

# **McDonald's economic footprint in Europe**

**Report to McDonald's Europe**

Prepared by



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## Foreword

In 1971, McDonald's opened its first restaurant in Europe, in the Netherlands. Forty years later, together with its franchisees, McDonald's Europe operates approximately 7,000 restaurants in 40 countries, employing approximately 400,000 people and serving over 13.6 million customers a day.

These figures alone demonstrate that McDonald's is now a significant part of the European landscape. But we wanted to go further, to understand more about our economic footprint in Europe. Hence, we considered it the right time to measure for the first time our contribution to the European economy and so commissioned London Economics to undertake the analysis.

This report shows that McDonald's combines being a global brand with acting locally, which includes offering employment and development opportunities to local people, sourcing food and raw materials from European suppliers and providing business opportunities to local franchisees.

This means that McDonald's success is positive for the European economy as it results in the creation of jobs, growth and wealth in Europe.

To build on our momentum, we will be investing more than ever before to build long-term sustainable success, to drive innovation in our sector and to exceed the expectations of our customers.

I hope you will enjoy reading this report and learn more about who we are, how we operate and what our business represents in the European economy.



Doug Goare  
President, McDonald's Europe

## Executive Summary

This report examines McDonald's economic footprint in Europe in terms of contribution to GDP growth, raw material sourcing, job creation and business opportunities via its franchising model. This analysis demonstrates that McDonald's has a significant positive impact on the European economy.

Operating over 7,000 restaurants in 40 countries and employing approximately 400,000 people, McDonald's and its franchisees form the largest restaurant chain in Europe, not only by number of restaurants and employees but also by income. We estimate McDonald's contribution to the 2010 EU GDP is equivalent to € 9.5 billion.

McDonald's has also demonstrated its resilience as the business continues to grow in Europe despite challenging economic conditions. The company has also increased capital reinvestment in its European operations by more than 17% on average per year over the last four years (€ 502 million in 2007 - € 738 million in 2010).

McDonald's is an important source of revenue for farmers with half a million European beef farmers supplying the business across Europe. The company sources over 97% of its agricultural raw materials within the region making it a major customer of European farmers.

McDonald's has developed exacting standards for its supply chain in terms of food quality and safety and environmental sustainability, which reach well beyond McDonald's own suppliers and customers. McDonald's also works with a network of fully independent direct and indirect suppliers, with many of whom it has long-term business relationships. This plays a role in assisting suppliers to plan for the future, make investments and grow their business. In addition, suppliers benefit from McDonald's size and scale, which offers greater security than smaller buyers with a more volatile demand. Around 99% of McDonald's food is produced in Europe and its business is responsible for 21,000 jobs at European food manufacturers.

McDonald's success also creates thousands of jobs - around 60,000 in the last three years (2007-2010), making the company one of the continent's largest private sector employers, accounting for 0.14% of total employment in the EU.

Over half of the McDonald's workforce is female and workers under 30 years old make up three quarters of its people. This latter figure compares favourably to the EU average of 23%. The company provides formal training to more than 80% of its workforce, compared with just 7% in the hotels and restaurants sector as a whole. The intensity of training provided by McDonald's; around 40 hours annually per crew member, exceeds the sector average of just four hours per year for each employee.

In addition, McDonald's training often leads to qualifications that are certified by official accreditation bodies. This considerably increases skills portability for employees and contributes to the pool of qualified workers available to employers in the wider economy. It also has a positive impact on social mobility, an increasingly pressing issue in many European societies.

Over 70% of McDonald's restaurants in Europe are operated by franchisees. McDonald's franchises almost exclusively to committed individuals, not to corporations, partnerships, or passive investors. The company thrives on an entrepreneurial spirit and just under a quarter of McDonald's franchisees in Europe started their career as crew members in a McDonald's restaurant. Franchisees have the opportunity to grow their own business with a proven business model and with ongoing support from McDonald's head office consultants. McDonald's franchises are run as local businesses, recruiting, training and promoting local people and engaging with the local community.

## Introduction & Background

McDonald's Corporation<sup>1</sup> operates in the food service industry. It both franchises and runs McDonald's restaurants in more than 100 countries worldwide, primarily selling beef and chicken products, French fries, breakfast items, soft drinks, salads, wraps, fruit and desserts. Its revenues come from the rent, royalties and fees paid by its franchisees, as well as sales in company-operated restaurants.<sup>2</sup>

The business is managed as distinct geographic segments. In 1971, McDonald's opened its first restaurant in Europe, in the Netherlands. Today, McDonald's Europe,<sup>3</sup> together with its franchisees, operates more than 7,000 restaurants in 40 countries serving over 13.6 million customers a day<sup>4</sup>.

The European Management Team defines pan-European business strategies and lends guidance and support to country management teams. The national companies and franchisees follow common standards and policies on food quality and safety, brand identity, restaurant ambiance, core menu and operational procedures.

The local management in Europe, with its four Division Presidents<sup>5</sup> and the Managing Directors in each country, follow the European strategies adopting the most appropriate tactics at local level based on market intelligence from consumer and employee insights. This means that management teams in each country adopt and adapt McDonald's worldwide and pan-European business approaches to reflect their local culture, environment and traditions. The Managing Directors of McDonald's national companies are responsible for business operations and results in their country.

After 40 years of operations in Europe, McDonald's commissioned London Economics to establish, for the first time, an independent, evidence-based assessment of the company's

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<sup>1</sup> McDonald's Corporation headquarters are located in Oak Brook, Illinois, U.S.

<sup>2</sup> In-depth information on financial results can be retrieved from McDonald's Corporation Annual Reports.

<sup>3</sup> McDonald's Europe head office is located in Geneva, Switzerland.

<sup>4</sup> Figures as of Q2 2011.

<sup>5</sup> European business operations are organised around 4 Divisions: North Division, led by McDonald's UK, encompasses Denmark, Finland, Ireland, Norway, Sweden and the United Kingdom. South Division, led by McDonald's France, encompasses Andorra, Belgium, France, Greece, Italy, Malta, Morocco, the Netherlands, Portugal, Spain and Switzerland. West Division, led by McDonald's Germany, encompasses Austria, Croatia, the Czech Republic, Germany, Hungary, Luxembourg, Poland, Slovakia and Slovenia. East Division, led by McDonald's Russia, encompasses Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Estonia, Georgia, Latvia, Lithuania, Macedonia, Moldova, Rumania, Russia, Serbia and Ukraine.



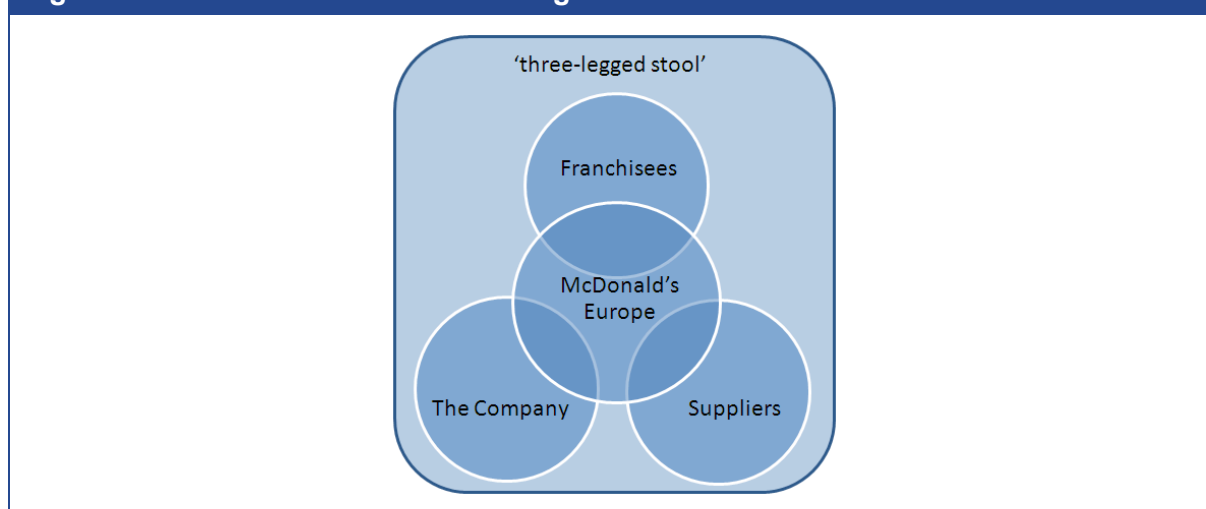
contribution to the European economy. The estimates in this report reflect significant primary economic research and secondary economic analysis.

The study focuses specifically on the following aspects:

- Chapter 1 – the direct macro-economic contribution to European Union (EU) Gross Domestic Product (GDP) and the indirect contribution to wealth in Europe through a multiplier effect<sup>6</sup> that increases the value of employee salaries and wages;
- Chapter 2 – the overall volume and value of McDonald's food supply chain, its contribution to upstream economic activity in supplier businesses and its impact on the wider European agricultural and food manufacturing sectors;
- Chapter 3 – McDonald's contribution to employment, skills development and training in the EU; and
- Chapter 4 – the role of McDonald's franchise model in creating business opportunities for individuals and benefits to local communities.

By structuring the report in this way, we have sought to reflect McDonald's business organisation (Figure 1), which relies on a strong relationship between franchisees, suppliers and the Company. McDonald's refers to this as its 'three-legged-stool' business model.

**Figure 1: McDonald's business organisation**



Source: McDonald's

<sup>6</sup> The multiplier effect of the salaries and wages McDonald's pays to its employees occurs as employees spend their money to purchase other services or supplies and hence impact the economy. See page 7 for a detailed analysis.



# 1 Quantifying impact: direct and indirect economic contributions

## Box 1: McDonald's economic footprint: key findings

- McDonald's Europe and its franchisees<sup>7</sup> form the largest restaurant chain in Europe.
- McDonald's operates more than 7,000 restaurants and employs approximately 400,000 people in Europe<sup>8</sup>.
- McDonald's continued to grow throughout the recession of 2007-09. Since 2007, McDonald's growth has consistently exceeded EU GDP growth as well as the growth of the European hotels and restaurants sector as a whole.
- McDonald's made an estimated contribution of € 9.5 billion<sup>9</sup> to EU GDP in 2010.
- Salaries and wages paid by McDonald's are partly reinvested in the regional/local economy: in 2010 these had an estimated total impact of € 7.6 billion in the EU.
- McDonald's capital reinvestment has increased on average by 17% per year since 2007.<sup>10</sup>

## 1.1 Summary

McDonald's has a substantial impact on the European Union (EU) economy. Since its first European restaurant opened in 1971, it has become the largest restaurant chain in Europe by number of restaurants, with 7,002 restaurants in 40 European countries<sup>11</sup>. McDonald's is also the largest restaurant chain by income: it serves 13.6 million customers a day and generated sales of over € 13.3 billion (in inflation-adjusted 2005 prices)<sup>12</sup> in the EU in 2009. In the same year, McDonald's contribution to EU GDP is estimated to have been € 9.5 billion.

The global recession of 2007-09 presented serious challenges for businesses throughout Europe. However, McDonald's continued to grow in this period, outperforming the wider EU economy. McDonald's performance contributes to the European economy by providing employment, demand for inputs – the vast majority of which are sourced from European suppliers<sup>13</sup> – and tax revenues for European governments. McDonald's has also increased its capital reinvestment: this has risen by more than 17% on average per year from 2007 to 2010 (€ 502 million in 2007 - € 738 million in 2010).

<sup>7</sup> In the following 'McDonald's' is understood as 'McDonald's Europe and its franchisees' unless otherwise specified. The focus in most of the report is on McDonald's operation within the Member States of the European Union; where figures refer to a wider set of countries (also including DL countries), this is mentioned specifically.

<sup>8</sup> Figures reflect number of restaurants and employees in 39 European countries as of Q4 2010 (McDonald's operated and franchised restaurants).

<sup>9</sup> See page 5 for the derivation of this figure.

<sup>10</sup> Investment in restaurants, décor, furniture and equipment. This does not include investment by franchisees.

<sup>11</sup> 7002 restaurants in 40 European countries reflect McDonald's Europe operations as of Q2 2011. Calculations in this report are based on number of restaurants as of Q4 2010, i.e. 6,968 restaurants in 39 European countries.

<sup>12</sup> Note that the inflation adjustment was done in order to allow the comparison of nominal figures from various sources that were provided for the purpose of this project. The conversion into real prices was based on Eurostat price indices (base year 2005). This approach may lead to discrepancies between figures cited in this report and other sources.

<sup>13</sup> See chapter 2 for detailed information.

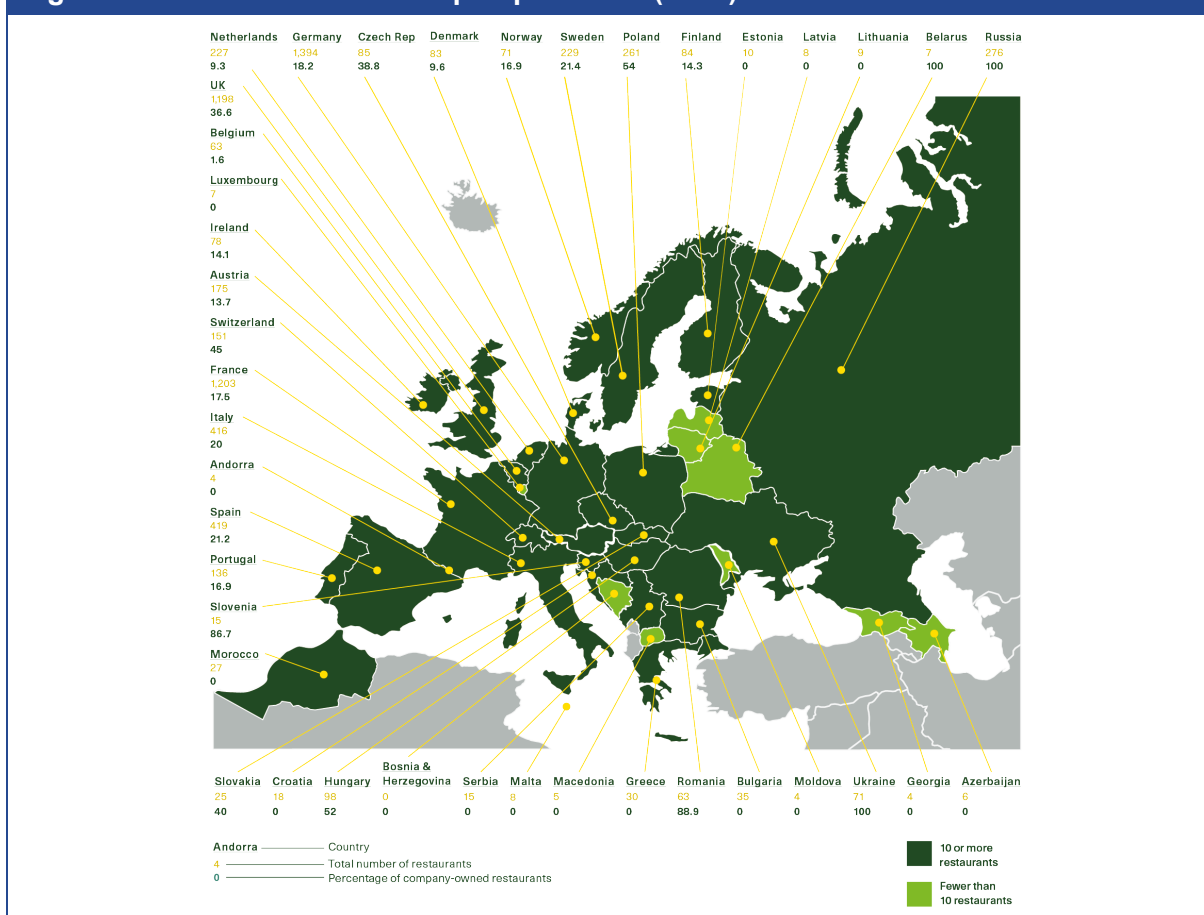
In addition to McDonald's direct impact on GDP, there is a multiplier effect as money spent on employees' salaries and wages filters through local economies. In 2010 salaries and wages totalled approximately € 3.5 billion in the EU: at a conservative estimate, the overall impact was approximately € 7.6 billion.

