taken great care in setting up their kitchen. Each worker's steps had been carefully choreographed, like an assembly line, to ensure maximum efficiency. The savings in preparation time, and the resulting increase in volume, allowed the McDonalds to lower the price of a hamburger from 30 cents to 15 cents.

Believing that the McDonald formula was a ticket to success, Kroc suggested that they franchise their restaurants throughout the country. When they hesitated to take on this additional burden, Kroc volunteered to do it for them. He returned to his home outside of Chicago with rights to set up McDonald's restaurants throughout the country, except in a handful of territories in California and Arizona already licensed by the McDonald brothers.

Kroc's first McDonald's restaurant opened in Des Plaines, Illinois, near Chicago, on April 15, 1955--the same year that Kroc incorporated his company as McDonald's Corporation. As with any new venture, Kroc encountered a number of hurdles. The first was adapting the McDonald's building design to a northern climate. A basement had to be installed to house a furnace, and adequate ventilation was difficult, as exhaust fans sucked out warm air in the winter, and cool air in the summer.

Most frustrating of all, however, was Kroc's initial failure to reproduce the McDonalds' delicious french fries. When Kroc and his crew duplicated the brothers' method--leaving just a little peel for flavor, cutting the potatoes into shoestrings, and rinsing the strips in cold water--the fries turned into mush. After repeated telephone conversations with the McDonald brothers and several consultations with the Potato and Onion Association, Kroc pinpointed the cause of the soggy spuds. The McDonald brothers stored their potatoes outside in wire bins, and the warm California breeze dried them out and cured them, slowly turning the sugars into starch. In order to reproduce the superior taste of these potatoes, Kroc devised a system using an electric fan to dry the potatoes in a similar way. He also experimented with a blanching process. Within three months he had a french fry that was, in his opinion, slightly superior in taste to the McDonald brothers' fries.

Once the Des Plaines restaurant was operational, Kroc sought franchisees for his McDonald's chain. The first snag came quickly. In 1956 he discovered that the McDonald brothers had licensed the franchise rights for Cook County, Illinois (home of Chicago and many of its suburbs) to the Frejlack Ice Cream Company. Kroc was incensed that the McDonalds had not informed him of this arrangement. He purchased the rights back for $25,000--five times what the Frejlacks had originally paid--and pressed forward.

Kroc decided early on that it was best to first establish the restaurants and then to franchise them out, so that he could control the uniformity of the stores. Early McDonald's restaurants were situated in the suburbs. Corner lots were usually in greater demand because gas stations and shops competed for them, but Kroc preferred lots in the middle of blocks to accommodate his U-shaped parking lots. Since these lots were cheaper, Kroc could give franchisees a price break.

McDonald's grew slowly for its first three years; by 1958 there were 34 restaurants. In 1959, however, Kroc opened 67 new restaurants, bringing the total to more than 100.

Kroc had decided at the outset that McDonald's would not be a supplier to its franchisees--his background in sales warned him that such an arrangement could lead to lower quality for the sake of higher profits. He also had determined that the company should at no time own more than 30 percent of all McDonald's restaurants. He knew, however, that his success depended upon his franchisees' success, and he was determined to help them in any way that he could.

In 1960 the McDonald's advertising campaign "Look for the Golden Arches" gave sales a big boost. Kroc believed that advertising was an investment that would in the end come back many times over, and advertising has always played a key role in the development of the McDonald's Corporation--indeed, McDonald's ads have been some of the most identifiable over the years. In 1962 McDonald's replaced its "Speedee" the hamburger man symbol with its now world-famous Golden Arches logo. A year later, the company sold its billionth hamburger and introduced Ronald McDonald, a red-haired clown with particular appeal to children.

Phenomenal Growth in the 1960s and 1970s

In the early 1960s, McDonald's really began to take off. The growth in U.S. automobile use that came with suburbanization contributed heavily to McDonald's success. In 1961 Kroc bought out the McDonald brothers for $2.7 million, aiming at making McDonald's the number one fast-food chain in the country.

