

McDonald's Australia – A case study of a multinational operating within the Australian economy

Perhaps no other symbol is more universally recognised throughout the world than the golden arches of McDonald's. Catering to popular tastes in the era of mass consumption, the simplicity and careful planning of the McDonald's operation has been a major factor in the global success of the business. What is the impact of this multinational on the Australian economy?

Australian restaurant outlets

McDonald's Australia was operating 715 restaurants at the end of February 2002. As people continue to demand fast food and as their spending power increases, demand for McDonald's product continues to increase. It is not surprising, then, that 62 per cent of the restaurants in the McDonald's system in Australia have been built in the 1990s.

Type of business operation

McDonald's Australia is a subsidiary of the United States McDonald's Corporation. In its world wide operations, McDonald's companies are either subsidiaries or joint venture partners of the US McDonald's corporation.

McDonald's has always been a franchising operation. McDonald's are committed to franchising as the main way of doing business. Approximately 70 per cent of McDonald's restaurants in Australia are owned and operated by franchisees. In December 2000, there were 483 franchisee-owned stores and 301 franchisees.

A McDonald's franchise is usually successful because it involves a mixture of corporate standards and individual opportunities. McDonald's franchisees must be individuals, not corporations, must not own or be involved in any other business interests and must not be absentee or part-time owners. McDonald's wants committed franchisees to run successful businesses on a day-to-day basis.

The franchise agreement allows the franchisee to operate a specific McDonald's restaurant for a period of years (usually 20) according to McDonald's standards. McDonald's locates, develops and constructs the restaurant and owns of the facilities. Franchisees equip the restaurant at their own expense with kitchen equipment, lighting, signage, seating and decor.

A key to McDonald's world wide success has been its emphasis on quality and uniformity of product from location to location and country to country. In order to maintain these standards, they insist that franchisees must:

- use McDonald's recipes and specifications for menu items.
- comply to specific standards of operations including systems of inventory control, financial record-keeping and marketing.
- display and use McDonald's trademarks and other registered logos and other marks.
- meet McDonald's standards for such things as restaurant and equipment layout and display signage.

In addition, franchisees must agree to operate a McDonald's franchise according to standards which outline in detail, the requirements for quality, service, cleanliness and value.

Financial outlays by the franchisee include:

- start up costs which consist of an initial fee of \$60,000 which is paid to McDonald's at the commencement of the franchise. This fee secures the franchise and the rights that go with it.
- Another start up cost requires the franchisee to pay a refundable deposit of \$15,000 as security for faithful performance of the franchise.
- Costs while the franchisee and staff are undergoing initial training usually amount to \$360,000.
- Establishing the restaurant will require approximately \$1.4 million in fixtures, fittings and landscaping.

Each month there is a flat service fee and a system fee which is tied to a percentage of the outlet's gross sales. Franchisees must also contribute an agreed percentage of gross sales to be pooled towards national and local marketing campaigns. The franchisee has to pay a monthly rental payment, either a specified monthly amount or a percentage of the restaurant's gross sales.

Sales

For the year ended December 2000, the total gross sales by all McDonald's restaurants in Australia was AUD\$1.74 billion.

Materials sourced in Australia

As an operator in the fast food business, McDonald's Australia uses up enormous quantities of fresh produce from Australian farms and market gardens each year. Australia-wide, McDonald's purchase \$500 million of food, paper and packaging annually, including:

- Buns and muffins 395 million
- Potatoes 89 million kilograms
- Eggs 58 million
- Milk 22 million litres
- Beef 23 million kilograms
- Orange Juice 6.7 million litres
- Chicken 8.8 million kilograms
- Cheese 5.5 million kilograms
- Lettuce 5.4 million kilograms
- Tomatoes 910 000 kilograms
- Coffee 402 000 kilograms
- Fish 1.5 million kilograms

Source: www.mcdonalds.com.au.

From 1996–2001 McDonald's Australia has experienced considerable growth and some Australian suppliers have more than doubled their product volume. Many suppliers have expanded their production facilities, undertaking new investment in order to meet the increasing demand for their products by McDonald's.

McDonald's have also developed teamwork with local suppliers, establishing McDonald's Lettuce Grower Teams at Gatton in Queensland and Werribee and Lindenow in Victoria. These partnerships aim to achieve outstanding product quality.

Australian suppliers to McDonald's include the following businesses:

- FJ Walker Foods supplies beef not only to McDonald's restaurants in Australia but exports beef to McDonald's restaurants in Japan. FJ Walker employs more than 411 people.
- Australian Food Corporation is also a supplier of beef patties.
- Inghams Enterprises Pty Ltd supplies chicken to McDonald's.
- Buttercup bakeries supplies buns, muffins apple pies and baked muffins.
- Simplot Australia, itself a subsidiary of a multinational, supplies potatoes and fish
- Kraft Foods Pty Ltd supplies cheese
- Parle Foods of Griffith, NSW supplies pickles to McDonald's
- McCormick Foods Australia supplies sauces, toppings syrups and mustard.