## 1.2 The direct impact of scale and growth

### 1.2.1 The largest restaurant chain in Europe

McDonald's opened its first restaurant in Europe in 1971 and today, together with its franchisees, it operates the largest restaurant chain in Europe by number of restaurants.<sup>14</sup> McDonald's Europe has restaurants in all countries throughout the EU, except Cyprus,<sup>14</sup> and in another 14 non-EU countries<sup>15</sup> (Figure 2). In May 2011 there were more than 6,200 McDonald's restaurants employing 294,000 people in the EU and 7,002 restaurants employing 400,000 people across all 40 European countries.

**Figure 2: McDonald's Europe operations (2011)**



Source: McDonald's

<sup>14</sup> Cyprus is part of the McDonald's geography Asia/Pacific, Middle East and Africa (APMEA).

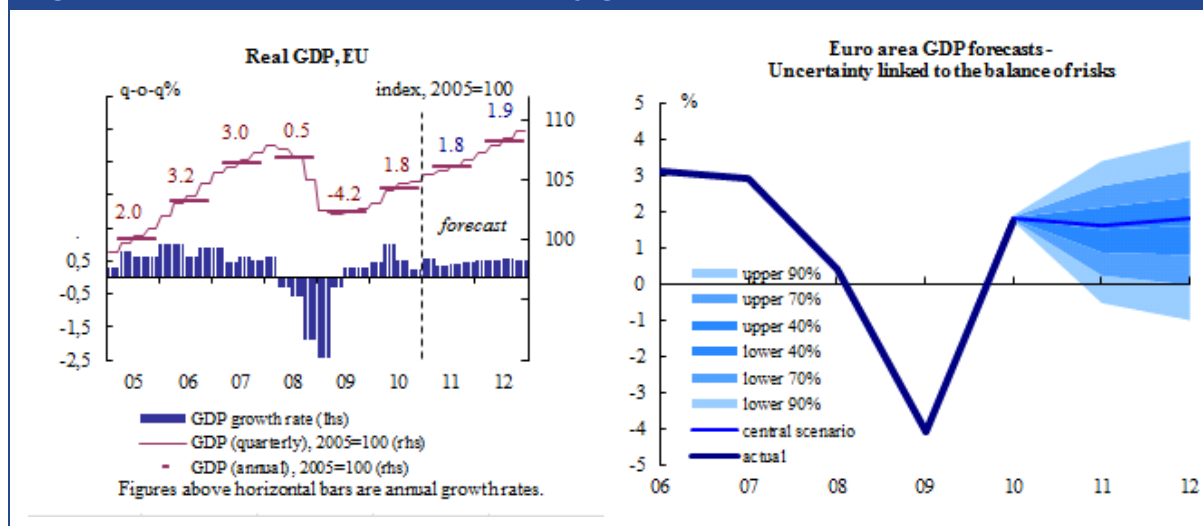
<sup>15</sup> Non-EU countries that are also part of McDonald's European operation are: Andorra, Azerbaijan, Belarus, Bosnia and Herzegovina, Croatia, Georgia, Macedonia, Moldova, Morocco, Norway, Russia, Serbia, Switzerland and Ukraine.

McDonald's is also the largest restaurant chain by income. McDonald's restaurants serve 13.6 million customers a day and generated sales of over € 13.3 billion (inflation-adjusted; Euro conversion using average annual exchange rates) in the EU in 2010. With approximately 20% of the company's restaurants worldwide, McDonald's Europe<sup>16</sup> delivered 30% of global sales and contributed 40% of worldwide operating income in 2010.<sup>17</sup> France, Germany and the UK are McDonald's most profitable European countries and together represented in 2010 approximately 65% of its operating income in Europe.

### 1.2.2 McDonald's growth despite recession

The global financial crisis of 2007-09 led to a sharp contraction of the EU economy, which affected almost all EU countries. The scale of this 2009 recession is illustrated by Figure 3, which shows a deep trough in quarter-on-quarter GDP growth. The recession resulted in a sharp upturn in business insolvencies and unemployment. For example, insolvencies increased by 50% in the UK between 2007 and 2009 and by 24% and 12% in France and Germany respectively. Looking specifically at the European hotel and restaurant sector, the latest figures<sup>18</sup> show a decline in gross value added of 3.2% in 2009.

**Figure 3: EU and euro area quarterly growth profile (2007-2012)**



Source: ECFIN European economic forecast, Spring 2011

In early 2011, the European Commission's economic forecast highlighted that the recovery of the EU economies is under way, but remains uneven across countries. Developments in EU Member States are still pointing to "a rather jobless recovery" and inflation is predicted to increase over the next two years. The Commission considers that "the balance of risks for the economic growth outlook is tilted to the downside" amid ongoing concerns about unsustainably high levels of public debt following the global financial crisis in 2007-09 and

<sup>16</sup> Throughout this report 'McDonald's Europe' or 'McDonald's' includes corporate and franchisee operations in 40 European countries (see Figure 1) unless indicated otherwise. McDonald's Europe head office is located in Geneva, Switzerland.

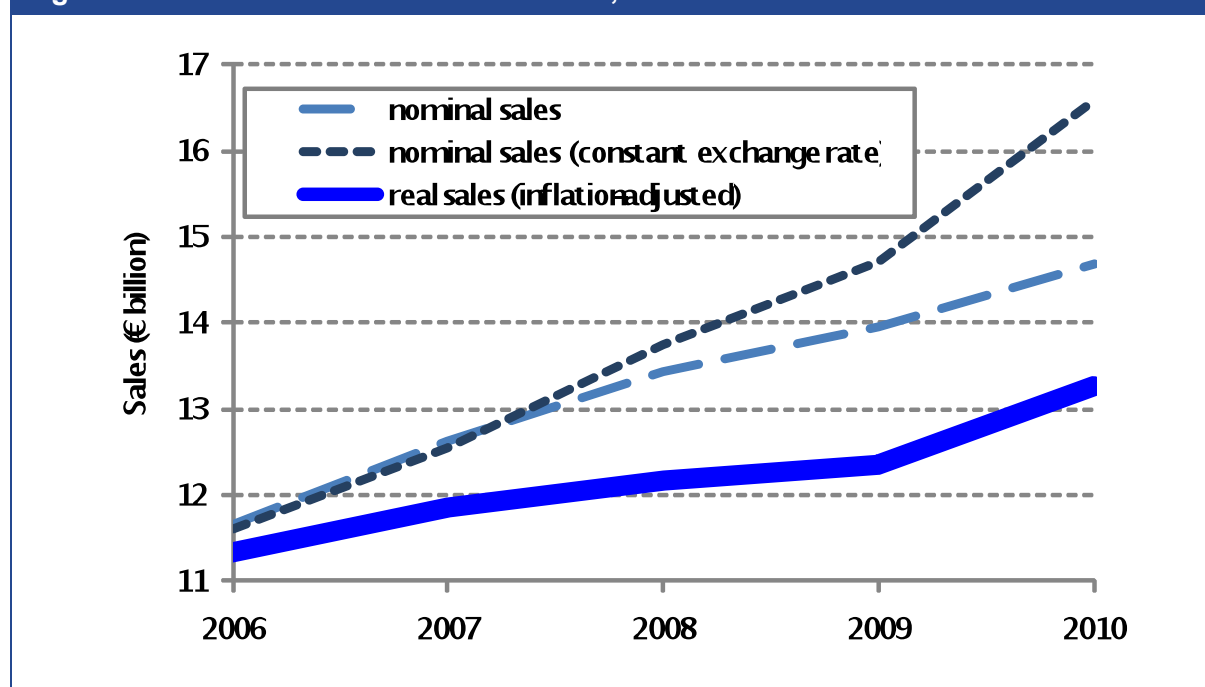
<sup>17</sup> Based on 2010 data. Source : McDonald's

<sup>18</sup> Eurostat National Accounts by 60 Branches, aggregates at current prices.

increased uncertainty about the global economy due to political unrest in North Africa and the Middle East as well as events in Japan.<sup>19</sup>

Against this backdrop, McDonald's sales in the EU have grown 17% from 2006 to 2010 (and over 41% since 1998) in real terms – that is, adjusted for the increase in consumer prices in the hotels and restaurants sector.<sup>20</sup> The following chart shows McDonald's (inflation-adjusted) real sales as well nominal sales, calculated with both current and constant exchange rates. The distance between the curves measures the impact of exchange rate fluctuations and inflation on the value of McDonald's sales over time.

**Figure 4: McDonald's sales in the EU\*, 2006-2010**

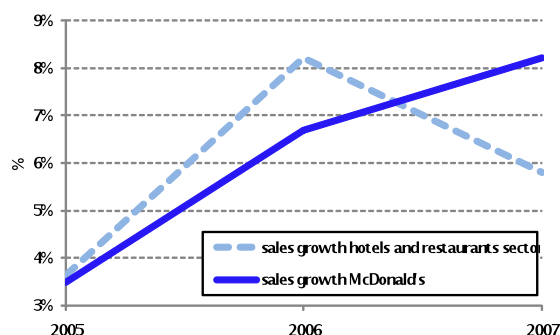


Note: \* EU27 minus EE, CY, LT, LV, MT, BG; sales adjusted for inflation using the Harmonised Index of Consumer Prices (HICP) for the restaurants and hotels sector (2005 = 100). National currencies converted into € using a) annual average exchange rates and b) constant exchange rates calculated as the average exchange rate 1998-09. **Source: McDonald's (total systemwide sales 1998-10); Eurostat (exchange rates, HICP)**

A comparison of McDonald's performance with the hotels and restaurants sector as a whole (Figure 5) shows that McDonald's outperformed the sector even before the recent economic crisis.

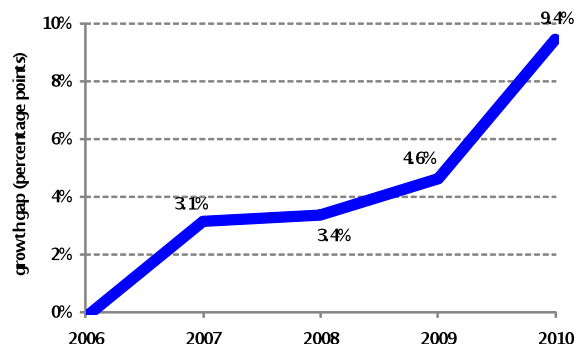
<sup>19</sup> European Commission DG ECFIN, European Economic Forecast - spring 2011. Available at: [http://ec.europa.eu/economy\\_finance/eu/forecasts/2011\\_spring\\_forecast\\_en.htm](http://ec.europa.eu/economy_finance/eu/forecasts/2011_spring_forecast_en.htm) [accessed 16n May 2011].

<sup>20</sup> Sales figures provided by McDonald's and adjusted for inflation using the Eurostat Harmonised Consumer Price Index for the hotels and restaurants sector.

**Figure 5: Growth in nominal sales in the EU - McDonald's vs. hotels and restaurants sector\* (2005-2007)**

Note: \*NACE (Rev. 1.1) 55 – Consolidated data for growth in nominal sales for the EU hotels and restaurants sector is available only until 2007. **Source: McDonald's, Eurostat**

During the recession McDonald's saw continued positive growth and has outperformed GDP growth in the EU by considerable margins. As Figure 6 shows, McDonald's net turnover growth exceeded overall EU GDP growth by 3.4 and 4.6 percentage points in 2008 and 2009 respectively, a time when the economy as a whole shrank and other large companies experienced a significant drop in revenues from their European operations (for example, the European revenues of the engineering company Siemens dropped 3.6% from 2008 to 2009 and those of retailer Carrefour fell by 4%<sup>21</sup>).

**Figure 6: McDonald's extra growth: estimated growth in McDonald's net turnover\* minus real GDP growth (EU27), 2006-2010**

Note: \* net turnover = sales - purchases (purchases = supplier costs + logistics).<sup>22</sup> **Source: McDonald's (cost of supplies incl. logistics ('Free Restaurant' spend), total system wide sales; Eurostat (exchange rates, HCIP, PPI, real GDP growth rates)**

<sup>21</sup> Turnover figures from 2009 annual reports.

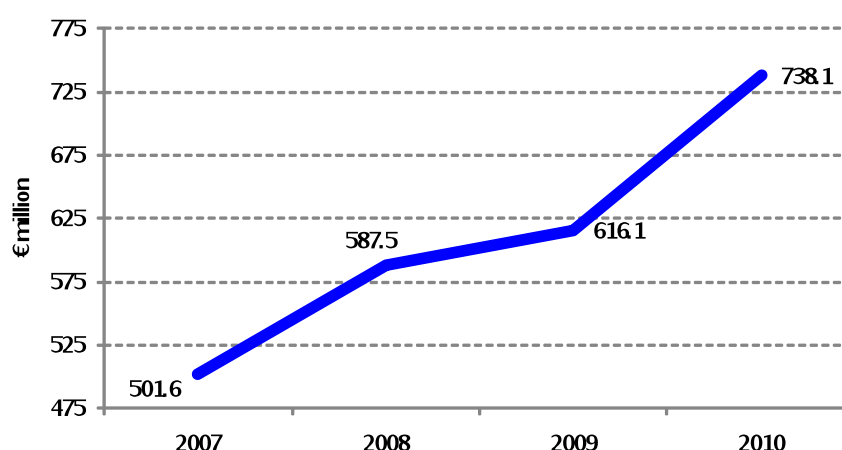
<sup>22</sup> Purchases data from SCIPS (Supply Chain Inventory Purchases Sales) was available for the years 2007-09. Values for 2005-06 were extrapolated assuming a growth rate equal to the growth of McDonald's system wide sales. Where the cost of supplies implied by SCIPS differed markedly (+/- 2%) from the cost of goods sold implied by market-level financial accounts, values were corrected using the figures based on the financial accounts. This was done for CZ, DK, GR, IE, PL, PT and RO. Time series of purchases were extrapolated backwards based on McDonald's turnover growth. Net turnover figures refer to EU27 minus EE, CY, LV, LT, LU, MT, SI, SK, BG; sales adjusted for inflation using the Harmonised Index of Consumer Prices (HICP) for the 'restaurants and hotels' sector (2005 = 100); supplier costs adjusted for inflation using the Industry producer prices index (PPI) for the food manufacturing sector (2005 = 100). National currencies converted into € using annual average exchange rates.