In 1965 McDonald's Corporation went public. Common shares were offered at $22.50 per share; by the end of the first day's trading the price had shot up to $30. A block of 100 shares purchased for $2,250 in 1965 was worth, after 12 stock splits (increasing the number of shares to 74,360), about $1.8 million by the end of 2003. In 1985 McDonald's Corporation became one of the 30 companies that make up the Dow Jones Industrial Average.

McDonald's success in the 1960s was in large part due to the company's skillful marketing and flexible response to customer demand. In 1965 the Filet-o-Fish sandwich, billed as "the fish that catches people," was introduced in McDonald's restaurants. The new item had originally met with disapproval from Kroc, but after its successful test marketing, he eventually agreed to add it. Another item that Kroc had backed a year previously, a burger with a slice of pineapple and a slice of cheese, known as a "hulaburger," had flopped. The market was not quite ready for Kroc's taste; the hulaburger's tenure on the McDonald's menu board was short. In 1968 the now legendary Big Mac made its debut, and in 1969 McDonald's sold its five billionth hamburger. A year later, as it launched the "You Deserve a Break Today" advertising campaign, McDonald's restaurants had reached all 50 states.

In 1968 McDonald's opened its 1,000th restaurant, and Fred Turner became the company's president and chief administrative officer. Kroc became chairman and remained CEO until 1973. Turner had originally intended to open a McDonald's franchise, but when he had problems with his backers over a location, he went to work as a grillman for Kroc in 1956. As operations vice-president, Turner helped new franchisees get their stores up and running. He was constantly looking for new ways to perfect the McDonald's system, experimenting, for example, to determine the maximum number of hamburger patties one could stack in a box without squashing them and pointing out that seconds could be saved if McDonald's used buns that were presliced all the way through and were not stuck together in the package. Such attention to detail was one reason for the company's extraordinary success.

McDonald's spectacular growth continued in the 1970s. Americans were more on-the-go than ever, and fast service was a priority. In 1972 the company passed $1 billion in annual sales; by 1976, McDonald's had served 20 billion hamburgers, and systemwide sales exceeded $3 billion.

McDonald's pioneered breakfast fast food with the introduction of the Egg McMuffin in 1973 when market research indicated that a quick breakfast would be welcomed by consumers. Five years later the company added a full breakfast line to the menu, and by 1987 one-fourth of all breakfasts eaten out in the United States came from McDonald's restaurants.

Kroc was a firm believer in giving "something back into the community where you do business." In 1974 McDonald's acted upon that philosophy in an original way by opening the first Ronald McDonald House, in Philadelphia, to provide a "home away from home" for the families of children in nearby hospitals. Twelve years after this first house opened, 100 similar Ronald McDonald Houses were in operation across the United States.

In 1975 McDonald's opened its first drive-thru window in Oklahoma City. This service gave Americans a fast, convenient way to procure a quick meal. The company's goal was to provide service in 50 seconds or less. Drive-thru sales eventually accounted for more than half of McDonald's systemwide sales. Meantime, the Happy Meal, a combo meal for children featuring a toy, was added to the menu in 1979.

Surviving the 1980s "Burger Wars"

In the late 1970s competition from other hamburger chains such as Burger King and Wendy's began to intensify. Experts believed that the fast-food industry had gotten as big as it ever would, so the companies began to battle fiercely for market share. A period of aggressive advertising campaigns and price slashing in the early 1980s became known as the "burger wars." Burger King suggested that customers "have it their way"; Wendy's offered itself as the "fresh alternative" and asked of other restaurants, "where's the beef?" But McDonald's sales and market share continued to grow. Consumers seemed to like the taste and consistency of McDonald's best.

During the 1980s McDonald's further diversified its menu to suit changing consumer tastes. Chicken McNuggets were introduced in 1983, and by the end of the year McDonald's was the second largest retailer of chicken in the world. In 1987 ready-to-eat salads were introduced to lure more health-conscious consumers. The 1980s were the fastest-paced decade yet. Efficiency, combined with an expanded menu, continued to draw customers. McDonald's, already entrenched in the suburbs, began to focus on urban centers and introduced new architectural styles. Although McDonald's restaurants no longer looked identical, the company made sure food quality and service remained constant.