The quality of output produced by McDonald's Australian suppliers has gained recognition overseas with exports of suppliers' products to a number of countries. Beef produced by McDonald's Australian suppliers is now being exported to customers in Kuwait, Saudi Arabia and Japan. Australian farms supply lettuce to Hong Kong and Singapore, while cheese from Australia is exported to Singapore and Pakistan. Whipped butter is exported across the Tasman to New Zealand.

Value of McDonald's Assets in Australia

McDonald's investments in Australia as at 31 December 2000 totalled \$1.175 billion, including capital investment of \$966 million on land, buildings and equipment. Capital expenditure during 2000 alone by McDonald's Australia totalled \$95 million.

McDonald's Australian wages policy

McDonald's Australia has a policy of ensuring that employees receive award wages which vary from state to state because of different awards or enterprise agreements. In some cases employees are paid over-award payments. Employees in managerial positions receive a salary package.

In 2001, McDonald's became the first Australian company to provide casual employees with the same parental leave entitlements enjoyed by part-time and full-time employees.

Australian training budget and types of training

A spokesperson from McDonald's said that it would be difficult to arrive at a figure for the training and development budget for the Australian organisation, but emphasised the high priority that the organisation gave to training and development at all levels of employment. The spokesperson said that McDonald's invested a large percentage of annual turnover in training in order to develop in the workforce skills, knowledge and customer service training which will provide a better experience for customers.

Community recognition of McDonald's commitment to excellence as a provider of training and development includes:

- twice winning the annual Wholesale and Retail category of the Australian Employer of the Year Awards. These awards recognise excellence in education and training within Australian industry. (Mac Pack 2001: 7-8.)
- the Commonwealth Department of Employment, Education and Training awarded McDonald's Outstanding trainer status in 1997.

McDonald's Australia is recognised in the Australian vocational education and training framework as a Registered Training Organisation (RTO). It conducts or finances a range of certificate and management training courses for its employees. Through its training programs, employees increase their knowledge and skills, acquiring credentials which will allow them to develop career paths within McDonald's or other organisations.

Workers employed in Australia

The McDonald's workforce totalled more than 56,000 Australians at the end of December 2000. Therefore, McDonald's has a substantial impact on the Australian economy in terms of employment and also in terms of the impact on spending and consumption as these younger workers spend more of their incomes. This impact is even greater considering that McDonald's is one of the largest employers and trainers of young people in Australia today. McDonald's restaurants are often open between 18 to 24 hours a day, which requires several shifts or crew changes during the hours of operation. 'This sales pattern calls for a workforce seeking flexible part-time hours, and is ideally suited to those combining work with study or family responsibilities.' (Mac Pack 2001: 6.) Each store employs around 60 to 80 'crew' people and a management team of between six and eight people.

Occupational Health and Safety (OH&S)

McDonald's complies with OH&S legislation in each state and territory to develop a safe and healthy workplace, but also goes further by involving its workforce to achieve health and safety. OH&S practices implemented by McDonald's include:

- encouraging all employees to identify and report hazards. Employees are also asked to suggest ways that health and safety can be improved.
- the appointment of a Safety Manager in each restaurant whose role is to coordinate a Workplace Safety Program.
- All training and development activities include a safety component and therefore all employees have workplace safety training in safe systems of work.
- the establishment of Safety Committees in each workplace in order to conform with OH&S legislation. Each committee is composed of crew and managers. These committees conduct safety inspections in restaurants and hold regular meetings to discuss safety issues and plan for implementation of systems to achieve health and safety in the workplace.

Scholarships and cadetships awarded annually to Australians

Like many other businesses, McDonald's Australia likes to be seen by the wider community as a good corporate citizen. One way of acknowledging its social responsibilities to the community in which it operates is by recognising talented Australians through the award of scholarships. These include:

- the McDonald's Operatic Aria Competition in which hundreds of performers participate.
- the McDonald's Ballet Scholarship which assists Australia's promising performers in that field.
- McDonald's City of Sydney Performing Arts Challenge which offers approximately 25,000 young artists each year the chance to compete in a broad range of performance areas.
- in Queensland, the National Australia Day's Young Australian of the Year Award is a prestigious youth awards program. McDonald's Queensland restaurants are sponsoring the Community Service Category in this program.
- each year McDonald's awards 100 Crew Scholarships worth \$1500 each to crew applicants to assist them with their studies. There are also 29 Crew Sports Grants worth \$1500 each to recognise the significant sporting achievements of employees. (McDonald's 2000: 9.)

Value of community donations

McDonald's Australia also develops its image as a good corporate citizen through community donations and charity work. The charity work is done through the Ronald McDonald House Charities (RMHC). The administration, management and other non-income generating costs for RMHC are paid by McDonald's Australia. These charities contribute to the running of Ronald McDonald Houses and other programs which directly benefit seriously ill children.

As well supporting the operation of Ronald McDonald House, RMHC also works in the following areas:

- providing accommodation near hospitals for the families of seriously ill children.
- providing research facilities and access to treatment for children with leukaemia
- assisting children with education support where illness has interfered with education and schooling.