We estimate that McDonald's contribution to EU<sup>23</sup> GDP was € 9.5 billion in 2010. GDP is measured by the company's net turnover, or gross value added – that is, McDonald's real sales (€13.3 billion) minus the payments made by McDonald's for non-labour inputs (i.e. the payments made by McDonald's to its suppliers and logistics providers and other non-labour operating costs).<sup>24</sup> The net turnover thus captures the impact that is generated by the operation of McDonald's restaurants through profits, salaries and wages paid to employees and represents the company's contribution to EU GDP.<sup>25</sup>

To put this into perspective, the average year-on-year *increase* in McDonald's net turnover between 2006 and 2010 – € 372 million – is seven times larger than the average net turnover of the top 100 companies in the EU restaurant sector.<sup>26</sup> Company performance benefits the European economy by providing employment, demand for inputs<sup>27</sup> – many of which are sourced from European suppliers – and tax revenues for European governments.

McDonald's also makes a contribution to the European economy through its capital reinvestment. The company's expenditure on restaurants, décor, furniture and equipment has increased from a 2007 level of € 502 million to € 738 million in 2010, or by 17% on average over the last four years<sup>28</sup> (Figure 7).

**Figure 7: McDonald's total capital expenditures in Europe (2007-2010)**



<sup>23</sup> Based on the net turnover of 18 EU Member States: EU27 minus EE, CY, LT, LV, MT, BG, SK, SI and LU. (21 Member States minus three Member States for which the cost of non-labour inputs was not available.) Note that the excluded countries contain only 2% of McDonald's restaurants in the EU, so that the figures presented here can be seen as representative for the whole EU

<sup>24</sup> While the cost of supplies and logistics is reflected in our estimate, no data on other non-labour inputs has been available.

<sup>25</sup> GDP is the combined net turnover of all businesses in the EU. Purchases need to be subtracted from each firm's sales as money paid to suppliers would otherwise be counted twice.

<sup>26</sup> Based on 6,932 companies listed under NACE (Rev. 2) 561 - Restaurants and mobile food service activities for which data on turnover and cost of goods sold is available. Net turnover for the top 100 companies was calculated by subtracting annual cost of goods sold from annual operating revenue. The average was taken over the largest net turnover values achieved by each company in the years 2001-2009. Source: AMADEUS database (Bureau van Dijk).

<sup>27</sup> For detailed information on McDonald's contribution to the European economy through its food supply chain see Chapter 2.

<sup>28</sup> Based on McDonald's annual reports.



Note: \$ figures converted into € using annual average exchange rates (Eurostat). Figures do not include capital investment by franchisees, apart from the portion that is subsidised directly through capital contributions by McDonald's.

Source: *McDonald's Annual Report (2008, 2009, 2010)*

## Box 2: Impact of the Big Mac

McDonald's best-known product, the Big Mac, provides a good illustration of the company's economic impact. The 464 million Big Macs sold in 2009 contained approximately 6,600 tonnes of cheese (0.07% of EU production), 14,000 tonnes of lettuce (0.4% of EU production) and 32,700 tonnes of beef (0.4% of EU production).

In value terms, the raw materials needed to produce Big Macs (and Big Mac meals) generated sales of almost €266 million for the food supply industry and logistics providers. Almost all of the suppliers are located in Europe.<sup>29</sup> On top of that, the Big Mac also creates demand for other products and services such as kitchen equipment, electricity, packaging and advertising.

Besides being directly responsible for the employment of approximately 38,000 people and €434 million in salaries, the Big Mac also indirectly provides employment for around 2,700 people in supplier businesses.<sup>30</sup>

## 1.3 Indirect impact: the multiplier effect

In reality, the contribution of McDonald's to Europe's economic performance is greater than the direct impact of the company's net turnover on GDP. This is due to the so-called multiplier effect: besides the direct impact of the salaries and wages the company pays to its staff, McDonald's – like other businesses – produces what is termed an induced income effect that occurs as employees (McDonald's and suppliers') go out and spend their earned income.

The induced income effect captures the process by which employees spend a fraction of their income on goods and services, which in turn becomes income for the people who provide them. Service providers then spend a fraction of their income, and so on. This effect means that, taken together, the final impact of McDonald's salary and wage payments is greater than McDonald's initial expenditure.

Given that out of the 400,000 McDonald's employees in Europe, 294,000 people are employed in the EU, this is very large in absolute terms. In 2009 McDonald's spent approximately € 3.5 billion<sup>31</sup> on salaries and wages in the EU. To give a sense of relative scale we can compare this to the average annual sales of retail enterprises in the EU – around € 140,000. On this basis, the combined salaries and wages of McDonald's employees would be equal to the total annual sales of around 24,800 average-sized retail

<sup>29</sup> See Chapter 2 on the origin of McDonald's food supplies.

<sup>30</sup> Figures are a London Economics estimate based on an assumption of the Big Mac's contribution to total McDonald's net turnover.

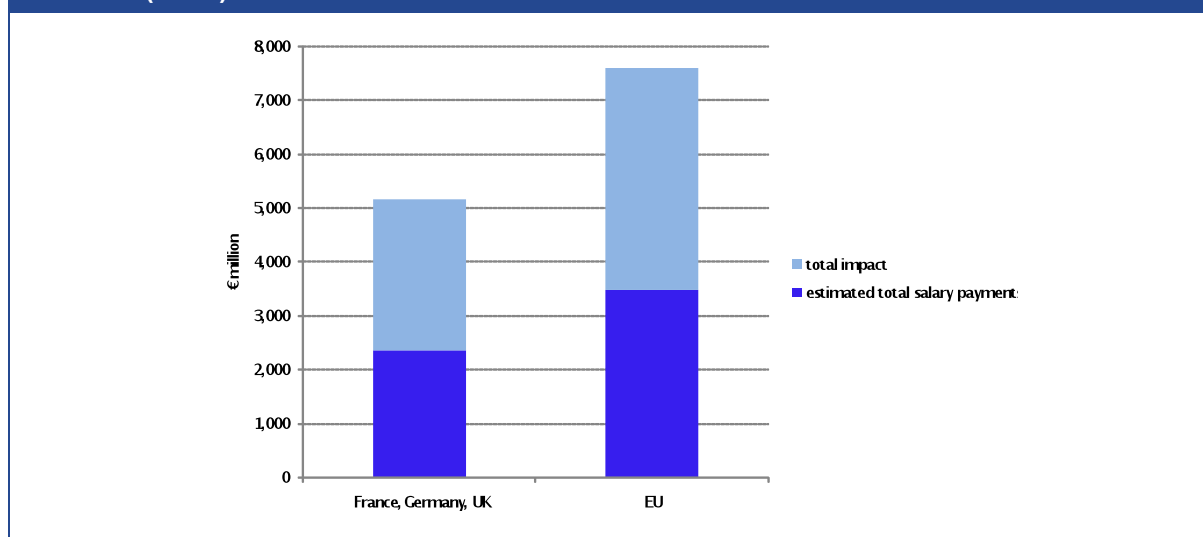
<sup>31</sup> McDonald's franchisees set salaries in their businesses and wages are not centrally monitored. The estimate of the total value of wages paid to McDonald's employees (i.e. including those working in franchised restaurants) that is reported here should be seen as indicative only, as it is based on limited data supplied by McDonald's for the purpose of this study, from which a total value was extrapolated.

businesses.<sup>32</sup> At a conservative estimate, we calculate the overall impact to have been approximately € 7.6 billion.

For this calculation we use a multiplier of 2.19, a figure formulated for an assessment of the impact of McDonald's in Ireland (Indecon 2010).<sup>33</sup> In our view, this represents the most precise estimate of the multiplier effect of McDonald's spending on a national level. A study by the Work Foundation (2004) used 2.48 as a regional multiplier for McDonald's spending in the UK.<sup>34</sup> Given that regional multipliers are typically smaller than supra-regional ones (more money is likely to 'leak out' of a regional economy), we regard the Indecon figure as a conservative estimate.<sup>35</sup>

Figure 8 shows the multiplier effect for McDonald's top three EU countries (France, Germany and the UK) and for the EU as a whole.<sup>36</sup>

**Figure 8: Estimated total impact of McDonald's salaries and wages in the EU (2010)**



**Source:** London Economics, based on McDonald's annual personnel survey (2009): no. of crew, management and office staff, full and part time, average annual management salary, average hourly starting salary for crew), McDonald's financial accounts (labour costs of company-owned restaurants) and OECD (annual working hours)

<sup>32</sup> Based on Eurostat (2007). 'Retail businesses' = businesses in 'wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods'. Average size = turnover / number of enterprises.

<sup>33</sup> Indecon (2010), *The Economic Impact of McDonald's Restaurants in Ireland*. Applying the multiplier of 2.19 to the net turnover impact of McDonald's in Ireland, the Indecon study found an estimated total contribution to GDP, including direct, indirect and induced impacts, from McDonald's activities in Ireland of €198.7 million in 2008.

<sup>35</sup> A study by the Work Foundation (The Work Foundation (2004) *Who is being served? McDonald's and the UK enterprise agenda*) found a regional multiplier for McDonald's spending in the UK of 2.48. This means that only a part of McDonald's local expenditure is taken into account (e.g. the cost of supplies are not considered). At a multiplier rate of 2.48, the € 1.1 million spent by a McDonald's franchised restaurant in the UK generates a further € 2.7 million of local spending. According to the Work Foundation, 'This represents a considerable investment in the communities where franchised McDonald's are based. Outside the public sector there is often very little of this kind of scale of activity in many such places'.

<sup>36</sup> Wages were estimated based on data from the McDonald's personnel survey on hourly crew salaries and annual management salaries. Office staff salaries were assumed to be equal to management salaries. Part-time employees' wages were assumed to be half the full-time wage. Annual working hours were assumed to be equal to country-wide annual working hours. Estimated total salaries for UK and DE were cross-checked against payroll data provided separately by the top countries. Estimated totals for the remaining countries were adjusted upwards by 8.6%, i.e. the average % deviation (weighted by total salary payments) between the estimates and the payroll data for DE and UK.

## 2 Linking scale with standards: McDonald's food supply chain

### Box 3: McDonald's Europe<sup>37</sup> food supply chain<sup>38</sup>: key findings

- McDonald's sources 97% of its agricultural raw materials from Europe.
- McDonald's is a major purchaser of European agricultural raw materials (e.g. 2.5% of EU beef production).
- McDonald's works with a network of fully independent direct and indirect suppliers.
- McDonald's is a major purchaser from the European food manufacturing industry (e.g. McDonald's buys 10% of the total European minced beef production).
- McDonald's, through its direct suppliers, sources from a large number of farmers, including approximately 500,000 European beef farmers.
- McDonald's has long-term business relationships with many of its suppliers – the largest of McDonald's European suppliers have been supplying the company for 31 years on average.
- McDonald's has developed standards for its supply chain in terms of food quality and safety and environmental sustainability. The impact of these standards reaches beyond McDonald's own suppliers and customers.

### 2.1 Summary

McDonald's sources the vast majority of its agricultural raw material from Europe. The volume of menu ingredients that McDonald's purchases makes the company a significant source of revenue for its direct suppliers (food manufacturers) and indirect suppliers (agricultural producers). The company's purchases from EU suppliers in seven core product categories alone amounted to € 2.2 billion in 2009, making it one of the largest buyers in Europe. Demand from McDonald's has been increasing across most food product categories, with an average annual increase of 18% between 2007 and 2009.

The supply chain is not owned by McDonald's. Instead, the company acts as a major buyer from independent suppliers, with many of which it long-term business relationships. This supply chain structure supports a significant workforce in supplier firms and creates a stable climate that enables suppliers to develop their businesses for the future.

McDonald's promotes standards and practices in its supply chain through quality, safety and environmental stewardship. McDonald's standards have a formative effect on the supply chain. Food quality and safety and environmental sustainability are targeted through a variety of programmes and regularly audited (e.g. McDonald's Distribution Centres typically undergo 11 audits a year). Information-sharing and external benchmarking help to raise standards among McDonald's suppliers and spread the benefits of best practice more widely in the European food industry.

<sup>37</sup> In the following 'McDonald's' is understood as 'McDonald's Europe' unless otherwise specified.

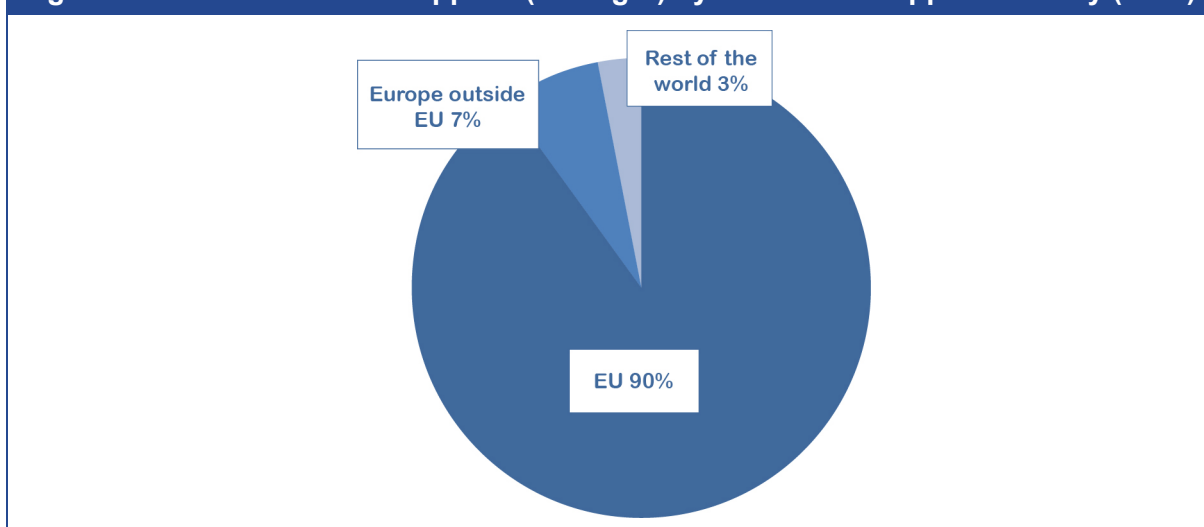
<sup>38</sup> Food supplies only are taken into account in this chapter. Others, such as kitchen equipment, cleaning materials, etc., which also contribute to McDonald's economic footprint in the European economy, are not included.