Despite experts' claims that the fast-food industry was saturated, McDonald's continued to expand. The first generation raised on restaurant food had grown up. Eating out had become a habit rather than a break in the routine, and McDonald's relentless marketing continued to improve sales. Innovative promotions, such as the "when the U.S. wins, you win" giveaways during the Olympic Games in 1988, were a huge success.

In 1982 Michael R. Quinlan became president of McDonald's Corporation and Fred Turner became chairman. Quinlan, who took over as CEO in 1987, had started at McDonald's in the mailroom in 1963, and gradually worked his way up. The first McDonald's CEO to hold an M.B.A. degree, Quinlan was regarded by his colleagues as a shrewd competitor. In his first year as CEO the company opened 600 new restaurants.

McDonald's growth in the United States was mirrored by its stunning growth abroad. By 1991, 37 percent of systemwide sales came from restaurants outside the United States. McDonald's opened its first foreign restaurant in British Columbia, Canada, in 1967. By the early 1990s the company had established itself in 58 foreign countries and operated more than 3,600 restaurants outside the United States, through wholly owned subsidiaries, joint ventures, and franchise agreements. Its strongest foreign markets were Japan, Canada, Germany, Great Britain, Australia, and France.

In the mid-1980s, McDonald's, like other traditional employers of teenagers, was faced with a shortage of labor in the United States. The company met this challenge by being the first to entice retirees back into the workforce. McDonald's placed great emphasis on effective training. It opened its Hamburger University in 1961 to train franchisees and corporate decision-makers. By 1990, more than 40,000 people had received "Bachelor of Hamburgerology" degrees from the 80-acre Oak Brook, Illinois, facility. The corporation opened a Hamburger University in Tokyo in 1971, in Munich in 1975, and in London in 1982.

Braille menus were first introduced in 1979, and picture menus in 1988. In March 1992 Braille and picture menus were reintroduced to acknowledge the 37 million Americans with vision, speech, or hearing impairments.

Quinlan continued to experiment with new technology and to research new markets to keep McDonald's in front of its competition. Clamshell fryers, which cooked both sides of a hamburger simultaneously, were tested. New locations such as hospitals and military bases were tapped as sites for new restaurants. In response to the increase in microwave oven usage, McDonald's, whose name is the single most advertised brand name in the world, stepped up advertising and promotional expenditures stressing that its taste was superior to quick-packaged foods.

McRecycle USA began in 1990 and included a commitment to purchase at least $100 million worth of recycled products annually for use in construction, remodeling, and equipping restaurants. Chairs, table bases, table tops, eating counters, table columns, waste receptacles, corrugated cartons, packaging, and washroom tissue were all made from recycled products. McDonald's worked with the U.S. Environmental Defense Fund to develop a comprehensive solid waste reduction program. Wrapping burgers in paper rather than plastic led to a 90 percent reduction in the wrapping material waste stream.

1990s Growing Pains

It took McDonald's 33 years to open its first 10,000 restaurants--the 10,000th unit opened in April 1988. Incredibly, the company reached the 20,000-restaurant mark in only eight more years, in mid-1996. By the end of 1997 the total had surpassed 23,000--by that time McDonald's was opening 2,000 new restaurants each year--an average of one every five hours.

Much of the growth of the 1990s came outside the United States, with international units increasing from about 3,600 in 1991 to more than 11,000 by 1998. The number of countries with McDonald's outlets nearly doubled from 59 in 1991 to 114 in late 1998. In 1993 a new region was added to the empire when the first McDonald's in the Middle East opened in Tel Aviv, Israel. As the company entered new markets, it showed increasing flexibility with respect to local food preferences and customs. In Israel, for example, the first kosher McDonald's opened in a Jerusalem suburb in 1995. In Arab countries the restaurant chain used "Halal" menus, which complied with Islamic laws for food preparation. In 1996 McDonald's entered India for the first time, where it offered a Big Mac made with lamb called the Maharaja Mac. That same year the first McSki-Thru opened in Lindvallen, Sweden.

Overall, the company derived increasing percentages of its revenue and income from outside the United States. In 1992 about two-thirds of systemwide sales came out of U.S. McDonald's, but by 1997 that figure was down to about 51 percent. Similarly, the operating income numbers showed a reduction from about 60 percent derived from the United States in 1992 to 42.5 percent in 1997.