Other community programs, donations and sponsorships

McDonald's have become involved in a number of state and national programs of great community value such as:

- McDonald's Camp Quality Puppets promotes understanding and awareness of childhood cancer.
- 'Kids Alive Do the Five' program aims at promoting awareness of the dangers of water for children. The program, run by Laurie Lawrence, aims to reduce pre-schooler drownings.
- McDonald's have sponsored 'Clean Up Australia Day' since the day began in 1989.
- programs which contribute to the survival of endangered species such as the gorilla, orang-utan and hippopotamus by assisting Australian zoos.
- sponsorship of sports such as basketball, netball, fun runs, disabled sports, Little Athletics,
- cultural organisations such as the McDonald's Melbourne Youth Band and the Melbourne Symphony Orchestra. This last program is aimed at assisting young instrumentalists and composers.

What McDonald's pay in services (rent, cleaning, utilities) and taxes and rates

While no exact figures are available, it is reasonable to assume that McDonald's would need to employ cleaners. This would represent another injection of funds into the community. The organisation would also consume substantial amounts of gas, electricity and water. Restaurants would be liable for local government rates and state government land taxes and the profits earned by franchises would be taxed in Australia. Customers would pay the GST on each item purchased at a restaurant.

Other positive points

- McDonald's are very conscious of producing a quality product for their customers. They operate a 'just-in-time' delivery system for fresh ingredients to each retail outlet so that the product that is consumed is totally fresh.
- McDonald's have a very strong commitment to its environmental mission which is '...to strive for the highest standards of environmental performance in our restaurants by pursuing sustainable and responsible business practices' (Mac Pack 2001: 19.)
- McDonald's has a global environmental policy and commitment to the preservation of tropical rainforests. McDonald's is committed to not buying beef raised on cleared rainforest land and it has never done this in its past history.

- As part of McDonald's environmental goals is a waste management program which focuses on the concepts of reduce, reuse and recycle. McDonald's restaurants also conduct litter patrols to keep restaurant grounds and the local community clean.

Profits that leave Australia

A spokesperson said that the amount of profit repatriated to their head office would not be large. Most restaurants were franchises and therefore individual franchisees were interested in retaining profits made by their outlets. Certainly, some of the up front \$60,000 franchise fee finds its way to the parent organisation at the commencement of the franchise, but a substantial proportion of the profit earned by outlets would be used for training, advertising and maintenance of facilities.

Nutritional value of a Big Mac

McDonald's advise customers not to eat too much of any one food, but it is the customer's responsibility to watch what he or she consumes in the way of sugar, fats and oils in particular because they are low in nutrients and high in kilojoules. Julie Stafford advises that take away foods, such as hamburgers, should be avoided or limited as 24.6 grams or 11.2 per cent of a 220 gram Big Mac is fat. Only 3.8 grams of a Big Mac is dietary fibre, less than two per cent. Eating a Big Mac will supply you with 2113 kilojoules of energy, about one quarter to one fifth of the recommended daily food energy intake for people in the 18–30 age group. (Julie Stafford 2000.) You will need to do substantial exercise to work off the fat and energy accumulated in your body from consuming a Big Mac.

Other negative points

- Despite McDonald's firm commitment to environmental goals and objectives, not all consumers share this commitment so the product packaging creates substantial litter in Australia.
- Even though a substantial amount of the profit generated by McDonald's operations in Australia remains here, some profits or franchise fees are repatriation to the parent company in the United States.
- McDonald's restaurants operate on a turnover basis. Apart from playground equipment and birthday parties, there is little to keep patrons in the restaurant. It is, after all a 'fast food' operation. The more customers that cycle through, the better the profit. Many may consider that it is not relaxing dining.
- There is some argument that McDonald's is able to keep labour on-costs lower by having a substantial casual and part-time work force, as well as a relatively young work force.

Student Activities

1. Assess the impact on the Australian economy and Australian society if McDonald's ceased to exist as a business operating here.
2. Conduct research to determine the arguments of the groups protesting against multinationals and determine whether these arguments are relevant to Australia.
3. Discuss the impact of McDonald's training and youth employment policies on the Australian employment scene.
4. In what ways is McDonald's a leader in the areas of training and development and occupational health and safety?
5. Carefully explain the format of McDonald's business organisation. Why is the franchise model preferred?
6. What does it mean to be a 'good corporate citizen'? In what ways is McDonald's a good corporate citizen?

7. Assess the motives behind McDonald's wanting to be seen as a good corporate citizen.
8. Discuss the proposition that McDonald's has replaced cafes as restaurants or created a new market of families and young people.
9. Analyse the costs and benefits of McDonald's to Australia in the form of a table.
10. Evaluate the impact on the Australian economy and society if no multinational companies operated in Australia.
11. This case study was written by a senior Economics teacher using the references and guided by questions provided by Austrade. Conduct your own inquiry using different references and relevant questions. Answer Question 9 again based on the new information and assess the accuracy of each version.

References

1. McDonald's Australia 2001, *Mac Pack*, Sydney
2. McDonald's Australia 2000, *Our People, Our Business*, Sydney
3. Stafford, Julie 2000, *Fat, Fibre & Energy Counter* Melbourne: Penguin
4. McDonald's Australia website: www.mcdonalds.com.au.