## 2.2 European sourcing

### 2.2.1 Products from the agricultural sector

A review of the agricultural products purchased by McDonald's in Europe through its direct suppliers (food manufacturers) indicates that the majority are sourced from European farms (indirect suppliers). On average (across all product categories captured through McDonald's MAAP<sup>39</sup>), 97% of agricultural products used by McDonald's are sourced from Europe (Figure 9).

**Figure 9: McDonald's food supplies (average\*) by location of supplier country (2010)**

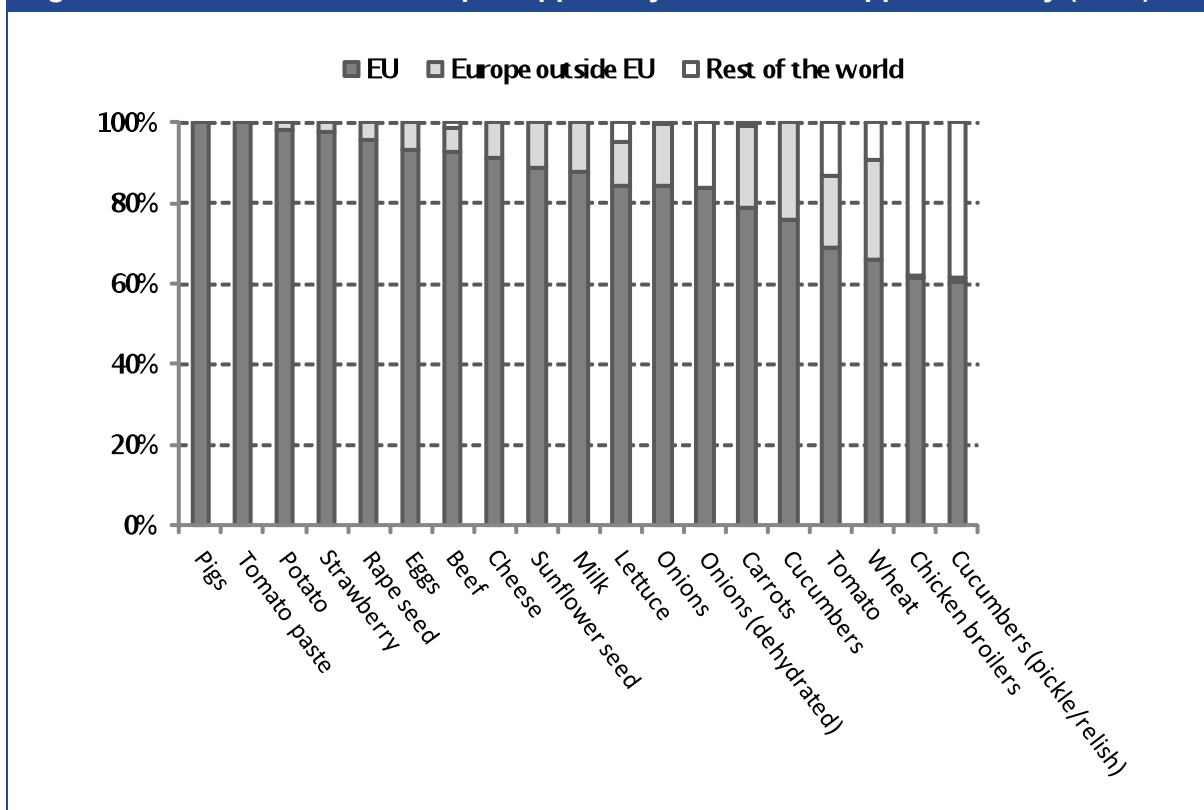


Note: \* average weighted by share of total volume in tonnes. Product categories as in Figure 9, not including eggs (supplies measured in units).

Source: *McDonald's*

As Figure 10 shows that pigs, tomato paste, potatoes, strawberries, rape seed and eggs used by McDonald's come exclusively from European suppliers. Out of 19 product categories, only four (pickled cucumbers, chicken, tomatoes and dehydrated onions) are sourced from outside Europe to a significant degree (> 10% of volume).

<sup>39</sup> MAAP is a system of standards for agricultural products developed by McDonald's with the aim of increasing and safeguarding food quality, food safety and sustainability. MAAP captures volumes of agricultural raw materials sourced by McDonald's Europe. For additional information on MAAP see page 20.

**Figure 10: McDonald's Europe supplies by location of supplier country (2010)**

Note: volumes in tonnes, except for eggs (units).

Source: McDonald's

McDonald's is one of the largest buyers of European agricultural products across a range of product categories. A comparison of McDonald's purchases with overall agricultural production indicates the extent of McDonald's impact on the agricultural sector in the EU:<sup>40</sup> its purchases of beef, lettuce and potatoes exceeds 1.5% of total production of these products across the 27 EU Member States (Table 1, Figure 11).

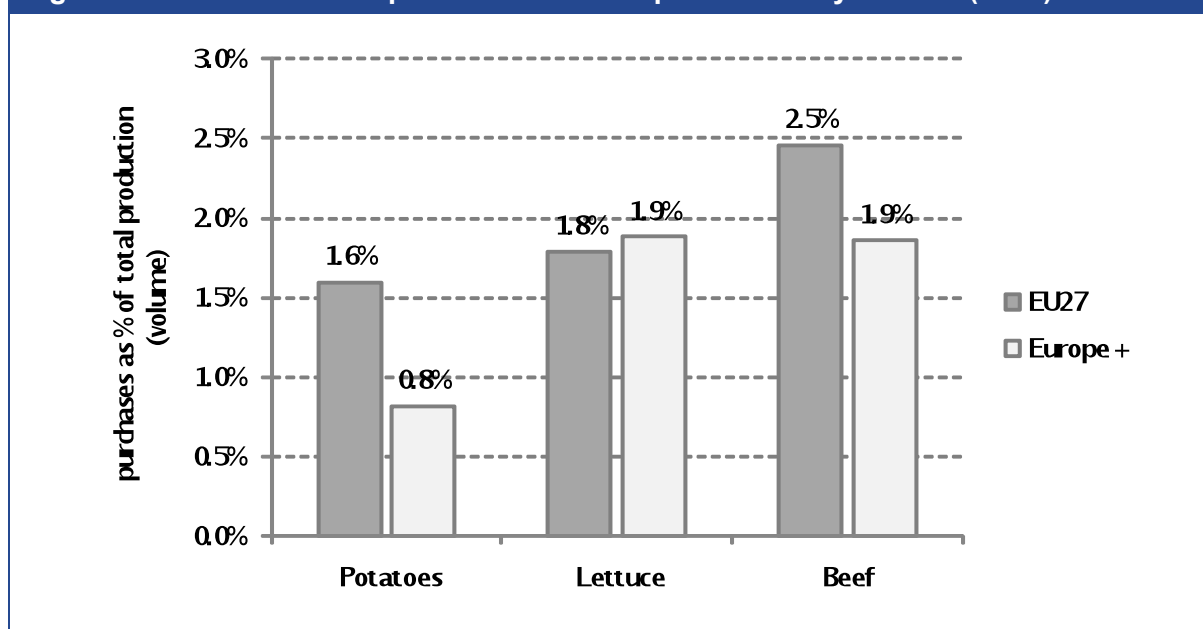
<sup>40</sup> The comparison is based on agricultural production data assembled by the United Nations Food and Agriculture Organization (FAO) and information on the volume of purchases provided by McDonald's. The United Nations FAO data is available up to 2008 and covers both the 27 Member States of the European Union and the adjacent countries in which McDonald's is active and from which some supplies are sourced.

**Table 1: McDonald's purchases of agricultural products (2008)<sup>+</sup>**

Product (unit)	Production volume		McDonald's purchases		McDonald's purchases (% of production)	
	EU27	Europe + <sup>9)</sup>	EU27 <sup>10)</sup>	Europe + <sup>9), 10)</sup>	EU27 <sup>10)</sup>	Europe + <sup>9), 10)</sup>
Beef (t)	7,999,795 <sup>1)</sup>	11,151,211 <sup>1)</sup>	196,901	207,524	2.46%	1.86%
Chicken (t)	8,825,091	12,584,620	50,979	51,126	0.58%	0.41%
Pork (t)	22,203,882 <sup>2)</sup>	25,942,374 <sup>2)</sup>	6,599	6,599	0.03%	0.03%
Cheese	8,575,662	9,936,502	28,445	31,725	0.33%	0.32%
Milk (t)	149,276,472 <sup>3)</sup>	211,411,457 <sup>3)</sup>	125,525	138,006	0.08%	0.07%
Potatoes (t)	61,451,279	123,550,993	984,655	1,008,681	1.60%	0.82%
Carrots (t)	5,401,526 <sup>4)</sup>	8,980,635 <sup>4)</sup>	2,618	3,355	0.05%	0.04%
Wheat (t)	150,328,777	252,745,797	141,680	165,151	0.09%	0.07%
Lettuce (t)	3,346,475 <sup>5)</sup>	3,461,771 <sup>5)</sup>	59,741	65,225	1.79%	1.88%
Cucumbers (t)	5,145,281 <sup>6)</sup>	8,854,182 <sup>6)</sup>	15,175	15,383	0.29%	0.17%
Onions (t)	5,419,786 <sup>7)</sup>	9,695,104 <sup>7)</sup>	6,192	6,875	0.11%	0.07%
Tomatoes (t)	16,154,276	21,880,203	12,343	15,887	0.08%	0.07%
Strawberries (t)	1,101,393	1,540,272	689	689	0.06%	0.04%
Eggs (no.)	111,939,282 <sup>8)</sup>	177,124,150 <sup>8)</sup>	126,896,209	133,434,234	0.11%	0.08%

Note: FAO product classifications: 1) cattle meat; 2) pig meat; 3) cow milk, whole, fresh; 4) carrots and turnips; 5) lettuce and chicory; 6) cucumbers and gherkins; 7) onions, dry; 8) hen eggs, in shell. 9) EU27 + Azerbaijan, Belarus, Croatia, Georgia, Macedonia, Moldova, Morocco, Norway, Russia, Serbia, Switzerland and Ukraine; 10) products are sourced from a subset of countries. + We use 2008 data to ensure comparability with the FAOSTAT production figures (later figures are not available from FAOSTAT as of June 2011).

Source: McDonald's, FAO (<http://faostat.fao.org/> [accessed 01 July 2010])

**Figure 11: McDonald's purchases as % of production by volume (2008)**

Note: Europe+ comprises the 27 EU Member States plus Azerbaijan, Belarus, Croatia, Georgia, Macedonia, Moldova, Morocco, Norway, Russia, Serbia, Switzerland and the Ukraine.

Source: McDonald's, FAO (<http://faostat.fao.org/> [accessed 01 July 2010]).

A more detailed look at the three food products shown in Figure 10 gives a better picture of the relative scale of McDonald's purchases of beef, lettuce and potatoes.

■ **Beef**

- In 2008 McDonald's purchased over 200,000 tonnes of beef from approximately 500,000 independent beef farms in Europe,<sup>41</sup> 95% of which was sourced from EU27 countries.
- This accounts for 2.5% of beef produced across the EU27 overall (8 million tonnes, including minced and non-minced beef or around 720,000 animals<sup>42</sup>) and is equivalent to 14% of the 1.5 million tonnes contributed by France, the EU's largest producing country.
- In Germany, Europe's second-largest producer, 3.6% of total beef production is sold to McDonald's.
- The volume of beef sold through McDonald's in the EU27 amounts to 0.4 kg per person, or more than 2% of the approximately 18 kg of beef consumed annually per person in the EU.<sup>43</sup>
- The value of McDonald's European beef purchases<sup>44</sup> in 2008 was € 773 million.
- Beef from non-European countries accounts for 0.8% of the total volume purchased for McDonald's European restaurants and is supplied only to restaurants in Russia, Belarus, Ukraine and Morocco.

■ **Lettuce**

- The 65,000 tonnes of lettuce consumed in McDonald's restaurants is equivalent to more than half the annual production of lettuce<sup>45</sup> of the United Kingdom.
- For iceberg lettuce, (the type McDonald's uses the most), McDonald's share of European production is estimated to be 20%.

■ **Potatoes**

- More than the entire potato production of Sweden (0.85 million tonnes in 2008) or around 16% of the production of the UK (6 million tonnes) would be needed to supply the over one million tonnes that are used in the preparation of McDonald's meals (e.g. French fries, potato wedges).
- McDonald's European potato purchases are worth € 162 million to the EU farming sector.<sup>46</sup>

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<sup>41</sup> See <http://www.flagshipfarms.eu/progress.php>.

<sup>42</sup> EU27 slaughterings (bovines), Eurostat figure.

<sup>43</sup> The figure is based on Eurostat data and refers to beef and veal.

<sup>44</sup> Value at basic prices (from Eurostat), assuming the proportion of McDonald's purchases in value terms is the same as the share in the volume of production.

<sup>45</sup> More precisely, lettuce and chicory. Aggregate figures only are provided by the FAO.

<sup>46</sup> Assumptions as explained in footnote 44 above.



### 2.2.2 Products from the food manufacturing sector

Agricultural producers are indirect suppliers to McDonald's, since their products are purchased through European food manufacturers, which act as McDonald's direct suppliers. These direct suppliers use agricultural products as inputs for further processing (i.e. turning beef into burger patties, potatoes into French fries, etc.). In 2009 99.4% of all food products for McDonald's European restaurants were manufactured in Europe (88.9% in the EU, 10.5% in the rest of Europe).<sup>47</sup> McDonald's purchases from EU food manufacturing suppliers in seven core product categories (see Table 2) amounted to € 2.2 billion in 2009 and demand from McDonald's has been increasing across most product categories, with an average<sup>48</sup> annual rise of 18% between 2007 and 2009.

A comparison of the value of purchases by McDonald's from European suppliers with the turnover of the relevant segments of the food manufacturing industry<sup>50</sup> helps to put this into perspective (Table 2).

**Table 2: McDonald's supply from the EU27 food manufacturing & processing industry (2007)**

Market segment (NACE)*	Industry turnover (€m)	McDonald's purchases (€m) <sup>49</sup>	McDonald's purchases (% of sector turnover)
Production, processing, preserving of meat, meat products	190,000	927	0.5%
Processing and preserving of fish and fish products	20,436	44	0.2%
Processing and preserving of fruit and vegetables	48,240	145	0.3%
Processing and preserving of potatoes	9,414	250	2.7%
Manufacture of dairy products	130,225	264	0.2%
Manufacture of bread and fresh pastry goods and cakes	74,528	262	0.4%
Manufacture of condiments and seasonings	12,054	143	1.2%

<sup>47</sup> Estimates do not include coffee and food supplies to McCafés (muffins, brownies, etc.) and are based on spend per supplier country (including shipping to Distribution Centres, which is handled by independent contractors). 'Rest of Europe' = Croatia, Liechtenstein, Norway, Russia, Switzerland and Ukraine 89%. Source: McDonald's (SCIPS)

<sup>48</sup> Weighted by the value of each product category in 2009.