In the United States, where the number of units grew from 9,000 in 1991 to 12,500 in 1997--an increase of about 40 percent--the growth was perhaps excessive. Although the additional units increased market share in some markets, a number of franchisees complained that new units were cannibalizing sales from existing ones. Same-store sales for outlets open for more than one year were flat in the mid-1990s, a reflection of both the greater number of units and the mature nature of the U.S. market.

It did not help that the company made several notable blunders in the United States in the 1990s. The McLean Deluxe sandwich, which featured a 91 percent fat-free beef patty, was introduced in 1991, never really caught on, and was dropped from the menu in 1996. Several other 1990s-debuted menu items--including fried chicken, pasta, fajitas, and pizza--failed as well. The "grown-up" (and pricey) Arch Deluxe sandwich and the Deluxe Line were launched in 1996 in a $200 million campaign to gain the business of more adults, but were bombs. The following spring brought a 55-cent Big Mac promotion, which many customers either rejected outright or were confused by because the burgers had to be purchased with full-priced fries and a drink. The promotion embittered still more franchisees, whose complaints led to its withdrawal. In July 1997 McDonald's fired its main ad agency--Leo Burnett, a 15-year McDonald's partner--after the nostalgic "My McDonald's" campaign proved a failure. A seemingly weakened McDonald's was the object of a Burger King offensive when the rival fast-food maker launched the Big King sandwich, a Big Mac clone. Meanwhile, internal taste tests revealed that customers preferred the fare at Wendy's and Burger King.

In response to these difficulties, McDonald's drastically cut back on its U.S. expansion--in contrast to the 1,130 units opened in 1995, only about 400 new McDonald's were built in 1997. Plans to open hundreds of smaller restaurants in Wal-Marts and gasoline stations were abandoned because test sites did not meet targeted goals. Reacting to complaints from franchisees about poor communication with the corporation and excess bureaucracy, the head of McDonald's U.S.A. (Jack Greenberg, who had assumed the position in October 1996) reorganized the unit into five autonomous geographic divisions. The aim was to bring management and decision-making closer to franchisees and customers.

On the marketing side, McDonald's scored big in 1997 with a Teenie Beanie Baby promotion in which about 80 million of the toys/collectibles were gobbled up virtually overnight. The chain received some bad publicity, however, when it was discovered that a number of customers purchased Happy Meals just to get the toys and threw the food away. For a similar spring 1998 Teenie Beanie giveaway, the company altered the promotion to allow patrons to buy menu items other than kids' meals. McDonald's also began to benefit from a ten-year global marketing alliance signed with Disney in 1996. Initial Disney movies promoted by McDonald's included *101 Dalmatians, Flubber, Mulan, Armageddon,* and *A Bug's Life*. Perhaps the most important marketing move came in the later months of 1997 when McDonald's named BDD Needham as its new lead ad agency. Needham had been the company's agency in the 1970s and was responsible for the hugely successful "You Deserve a Break Today" campaign. Late in 1997 McDonald's launched the Needham-designed "Did Somebody Say McDonald's?" campaign, which appeared to be an improvement over its predecessors.

A Failed Turnaround: Late 1990s and Early 2000s

Following the difficulties of the early and mid-1990s, several moves in 1998 seemed to indicate a reinvigorated McDonald's. In February the company for the first time took a stake in another fast-food chain when it purchased a minority interest in the 16-unit, Colorado-based Chipotle Mexican Grill chain. The following month came the announcement that McDonald's would improve the taste of several sandwiches and introduce several new menu items; McFlurry desserts--developed by a Canadian franchisee--proved popular when launched in the United States in the summer of 1998. McDonald's that same month said that it would overhaul its food preparation system in every U.S. restaurant. The new just-in-time system, dubbed "Made for You," was in development for a number of years and aimed to deliver to customers "fresher, hotter food"; enable patrons to receive special-order sandwiches (a perk long offered by rivals Burger King and Wendy's); and allow new menu items to be more easily introduced thanks to the system's enhanced flexibility. The expensive changeover was expected to cost about $25,000 per restaurant, with McDonald's offering to pay for about half of the cost; the company planned to provide about $190 million in financial assistance to its franchisees before implementation was completed by year-end 1999.