<sup>49</sup> Purchases by McDonald's where assigned to market segments according to NACE (rev. 1.1) as follows:

Market segment	Product category
Production and preserving of meat	'Meat' (incl. beef, chicken and pork)
Processing and preserving of fish and fish products	'Seafood'
Processing and preserving of fruit and vegetables (excl. potatoes)	'Produce' (incl. cucumbers, lettuce, onions, tomatoes)
Processing and preserving of potatoes	'Potatoes'
Manufacture of dairy products	'Dairy'
Manufacture of bread and fresh pastry goods and cakes	'Bakery & Pastry'
Manufacture of condiments and seasonings	'Condiment'

<sup>50</sup> The data on industry turnover are taken from the Structural Business Statistics published by Eurostat, which cover the 27 Member States of the European Union. The latest available figures on industry turnover (gross premium written) are from 2007.



Note: \* In the Eurostat database, industry sectors are defined using the statistical classification of economic activities in the European Community (NACE). This classification is designed to allow the comparison of statistical magnitudes (in this case turnover) across Member States. However, the market segments defined by Eurostat do not correspond directly to the product categories used by McDonald's to record the value of its purchases. For this exercise, London Economics determined an approximate correspondence between NACE and the product categories used by McDonald's.

**Source: McDonald's, Eurostat (Structural Business Statistics)**

The € 250 million spent by McDonald's on potato based products (which includes French fries, hash browns and seasoned potato wedges) amounts to 2.7% of the total turnover of the potato-processing industry in the 27 EU Member States, which is equivalent to more than twice the turnover of the sector in Austria (€ 120 million) and 65% of the turnover in Poland.

Looking at the meat industry, McDonald's purchases in 2007 were worth € 927 million, which is 2.6% of the annual turnover of the entire meat industry in France. A comparison with the average turnover of European businesses in the meat industry (€ 4.4 million in 2007 according to Eurostat) shows that McDonald's purchases alone contribute the equivalent of the turnover of over 200 businesses of average size. McDonald's is Europe's largest purchaser of minced beef, accounting for approximately 10% of the total European minced beef production.<sup>51</sup>

The volume of menu ingredients that McDonald's purchases makes the company a significant source of revenue for its direct and indirect suppliers in Europe.

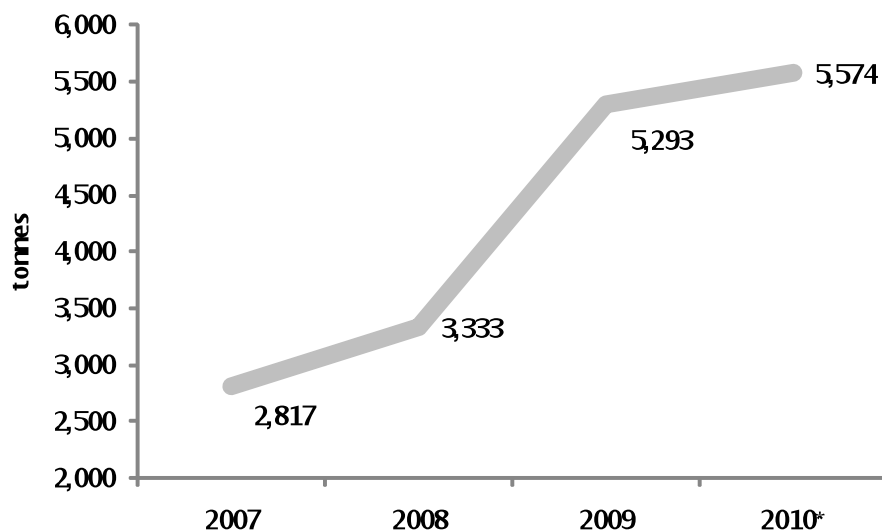
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<sup>51</sup> Estimates based on figures provided by the Agriculture and Horticulture Development Board (AHDB) Market Intelligence Division (European boneless beef production).

### 2.2.3 Menu development creates supplier opportunity

McDonald's menu development can grow demand for food products rapidly; for example, the company has almost doubled its purchase volumes of fruit since 2007 in order to provide menu items such as fruit bags as options in all Happy Meals across Europe.<sup>52</sup>

**Figure 12: McDonald's purchases of fruit (volume, 2007-2010)**



Note: \* estimation.

Source: McDonald's

<sup>52</sup> Happy Meal is a children's offer consisting of main dish, side dish, drink and, in certain countries, a dessert element.

New business opportunities have been created for local suppliers as McDonald's has introduced menu items tailored to local taste and geographical preferences using traditional regional and national products.

In Spain, for example, the menu includes a typical Spanish vegetable soup as well as a Spanish style chicken wrap with Manchego cheese sauce; traditional Nuernberger sausages are served in Germany; France offers cheeses such as Cantal or specific beef breed such as Charolais in its sandwiches; and in Finland the Rye McFeast uses typical Finnish rye bread. Box 4 illustrates in detail how the McDonald's Mcltaly menu has increased demand for traditional Italian products from local suppliers.

#### Box 4: Mcltaly worth €3.448.000 to the Italian economy (2010)

Introduced in January 2010 as a promotional item, the Mcltaly is a menu featuring traditional Italian toppings, made with 100% Italian ingredients sourced in Italy and offering the customer the option of two sandwiches, a salad and a fruit. The impact of the Mcltaly on the Italian economy is evaluated as € **3,448,000**.

1 – Sandwiches	Volume	Value in €
Bread (buckwheat)	141 tonnes	196,000 €
Bread with DOP <sup>53</sup> Olive Oil from Monti Iblei	206 tonnes	350,000 €
Asiago Cheese DOP	43,5 tonnes	497,000 €
Bacon from Val Venosta	24 tonnes	284,000 €
Artichoke cream	36 tonnes	178,000 €
Grilled onions	36 tonnes	141,000 €
Beef meat	414 tonnes	1,440,000 €
Salad	25 tonnes	145,000 €
<b>2 - Salad with cured raw beef</b>		
Salad mix	18 tonnes	55,000 €
Bresaola (cured raw beef) IGP <sup>54</sup> (2)	3 tonnes	71,000 €
Parmigiano Reggiano Cheese DOP (1)	3 tonnes	33,000 €
<b>3 - Fruit bag</b>		
Apple from Valtellina	14 tonnes	58,000 €
<b>Total Mcltaly</b>	<b>966,5 tonnes</b>	<b>3,448,000 €</b>

McDonald's received the endorsement ('patrocinio': patronage) of the Italian Ministry of Agricultural, Food and Forestry Policies (MIPAAF) for the Mcltaly.

<sup>53</sup> DOP: Protected Denomination of Origin.

<sup>54</sup> IGP: Protected Geographical Identification

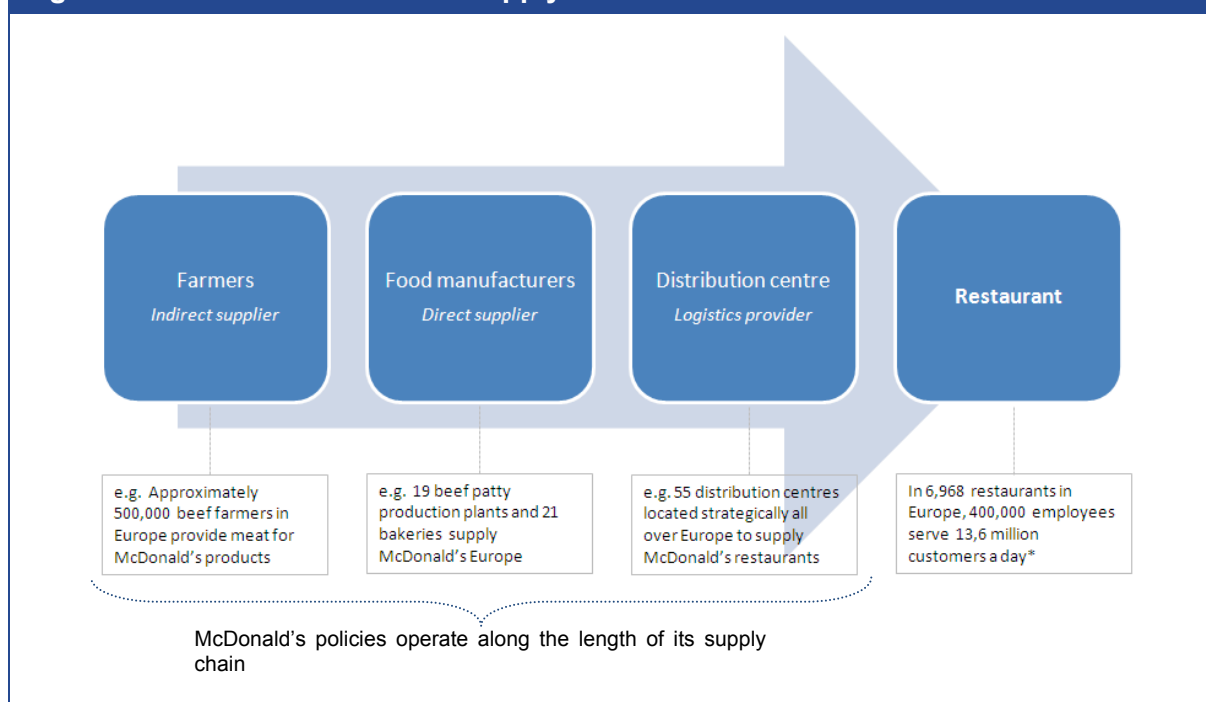
## 2.3 Food supply chain structure

McDonald's does not own its food supply chain: instead, the company works with a network of independent European suppliers. This means that McDonald's does not make direct sales of food to the franchisees that run its restaurants. McDonald's organises the supply of food and materials to restaurants through approved third-party logistics operators.

### 2.3.1 A network of independent suppliers

In Europe, McDonald's restaurants use a network of independently-owned distribution centres that buy products from direct suppliers in the food manufacturing sector. These direct suppliers in turn buy agricultural raw ingredients from a more dispersed network of indirect suppliers. A schematic overview of the McDonald's supply chain is shown in Figure 13.

**Figure 13: McDonald's food supply chain structure**



Note: \* Figures reflect number of restaurants, employees and customers in 39 European countries as of Q4 2010 (McDonald's operated and franchised restaurants)

Source: McDonald's

Many suppliers have longstanding relationships with companies besides McDonald's, such as retailers and mass caterers. However, the McDonald's supply chain includes a relatively small number of suppliers compared with the average in the retail and mass catering industry. The first 50 direct suppliers cover approximately 83% of McDonald's total supply chain expenditure.

Despite including a limited number of direct suppliers, the McDonald's supply chain has a notable impact on employment. It is has not been possible to calculate the effect that

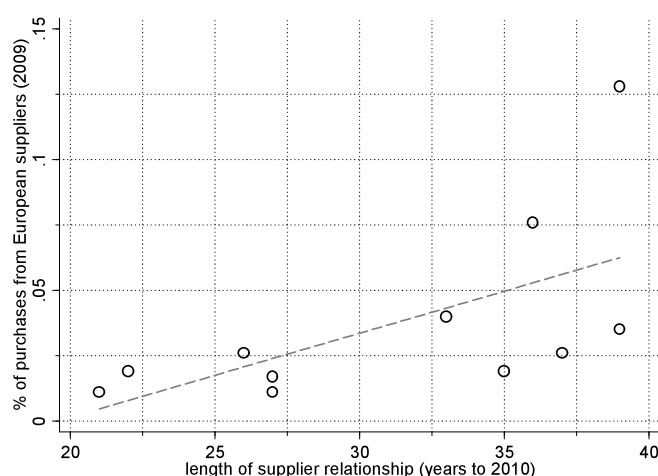
McDonald's demand has on agricultural employment in Europe, because of the limited nature of the European data available,<sup>55</sup> but it is possible to judge this in the food manufacturing industry. Across the seven key segments of the food manufacturing industry listed in Table 2, over 21,000 jobs depend directly on demand from McDonald's.<sup>56</sup> This is comparable to the total global workforce of a food multinational like Ferrero (21,500 employees worldwide).<sup>57</sup> The value added (i.e. the contribution to GDP) created by McDonald's is equivalent to 0.5% of the sector total.<sup>58</sup>

McDonald's demand for supplies increases in line with rising demand for McDonald's products in Europe. McDonald's growth therefore translates into business opportunities for its direct and indirect suppliers, which in turn result in job creation at supplier level.

### 2.3.2 Long-term relationships

Relationships between McDonald's and its suppliers are characterised by long-term partnerships. The largest of McDonald's European suppliers have been supplying the McDonald's and its franchisees for 31 years on average.

**Figure 14: Length of McDonald's relationship with the largest European suppliers**



Source: McDonald's

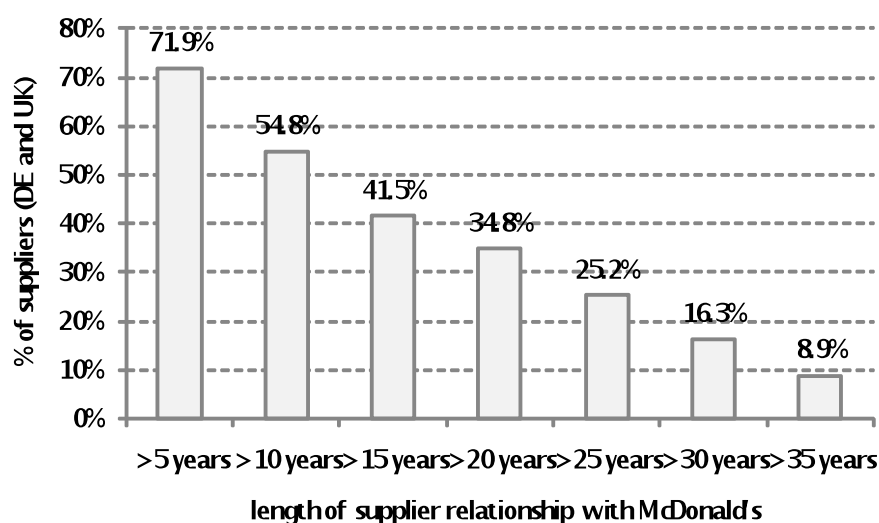
The figure below shows the lengths of McDonald's relationships with all suppliers in Germany and in the UK. The median length of the relationship with McDonald's is 12 years, while over a third of suppliers (34.8%) have been supplying McDonald's for at least 20 years. Some suppliers have been working with McDonald's since the company first entered Europe in 1971.

<sup>55</sup> Work in agriculture is often seasonal, so the European statistics use annual units of labour inputs, which don't translate directly into jobs. Also, there is no breakdown by type of agricultural product (many farms that are not specialised). Finally, we can't relate the volume of McDonald's purchases (which i.e. agricultural outputs like beef, potatoes, lettuce etc.) to labour inputs as productivity varies widely across output classes and we have only aggregate input figures.

<sup>56</sup> Assuming employment that can be attributed to McDonald's in the sectors in which it sources its supplies is proportional to the fraction of sector-level turnover represented by McDonald's purchases.

<sup>57</sup> See also Chapter 3.

<sup>58</sup> Data on value added from Eurostat's Structural Business Statistics.

**Figure 15: Length of McDonald's supplier relationships in Germany and the UK (2010)**

Source: McDonald's

Long-term relationships with their customers help suppliers to plan for the future, make investments and grow their business. In particular, McDonald's enables its suppliers to grow beyond their local market. The economist Tschoegl (2007)<sup>59</sup> points out that 'after McDonald's certifies products for use in its local stores, it works with the manufacturers to enable them to supply McDonald's stores in neighbouring countries as well. Being an ally of McDonald's in several countries strengthens the alliance for both the local firm and McDonald's'.<sup>60</sup>

The size of the buyer can further magnify the impact of the long-term supplier relationship in other ways. A customer like McDonald's, which often accounts for a large proportion of the supplier's sales and is able to make credible long-term commitments, may offer greater security than a smaller buyer with more volatile demand.

However, the McDonald's supply chain is not static. The constant evolution of McDonald's requirements in terms of quality, as well as the ongoing introduction of new products, gives new suppliers opportunities to forge relationships with McDonald's (e.g. the introduction of wraps on the McDonald's menu resulted in business opportunities for 3 tortilla suppliers).

<sup>59</sup> Tschoegl (2007) 'McDonald's – Engine of Development'. *Global Economy Journal*, vol. 7(4), pp. 1-16.

<sup>60</sup> An added benefit of this for the host country is that it reduces the threat of balance-of-payment deficits due to products that cannot be sourced locally.

## 2.4 Quality, safety and environmental standards

McDonald's policies and requirements operate along the length of its supply chain. For instance, in the case of chicken this applies from the production of animal feed to restaurant delivery.

Direct food suppliers are audited at least once a year to measure compliance with McDonald's Food Safety Programme. The direct supplier audits are carried out either by McDonald's Quality Assurance personnel or by independent third parties. For example, abattoirs and de-boning plants are audited by EFSIS<sup>61</sup> or SGS<sup>62</sup> (independent accredited auditing companies used by many operators in the food sector) and by McDonald's direct suppliers. These audits are performed in all abattoirs supplying McDonald's each year and in 2007, 2008 and 2009, 100% of those handling beef, poultry and pork passed the audit.<sup>63</sup>

Logistics suppliers also have to conform to McDonald's standards, which are regularly audited both internally and independently and then benchmarked against global standards. In total, a typical McDonald's Distribution Centre will undergo 11 audits a year (including mandatory controls by health and safety authorities).

McDonald's aims to increase its influence through the supply chain to primary producers through a framework of standards promoting food safety, quality and sustainable agricultural stewardship. Companies who buy from McDonald's suppliers derive indirect benefits from McDonald's policies and, as a result, these impact the sector as a whole, including competitors and businesses in adjacent countries.

Some of McDonald's specific supply chain policies and initiatives are examined below.

### 2.4.1 *McDonald's Agricultural Assurance Programme (MAAP)*

Established in 2001, MAAP is a system of standards for agricultural products developed by McDonald's with the aim of increasing and safeguarding food quality, food safety and sustainability. MAAP seeks to drive continuous improvements throughout the supply chain by using existing farm assurance schemes<sup>64</sup> to assess the standards of farms providing raw materials to McDonald's direct suppliers.

MAAP is a set of standards that cover each of the main raw materials used in its products. These are updated annually to align with industry and legal developments and incorporate latest best practice. The standards set out expected agricultural practices to address relevant ethical, environmental and economic issues in food production:

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<sup>61</sup> The European Food Safety Inspection Service.

<sup>62</sup> SGS S.A. (formerly Société Générale de Surveillance) provides inspection, verification, testing and certification services.

<sup>63</sup> Temple Grandin, McDonald's chief adviser for animal welfare, developed an audit to be used globally at the different abattoirs supplying meat to McDonald's.

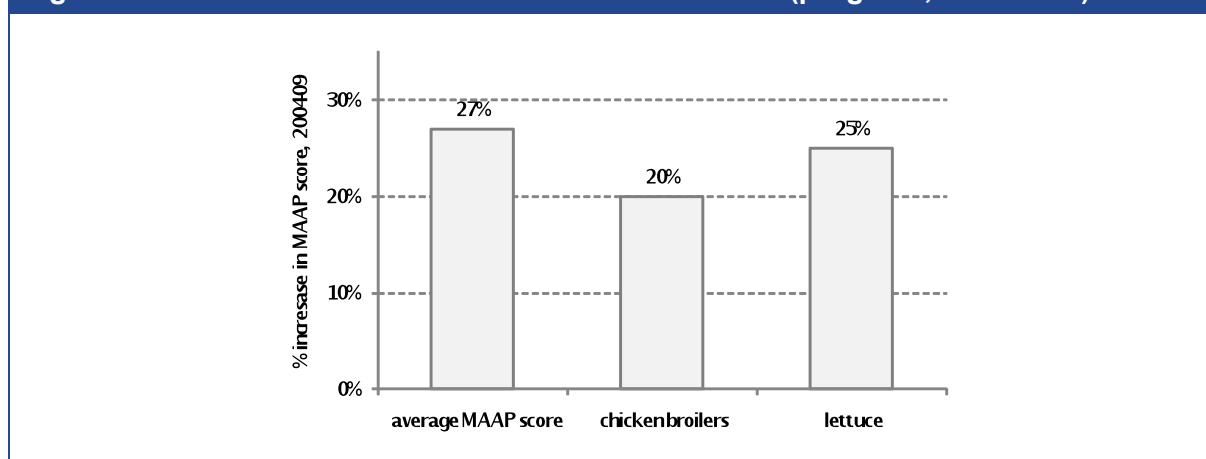
<sup>64</sup> Farm assurance is product certification for agricultural products that emphasises the principles of quality assurance. The emphasis on quality assurance means that, in addition to product inspection, farm assurance schemes may include standards and certification for traceability, production methods, transport, and supplies.

**Table 3: The ethical, environmental and economic issues that MAAP addresses**

<b>Ethical Acceptable practices</b>	<b>Environmental Protecting the planet</b>	<b>Economic Long-term economic viability</b>
<ul style="list-style-type: none"> <li>▪ Human Welfare</li> <li>▪ Animal Health &amp; Welfare</li> <li>▪ Business Ethics &amp; Supplier Relationship</li> <li>▪ Rural Landscape Preservation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Climate Change</li> <li>▪ Natural Resources</li> <li>▪ Agro-technology</li> <li>▪ Ecosystem Protection</li> <li>▪ Waste</li> </ul>	<ul style="list-style-type: none"> <li>▪ Community Investment</li> <li>▪ Sufficient Quality Production</li> </ul>

McDonald's promotes participation in agricultural quality schemes or own-company schemes compatible with its MAAP standards and has developed a mechanism to achieve this. McDonald's requires its direct suppliers to report the volumes of raw materials and schemes that farmers use, so that McDonald's can assess the degree to which these schemes (and therefore McDonald's food supplies) are compatible with the relevant MAAP standard.

McDonald's asks its suppliers to purchase more volumes from schemes in higher compliance with MAAP and for doing so they receive a higher MAAP score for the product they supply. This mechanism allows McDonald's to monitor progress and encourage continuous improvement at supplier level. The figure below shows the improvement of average MAAP scores for all products and specific product categories (2004 vs. 2009).

**Figure 16: % increase in McDonald's MAAP scores (progress, 2004-2009)**

Source: McDonald's

As well as improving product MAAP scores, McDonald's stated goal is to increase the amount of products sourced from farms that have been independently audited by certified farm assurance schemes. In 2009, 70% of raw materials came from independently audited certified schemes.

Since many McDonald's suppliers also supply other companies (other restaurants, supermarkets, etc.), the quality standards imposed by McDonald's can lead to higher quality products for consumers who are not McDonald's customers. For example, in 2008, nearly 385,000 tonnes of European beef were produced according to McDonald's standards, of which 185,000 tonnes were sold through non-McDonald's channels.

McDonald's also shares the MAAP standards with the rest of the industry, including farmers' organisations, public authorities, other standard-setting bodies like GlobalGAP



(formerly EurepGAP),<sup>65</sup> retailers, food industry organisations like the Sustainable Agriculture Initiative (SAI) Platform and Non-Governmental Organisations (NGOs).

Beyond MAAP, McDonald's has established an independent Animal Welfare Council to provide the company with ongoing guidance on improving animal welfare practices at supplier level, and to share best practice in the industry. McDonald's Europe is also a founding member of the European Animal Welfare Platform (EAWP)<sup>66</sup> and is a member of the Sustainable Agriculture Initiative (SAI) Platform.<sup>67</sup>

#### 2.4.2 McDonald's Flagship Farms Programme

Developed in 2009 in conjunction with the Food Animal Initiative (FAI),<sup>68</sup> the Flagship Farms scheme is intended to promote the sharing of best practice in agriculture among farmers in order to improve agricultural standards across Europe.

Each of McDonald's Flagship Farms (the number has grown from 6 to 14 since 2009) demonstrates a high level of compliance with MAAP, as well as innovations in ethical, environmental or economic farming practices that exceed the MAAP criteria. These farming practices are showcased online ([www.flagshipfarms.eu](http://www.flagshipfarms.eu)) and, over time, become new benchmarks in MAAP. McDonald's believes that this sharing of best practice on a European scale is unique.<sup>69</sup>

#### Box 5: Flagship Farms impact on the wider industry

James Pickford, Spot Acre Farm, Spot Acre, Stone, Stafford, UK, visited Anton Stokman dairy facilities in the Netherlands:

*'We are quite an isolated industry and gaining an insight from other producers within the sector is crucial. The dairy industry has some very common issues and learning from other people who have successfully dealt with these is useful in how we develop solutions. We all want to improve and this kind of initiative, which spreads best practice, will allow the whole industry to benefit'.*

By supplying McDonald's, a company can demonstrate that it can maintain quality and service standards. This credibility can enable the company to enter new business relationships.

<sup>65</sup> GlobalGAP is a common standard for farm management practice created in the late 1990s by major European food businesses under the denomination EurepGAP. GAP is an acronym for Good Agricultural Practice. GlobalGAP is now the world's most widely-implemented farm certification scheme. In September 2007, EurepGAP changed its name to GLOBALGAP, to reflect its expanding international role in establishing Good Agricultural Practices between multiple retailers and their suppliers.

<sup>66</sup> The European Animal Welfare Platform (EAWP) is a three-year European Commission sponsored project under the Seventh Framework Programme for Research, Technological Development and Demonstration Activities, building on and benefitting from the results of Welfare Quality, another European Commission funded research project. Platform members include stakeholders like farmers, processors, retailers, academics and NGOs.

<sup>67</sup> The Sustainable Agriculture Initiative (SAI) Platform is the main food industry initiative supporting the development of sustainable agriculture worldwide.

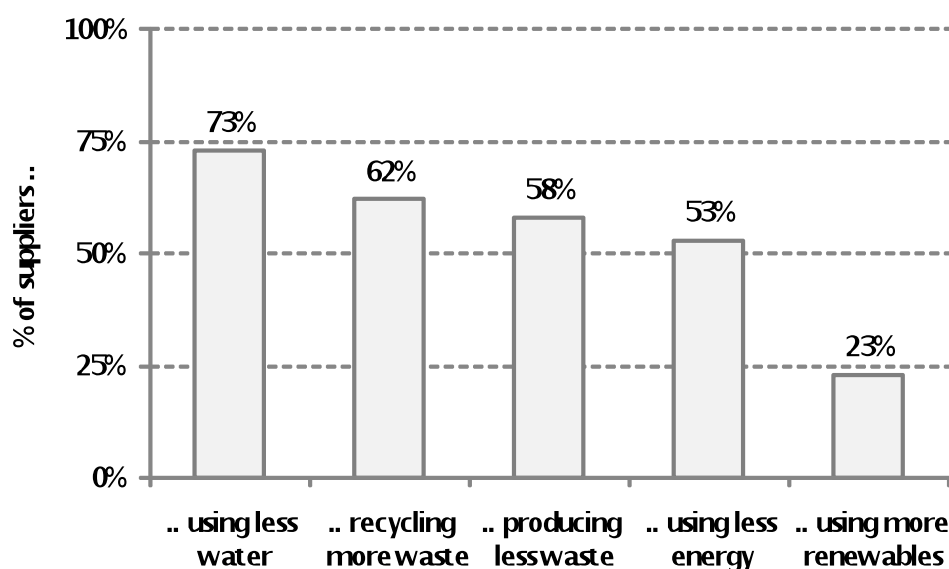
<sup>68</sup> The Food Animal Initiative (FAI) is an organisation set up by farmers in 1998 in recognition of the fact that commercially robust alternative systems – that significantly raise animal welfare standards, tackle environmental concerns and address issues of human health – can and do exist.

<sup>69</sup> [www.flagshipfarms.eu](http://www.flagshipfarms.eu) [accessed 01 February 2011].

### 2.4.3 McDonald's Environmental Scorecard

To improve its environmental performance, McDonald's developed the Environmental Scorecard, an eco-efficiency tool that measures the effectiveness of direct suppliers' environmental management. Suppliers provide annual data for energy, air and waste relative to units of production. Figure 17 compares the results for 2008 to 2009 from the 66 facilities supplying beef, chicken, pork, fries and buns.

**Figure 17: McDonald's supplier improvements in environmental management (2008 vs. 2009)**



Note: measured per kg of finished product.

Source: McDonald's

The 2009 data shows the majority of suppliers have improved across all indicators, except use of renewables, compared to 2008: suppliers are using less water and energy, producing less waste and recycling more of what they produce.

In order to share best practice, McDonald's makes Environmental Scorecard case studies available at [www.bestpractices.mcdonalds.com](http://www.bestpractices.mcdonalds.com).

#### 2.4.4 Empowering sustainable consumption

McDonald's also collaborates with suppliers to make the sourcing and processing of products more sustainable.

In 2007 McDonald's introduced sustainable coffee<sup>70</sup> – much of which is processed in Europe – to all of its European restaurants (in 2010 it sold 335 million cups of coffee in Europe), working with several well-known certification schemes, including the Rainforest Alliance and Utz Certified. The 2009 Coffee Barometer, which is published by the Tropical Commodity Coalition,<sup>71</sup> noted that McDonald's is among the drivers behind the fast-growth in consumption of certified sustainable coffee in Europe.