In May 1998 Greenberg was named president and CEO of McDonald's Corporation, with Quinlan remaining chairman; at the same time Alan D. Feldman, who had joined the company only four years earlier from Pizza Hut, replaced Greenberg as president of McDonald's U.S.A.--an unusual move for a company whose executives typically were long-timers. The following month brought another first--McDonald's first job cuts--as the company said it would eliminate 525 employees from its headquarters staff, a cut of about 23 percent. In the second quarter of 1998 McDonald's took a $160 million charge in relation to the cuts. As a result, the company, for the first time since it went public in 1965, recorded a decrease in net income, from $1.64 billion in 1997 to $1.55 billion in 1998.

McDonald's followed up its investment in Chipotle with several more moves beyond the burger business. In March 1999 the company bought Aroma Café, a U.K. chain of 23 upscale coffee and sandwich shops. In July of that year McDonald's added Donatos Pizza Inc., a midwestern chain of 143 pizzerias based in Columbus, Ohio. Donatos had 1997 revenues of $120 million. Also in 1999, McDonald's 25,000th unit opened, Greenberg took on the additional post of chairman, and Jim Cantalupo was named company president. Cantalupo, who had joined the company as controller in 1974 and later became head of McDonald's International, had been vice-chairman, a position he retained. In May 2000 McDonald's completed its largest acquisition yet, buying the bankrupt Boston Market chain for $173.5 million in cash and debt. At the time, there were more than 850 Boston Market outlets, which specialized in home-style meals, with rotisserie chicken the lead menu item. Revenue at Boston Market during 1999 totaled $670 million. McDonald's rounded out its acquisition spree in early 2001 by buying a 33 percent stake in Pret A Manger, an upscale urban-based chain specializing in ready-to-eat sandwiches made on the premises. There were more than 110 Pret shops in the United Kingdom and several more in New York City. Also during 2001, McDonald's sold off Aroma Café and took its McDonald's Japan affiliate public, selling a minority stake through an initial public offering.

As it was exploring new avenues of growth, however, McDonald's core hamburger chain had become plagued by problems. Most prominently, the Made for You system backfired. Although many franchisees believed that it succeeded in improving the quality of the food, it also increased service times and proved labor-intensive. Some franchisees also complained that the actual cost of implementing the system ran much higher than the corporation had estimated, a charge that McDonald's contested. In any case, there was no question that Made for You failed to reverse the chain's sluggish sales. Growth in sales at stores open more than a year (known as same-store sales) fell in both 2000 and 2001. Late in 2001 the company launched a restructuring involving the elimination of about 850 positions, 700 of which were in the United States, and some store closings.

There were further black eyes as well. McDonald's was sued in 2001 after it was revealed that for flavoring purposes a small amount of beef extract was being added to the vegetable oil used to cook the french fries. The company had cooked its fries in beef tallow until 1990, when it began claiming in ads that it used 100 percent vegetable oil. McDonald's soon apologized for any "confusion" that had been caused by its use of the beef flavoring, and in mid-2002 it reached a settlement in the litigation, agreeing to donate $10 million to Hindu, vegetarian, and other affected groups. Also in 2001, further embarrassment came when 51 people were charged with conspiring to rig McDonald's game promotions over the course of several years. It was revealed that $24 million of winning McDonald's game tickets had been stolen as part of the scam. McDonald's was not implicated in the scheme, which centered on a worker at an outside company that had administered the promotions.

McDonald's also had to increasingly battle its public image as a purveyor of fatty, unhealthful food. Consumers began filing lawsuits contending that years of eating at McDonald's had made them overweight. McDonald's responded by introducing low-calorie menu items and switching to a more healthful cooking oil for its french fries. McDonald's franchises overseas became a favorite target of people and groups expressing anti-American and/or antiglobalization sentiments. In August 1999 a group of protesters led by farmer José Bové destroyed a half-built McDonald's restaurant in Millau, France. In 2002 Bové, who gained fame from the incident, served a three-month jail sentence for the act, which he said was in protest against U.S. trade protectionism. McDonald's was also one of three multinational corporations (along with Starbucks Corporation and Nike, Inc.) whose outlets in Seattle were attacked in late 1999 by some of the more aggressive protesters against a World Trade Organization (WTO) meeting taking place there. In the early 2000s McDonald's pulled out of several countries, including Bolivia and two Middle Eastern nations, at least in part because of the negative regard with which the brand was held in some areas.