In 2003 McDonald's, with its fish suppliers and the NGO Conservation International,<sup>72</sup> developed a global sustainable fisheries policy that requires an annual independent assessment of all of the fisheries from which McDonald's sources its supplies. This assessment is conducted by the Sustainable Fisheries Partnership (SFP)<sup>73</sup> and uses the latest scientific information to rate each fishery according to the criteria of management quality, fish stock status and marine environment and biodiversity conservation. The rating format is designed to encourage fisheries that fall short of the standard to initiate stock recovery efforts and other necessary actions. McDonald's uses information from credible sources, for example the International Council for the Exploration of the Seas (ICES)<sup>74</sup> and third-party audits to verify compliance.

The four species<sup>75</sup> currently used by McDonald's in Europe come from Marine Stewardship Council (MSC)-certified fisheries.

#### Box 6: Sustainable fish stock management in practice – Eastern Baltic cod

Due to declining fish stock, in autumn 2006 McDonald's reached a decision with its fish supplier Espersen to stop sourcing cod from the Eastern Baltic. Since then McDonald's has closely monitored progress, taking advice from the Sustainable Fisheries Partnership (SFP) and the International Council for the Exploration of the Seas (ICES). Because of the major improvements made, McDonald's was recently able to resume sourcing some of the cod for its Filet-o-Fish sandwiches from the Eastern Baltic Sea fishery. In addition, the Eastern Baltic has successfully completed Marine Stewardship Council (MSC)<sup>76</sup> pre-assessment in 2010 and became

<sup>70</sup> Although the company sources the majority of its food supplies from within Europe, coffee is sourced from Latin America, Southeast Asia and Africa. The processing of the coffee beans is done primarily in Europe.

<sup>71</sup> The Tropical Commodity Coalition comprises 12 Dutch Civil Society organisations. Its aim is to improve the social, environmental and economic conditions at the beginning of the tea and coffee value chains.

<sup>72</sup> Conservation International (CI) is a non-profit organisation that seeks to ensure the health of humanity by protecting Earth's ecosystems and biodiversity ([www.conservation.org](http://www.conservation.org)).

<sup>73</sup> The Sustainable Fisheries Partnership (SFP), a non-profit project, provides strategic and technical guidance to seafood suppliers and producers and builds consensus around specific improvements in policies, marine conservation measures, and fishing and fish-farming practices ([www.sustainablefish.org](http://www.sustainablefish.org)).

<sup>74</sup> The International Council for the Exploration of the Sea (ICES) coordinates and promotes marine research on oceanography, the marine environment, the marine ecosystem, and on living marine resources in the North Atlantic. Members of the ICES community now include all coastal states bordering the North Atlantic and the Baltic Sea, with affiliate members in the Mediterranean Sea and southern hemisphere ([www.ices.dk](http://www.ices.dk)).

<sup>75</sup> New Zealand hoki, Alaskan pollock, Baltic and Barents Sea haddock, Eastern Baltic Cod.

<sup>76</sup> The Marine Stewardship Council (MSC) is the world's leading certification and ecolabelling program for sustainable seafood ([www.msc.org](http://www.msc.org)).

fully MSC certified in 2011.

Source: McDonald's

### 2.4.5 Sustainable logistics

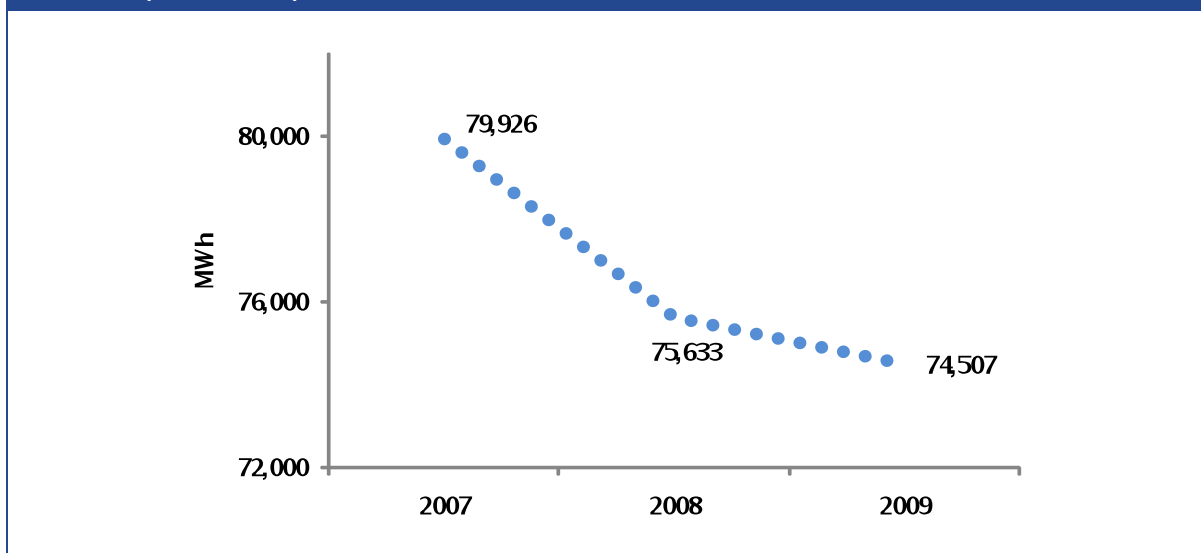
McDonald's is taking a number of steps aimed at reducing its impact on the environment by increasing the efficiency of its logistics operation.

The volume of McDonald's distribution increased by nearly 20% from 2005 to 2009.<sup>77</sup> On average, the monthly volume of supply per restaurants amounts to 31.6 tonnes. The McDonald's logistics system comprises 55 Distribution Centres that are strategically located across all of McDonald's 40 European countries. Distribution to the restaurants is carried out by five distribution companies using a fleet of more than 700 trucks and the distribution system employs 5,000 people.

McDonald's has been working with these logistics partners to create 'food towns' – sites that both house suppliers of high-volume products, such as chicken, beef and buns, as well as a Distribution Centre. This co-location leads to a reduction in transportation; for example, two German food towns in Guensburg and Duisburg save 13,500 truck journeys per year. There are currently 11 food towns in Europe.

Through initiatives like heat recovery from freezer systems to heat the Distribution Centre offices, the total Distribution Centre energy consumption went down from 79,926,117 MWh in 2007 to 74,507,114 MWh in 2009.

**Figure 18: Total average energy consumption in MWh by Distribution Centres (2007-2009)**



Source: McDonald's

<sup>77</sup> 2.1 million tonnes in 2005, 2.5 million tonnes in 2009. Source: McDonald's

In 2009, energy consumption in trucks (which is basically fuel consumption) had decreased 15% per tonne delivered since 2006. This is an absolute reduction in total truck energy despite significant growth in sales over the past four years.

In Switzerland, a combination of road and rail has limited truck use since 1996. Now, nearly half of all distance travelled is by rail and no trucks have crossed the Alps since 2003 to supply McDonald's restaurants in Switzerland.

Across Europe, actions taken by McDonald's to improve environmental performance include:

- use of biodiesel such as recycled cooking oil (Figure 6) – 30% of fuel consumed in the McDonald's distribution system in Europe is based on recycled cooking oil;
- high environmental standards (Euro 5) for truck-engines used in the distribution system;
- close cooperation with truck producers to work on hybrid and electric trucks;
- use of PIEK<sup>78</sup> trucks to reduce noise level below 60 Decibels;
- use of modern cooling equipment (i.e. 'frigoblock');
- route optimisation to increase load capacity utilisation, including back haulage;
- driver training to reduce fuel consumption;
- use of rail instead of road transport,<sup>79</sup> or integration of road and rail; and
- benchmarking meetings to share best practice and measure against industry standards.

#### Box 7: From 'table to tank': homegrown biodiesel

In 2001, SDL – McDonald's Austria's logistics partner and distributor – launched a pilot biodiesel project, proposing to recycle used frying oil as an alternative to the fossil fuels commonly employed in transportation. Based on a three-step process, SDL delivers frying oil to the restaurants, collects and treats the used oil, and delivers the resulting biodiesel to the SDL filling station. Further to this pilot project, McDonald's Austria's entire 15-truck fleet is powered only with 'home-grown' biodiesel since 2002. In 2006, SDL delivered over 1.8 million litres of oil to the 162 restaurants in Austria, collected more than a million litres of used oil, and produced over 786,000 litres of biodiesel. SDL used over a third of this in McDonald's trucks. The results in four years:

- 1.3 million litres of fossil fuel saved;
- CO<sub>2</sub> and SO<sub>2</sub> emissions dropped by 2.3 million kg and 4,000 kg respectively; and
- € 28,000 saved in energy costs.

Other countries, like Sweden and Ukraine followed suit. For instance, all McDonald's restaurants in the UK recycle their used cooking oil for conversion to biodiesel, which powers 100 distribution vehicles. This results in a carbon saving of 1,000 tonnes per annum as well as significant cost savings. Today, 30% of fuel consumed by the McDonald's distribution system is based on recycled cooking oil.

McDonald's encourages countries to share best practice to stimulate improvements in other countries. The McDonald's publication Best of Green<sup>80</sup> demonstrates that these environmental innovations take shape at multiple levels throughout the McDonald's system.

<sup>79</sup> Intermodal transport using train and truck or train, ship and truck takes place in Switzerland and between Germany and Distribution Centres in Austria, Spain, Portugal, Italy and Norway.

<sup>80</sup> 'Best of Green' can be accessed at [www.bestofgreenmcdonaldseurope.com](http://www.bestofgreenmcdonaldseurope.com).

### 3 Employees: opportunity and diversity

#### Box 8: Employees: key findings

- McDonald's and its franchisees<sup>81</sup> employ around 400,000 people in Europe (approximately 294,000 people in the EU), making the company one of the continent's largest employers.
- McDonald's accounts for 0.14% of total employment in the EU and 3.2% of employment in the accommodation and food service sector.<sup>82</sup>
- McDonald's created approximately 60,000 new jobs between 2007 and 2010.
- McDonald's employs a high proportion of women (53% of total workforce) and younger workers (75% of employees are aged 30 or younger) compared with EU averages.
- McDonald's provides formal training for 82% of its workforce, compared with 7% in the hotels and restaurants sector as a whole.
- The intensity of training provided by McDonald's (40 hours annually per crew member<sup>83</sup>) exceeds the sector average (four hours per year per employee).
- McDonald's offers employees opportunities to acquire recognised qualifications.
- McDonald's provides opportunities for upward social mobility to its employees.

#### 3.1 Summary

McDonald's is one of the largest private sector employers in Europe, with a workforce of around 400,000 across Europe. The company's continued growth means that the employment opportunities provided by McDonald's are expanding: 50 to 100 new jobs are created with the opening of each new restaurant.

McDonald's contributes to workforce diversity by employing a high proportion of younger workers<sup>84</sup> and women compared with EU averages. Part-time and flexible working options are available across Europe to accommodate a range of employee lifestyles. Specific initiatives also promote diversity in terms of sex, ethnic background, age and disability.

By providing employees with levels of training above the EU and sector averages – often through programmes leading to officially-recognised qualifications – McDonald's equips its workers with practical, transferable skills. This supports internal career development and increases skills portability for employees while also contributing to the pool of qualified workers available to employers in the wider economy.

McDonald's contributes to social mobility by enabling its staff to progress within the company's own internal labour or through enhancing their competitiveness in the external labour market.

<sup>81</sup> In the following 'McDonald's' is understood as 'McDonald's Europe and its franchisees' unless otherwise specified.

<sup>82</sup> The 'accommodation and food service activities' sector includes hotels and other provision of short-stay accommodation, restaurants, bars, canteens and catering (NACE Section H or Division 55).

<sup>83</sup> A McDonald's crew member is an employee working in a restaurant.

<sup>84</sup> For the purpose of this report, 'younger workers' are considered workers below age 30.

## 3.2 One of Europe's largest employers

### 3.2.1 Job creation

Together with its franchisees, McDonald's is one of the largest employers in Europe, with approximately 400,000 employees<sup>85</sup> in its 40 countries. Around 294,000 employees (225,000 on a full-time equivalent basis<sup>86</sup>) were employed in McDonald's restaurants and offices in the European Union (EU)<sup>87</sup> in 2010. Of these, 98% work in restaurants and around 50% work part-time. Employment provided by McDonald's accounts for 0.14% of total employment in the EU<sup>88</sup> and 3.2% of employment in the accommodation and food service<sup>89</sup> sector.

McDonald's reports that 50-100 new jobs are created with the opening of each new restaurant. While four million jobs were lost during the recession in Europe according to the European Commission, McDonald's created approximately 60,000 new jobs between 2007 and 2010.

McDonald's workforce in the EU alone (294,000) would make it the 13th biggest European employer worldwide (and 8<sup>th</sup> biggest if we look at the 400,000 McDonald's employees across all 40 European countries).<sup>90</sup> Looking specifically at retailers and food manufacturers, the figures below show that only a few companies are comparable with McDonald's Europe in terms of European employment numbers.<sup>91</sup>

- McDonald's Europe (400,000 employees in Europe – 294,000 in the EU)
- Tesco (373,000 employees in Europe)
- Metro Group (269,000 employees in Europe)
- Danone (30,000 employees in Western Europe)
- Unilever (28,000 employees in Western Europe)

McDonald's also employs more people in Europe than Nestle does worldwide (278,000).

The labour intensiveness of McDonald's business means that it creates considerably more employment than businesses with comparable turnover in other sectors, such as the banking industry.

<sup>85</sup> Number of employees based on McDonald's data of Q4 2010.

<sup>86</sup> Defined as the number of full-time employees plus 0.5 times the number of part-time employees. For countries for which survey data was not available (BG and SK), the number of full-time equivalent employees was estimated based on the average number of employees per restaurant across all countries for which data was available.

<sup>87</sup> Excluding CY and LU.

<sup>88</sup> EU27 minus CY and LU, total employment (all sectors) of persons aged 15-64. Source: Eurostat.

<sup>89</sup> Idem footnote. This is the closest comparable sector in the labour statistics published by Eurostat.

<sup>90</sup> Based on comparison of McDonald's European workforce with the global workforce of the 500 largest European businesses by turnover 2010. Source: Financial Times. Data available at: <http://media.ft.com/cms/66ce3362-68b9-11df-96f1-00144feab49a.pdf> [accessed 28 April 2011].

<sup>91</sup> All figures are rounded. Tesco: 2009 figure, source: 2009 Annual Report. Metro Group: 2009 figure, source: 2009 Annual Report. Unilever: 2009 figure, source 2009 Financial Report. Danone: 2009 figure, source 2009 Annual Report. Barilla: 2008 figure, source 2008 Annual Report. The figures are taken from the companies' annual reports so that the reported totals for Europe are based on different combinations of countries as not all of the companies in question employ people in all European countries.



A comparison of employment at McDonald's with the public sector shows that McDonald's EU employment figures are comparable with the number of primary school teachers in France (308,800<sup>92</sup>) and a quarter of the 1.2 million people employed by the National Health Service in the UK,<sup>93</sup> one of the world's largest employers.