Early in 2002 Cantalupo retired after 28 years of service. Sales remained lackluster that year, and in October the company attempted to revive U.S. sales through the introduction of a low-cost Dollar Menu. In December 2002, after this latest initiative to reignite sales growth failed--and also after profits fell in seven of the previous eight quarters--Greenberg announced that he would resign at the end of the year. Cantalupo came out of retirement to become chairman and CEO at the beginning of 2003.

Launching of Revitalization Plan Under New Leadership in 2003

Cantalupo started his tenure by announcing a major restructuring that involved the closure of more than 700 restaurants (mostly in the United States and Japan), the elimination of 600 jobs, and charges of $853 million. The charges resulted in a fourth-quarter 2002 loss of $343.8 million--the first quarterly loss in McDonald's 38 years as a public company. The new CEO also shifted away from the company's traditional reliance on growth through the opening of new units to a focus on gaining more sales from existing units. To that end, several new menu items were successfully launched, including entree salads, McGriddles breakfast sandwiches (which used pancakes in place of bread), and white-meat Chicken McNuggets. Some outlets began test-marketing fruits and vegetables as Happy Meal options. Backing up the new products was the launch in September 2003 of an MTV-style advertising campaign featuring the new tag line, "I'm lovin' it." This was the first global campaign in McDonald's history, as the new slogan was to be used in advertising in more than 100 countries. It also proved to be the first truly successful ad campaign in years; sales began rebounding, helped also by improvements in service. In December 2003, for instance, same-store sales increased 7.3 percent. Same-store sales rose 2.4 percent for the entire year, after falling 2.1 percent in 2002.

In December 2003 McDonald's announced that it would further its focus on its core hamburger business by downsizing its other ventures. The company said that it would sell Donatos back to that chain's founder. In addition, it would discontinue development of non-McDonald's brands outside of the United States. This included Boston Market outlets in Canada and Australia and Donatos units in Germany. McDonald's kept its minority investment in Pret A Manger, but McDonald's Japan was slated to close its Pret units there. These moves would enable the company to concentrate its international efforts on the McDonald's chain, while reducing the non-hamburger brands in the United States to Chipotle and Boston Market, both of which were operating in the black.

McDonald's continued to curtail store openings in 2004 and to concentrate on building business at existing restaurants. Much of the more than $1.5 billion budgeted for capital expenditures in 2004 was slated to be used to remodel existing restaurants. McDonald's also aimed to pay down debt by $400 million to $700 million and to return approximately $1 billion to shareholders through dividends and share repurchases. Cantalupo also set several long-term goals, such as sustaining annual systemwide sales and revenue growth rates of 3 to 5 percent. In a move to both simplify the menu and make its offerings less fattening, McDonald's announced in March 2004 that it would phase out Super Size french fries and soft drinks by the end of the year.

Principal Subsidiaries: McDonald's Deutschland, Inc.; McDonald's Restaurant Operations Inc.; McG Development Co.; Chipotle Mexican Grill, Inc.; Boston Market Corporation; McDonald's Franchise GmbH (Austria); McDonald's Australia Limited; McDonald's France, S.A.; MDC Inmobiliaria de Mexico S.A. de C.V.; McDonald's Restaurants Pte., Ltd. (Singapore); Restaurantes McDonald's S.A. (Spain); McKim Company Ltd. (South Korea); Shin Mac Company Ltd. (South Korea); McDonald's Nederland B.V. (Netherlands); Moscow-McDonald's (Canada); McDonald's Restaurants Limited (U.K.).

Principal Competitors: Burger King Corporation; Wendy's International, Inc.; CKE Restaurants, Inc.; Jack in the Box Inc.; Sonic Corporation; Checkers Drive-In Restaurants, Inc.; White Castle System, Inc.; Whataburger, Inc.; YUM! Brands, Inc.; Doctor's Associates Inc.

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