### 3.3 Workforce diversity

McDonald's employs a high proportion of younger workers and women compared with EU averages. In addition to employing people from diverse ethnic backgrounds, McDonald's also employs around 2,500 people with disabilities in the EU; employees with disabilities make up more than 1% of the McDonald's workforce.

#### 3.3.1 Younger workers

McDonald's is one of the biggest private-sector employers of younger workers in Europe (Figure 19). Nearly three-quarters of the McDonald's workforce is aged 30 or under (Figure 20) compared with 23% in the wider EU economy. This is significant in the context of rising unemployment in the EU: the unemployment rate of under-25 year-olds increased by 5.2 percentage points to 20.7% from 2008 to 2010.<sup>94</sup>

McDonald's also employs a greater proportion of young people than the wider hotels and restaurants sector, where about half of the workforce is below 35 years of age, according to industry association HOTREC.<sup>95</sup>

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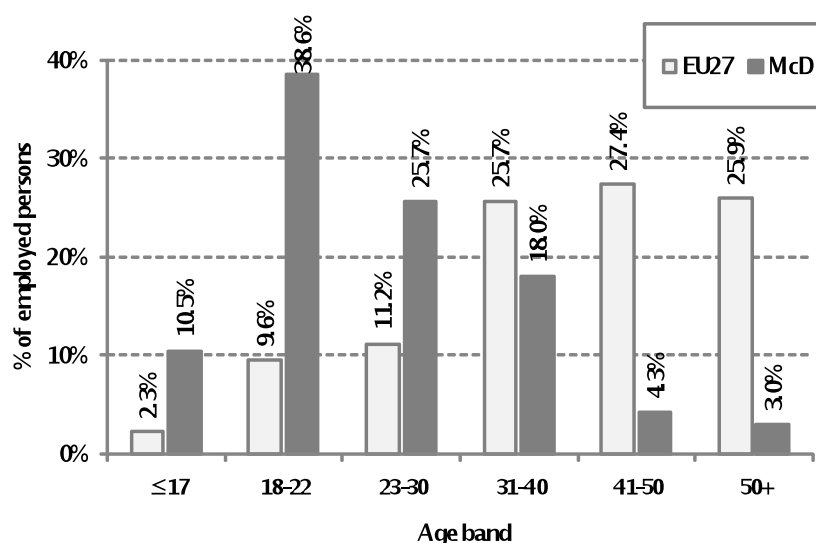
<sup>92</sup> Figure refers to *professeurs des écoles*. Source: INSEE (2009).

<sup>93</sup> The figure includes medical and non-medical staff. Source: The NHS Information Centre (2010).

<sup>94</sup> Harmonised unemployment rate, age class 15-24 (annual average). Source: Eurostat.

<sup>95</sup> [http://www.hotrec.org/pages/about\\_hotrec/facts\\_and\\_figures/](http://www.hotrec.org/pages/about_hotrec/facts_and_figures/) [accessed December 2010].

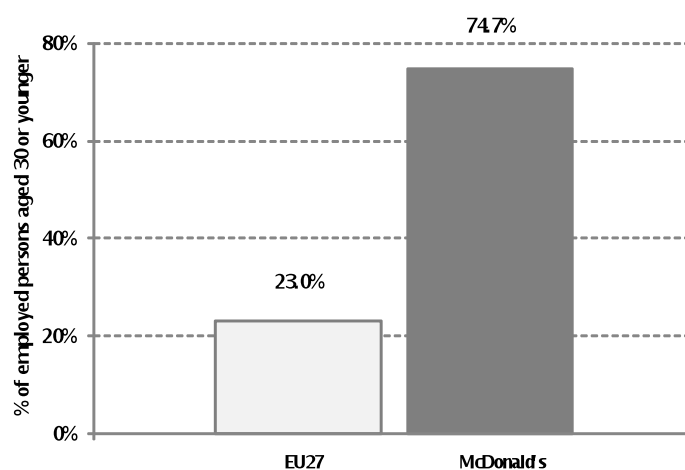


**Figure 19: Age profile of McDonald's and EU27 workforce (2009)**

Note: McDonald's restaurant crew in each age category (McDonald's operated restaurants only). EU 27 workforce 2009 = % of employed persons aged 15 years and older, averaged over the four quarters of 2009. Eurostat age bands do not correspond exactly to the age bands recorded by McDonald's. For the purpose of comparison the following equivalence was assumed (McDonald's figure first in each case):

17 years old and under = between 15 and 19 years; 18-22 years old = between 15 and 24 years; 23-30 years old = between 25 and 29 years; 31-40 years old = between 30 and 34 years + between 35 and 39 years; 41-50 years old = between 40 and 44 years + between 45 and 49 years; 50+ years old = between 50 and 74 years.

Source: McDonald's, Eurostat

**Figure 20: Proportion of McDonald's EU workforce under 30 (2009)**

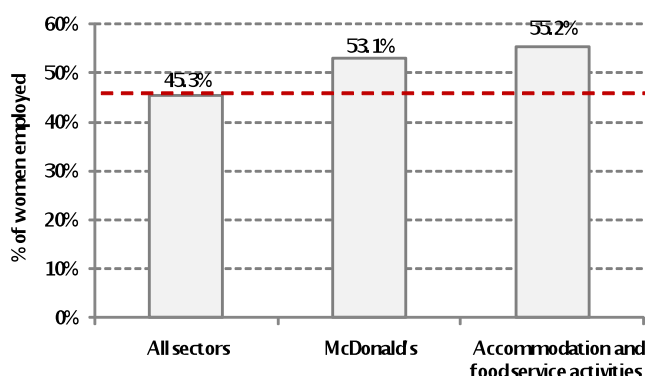
Note: assumptions as in Figure 19.

Source: McDonald's, Eurostat

### 3.3.2 Women in the workforce

The proportion of women in the European labour force is around 45%. As Figure 21 shows, at crew level,<sup>96</sup> the proportion of women in McDonald's European workforce is higher, at 53.1%, although this is roughly in line with the accommodation and food service sector (55.2%).<sup>97</sup> Women also make up a sizeable proportion of the McDonald's workforce above crew level – 20.4% of McDonald's employees at director level and above and 37.1% of McDonald's managers.

**Figure 21: Proportion of women in employment (EU)**

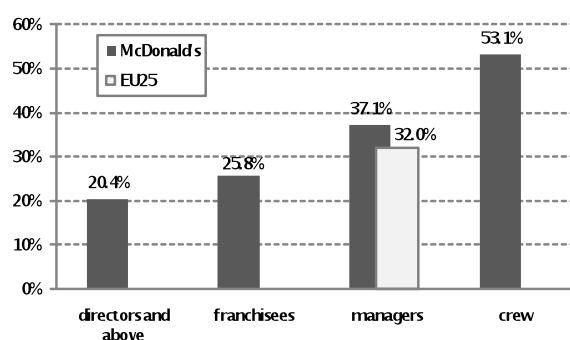


Note: figures for 'all sectors' and 'accommodation and food service activities' are based on the average 2008-2010. McDonald's figures are from 2009.

Source: Eurostat, McDonald's

A 2006 study (Holst, 2006)<sup>98</sup> shows this to be higher than the European average for managers (Figure 22).<sup>99</sup>

**Figure 22: Proportion of women in McDonald's workforce in the EU (2009)**



Note: full and part-time.

Source: McDonald's, Holst (2006)

<sup>96</sup> Restaurant crew includes 'crew member', 'apprentice' and 'crew trainer'. The crew prepares the food and serves customers at McDonald's.

<sup>97</sup> Comparison figures from Eurostat: average proportion of female employees over the period 2008-2010 (first quarter).

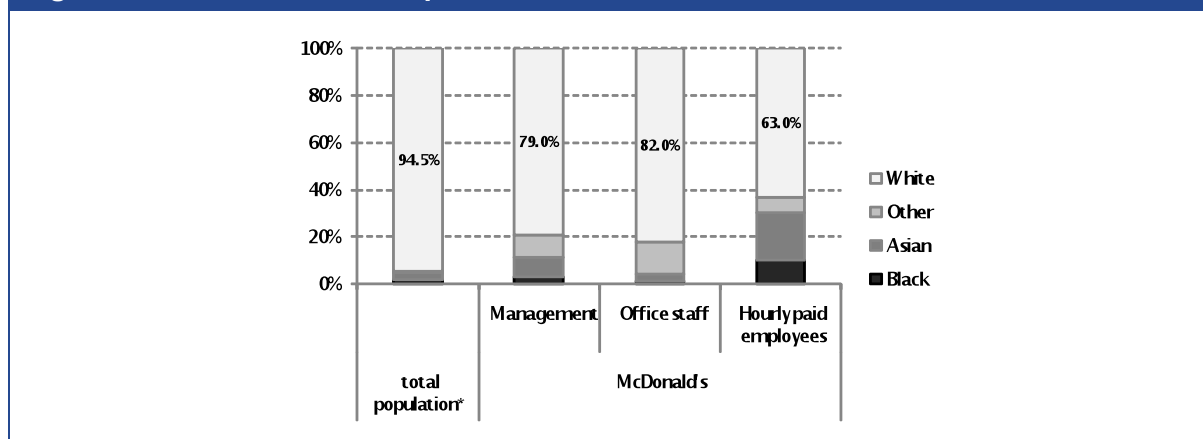
<sup>98</sup> Holst, E. (2006). 'Women in Managerial Positions in Europe' *DIW Discussion Paper*, p. 557. Available at: <http://www.econstor.eu/bitstream/10419/18450/1/dp557.pdf> [accessed 15 September 2010].

<sup>99</sup> Percentage of women in managerial positions, EU25 average (2004).

### 3.3.3 Ethnic minorities

Data collection restrictions mean that figures on ethnicity are not collected at a European level.<sup>100</sup> However, figures from the UK indicate that employees from ethnic minorities are strongly represented in the McDonald's workforce compared with the population as a whole. This is the case for management staff as well as for office workers and crew members in McDonald's restaurants. While only 5% of the UK population is non-white, among McDonald's employees ethnic minorities make up between 21% (management) and 37% (hourly paid) of all staff (Figure 23).

**Figure 23: Ethnic make-up of McDonald's workforce in the UK**



Note: \* National Statistics derived from the 1991 Census of Population.

Source: McDonald's, UK Office of National Statistics

### 3.3.4 Diversity initiatives

The diversity of McDonald's European workforce can be explained partly by the company's provision of part-time and flexible-working options. Part-time working and flexible working hours help employees to fit work around a variety of lifestyles, including childcare and education. Below are some examples of specific initiatives:

- In the UK, part-time positions are available to all office and operations staff and part-time work and job-sharing are available at management level and above. The 'Family & Friends Contract', in place since 2007, formalises flexible-working options fitted around school hours and term-time to accommodate working parents.
- Flexibility regarding the timing of shifts is optional in a number of countries, including Belgium, France, Ireland, Latvia, Portugal, Spain and Sweden. Employees can start during a time window, e.g. between 8am and 10am in the morning, and finish their shifts accordingly between 4.30pm and 6.30pm.

In several countries McDonald's has also developed other initiatives to monitor and promote diversity in terms of sex, ethnic background, age and disability. For example, the pay gap between men and women that is recorded across many industries is an issue that McDonald's addresses in different ways. Box 9 provides examples of initiatives launched by McDonald's in Finland and in France.

<sup>100</sup> Most European countries prohibit the collection of data on ethnicity by legal provisions.

**Box 9: Equal salaries**

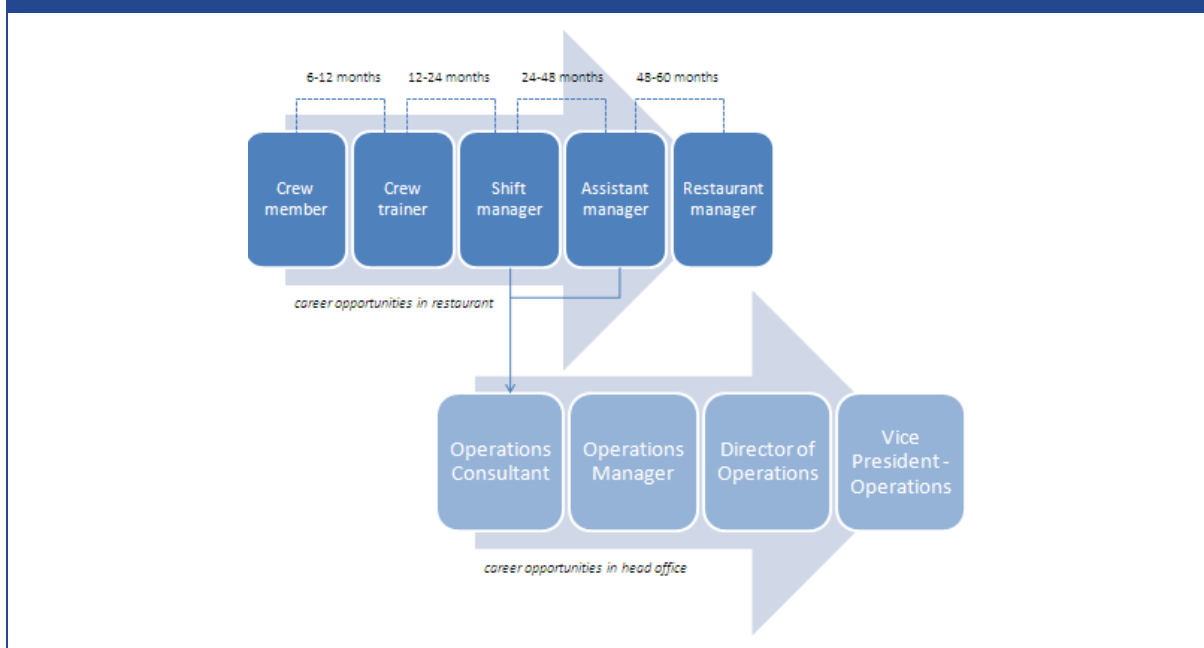
- McDonald's in Finland uses the results of externally-assessed salary surveys, which are conducted every two years, to help to equalise the salary distribution not only between men and women, but also across departments between individuals who have different, but equally demanding, roles. This is designed to ensure that differences between employees' salaries are due only to justifiable reasons such as experience or personal performance.
- A similar exercise was recently carried out by McDonald's in France, involving a complete analysis of wages focusing on the differences between men's and women's salaries and accounting for function, position and performance. The results were shared with McDonald's social partners, with whom the company has an agreement to promote gender diversity.

Source: McDonald's

**3.4 Career opportunities**

McDonald's offers employment opportunities for individuals with a very wide range of skill levels. Through a system of online recruitment that covers 65% of all EU countries, the company takes steps to keep the barrier to accessing employment low.

**Figure 24: Potential career paths for McDonald's employees at restaurant and head office level**

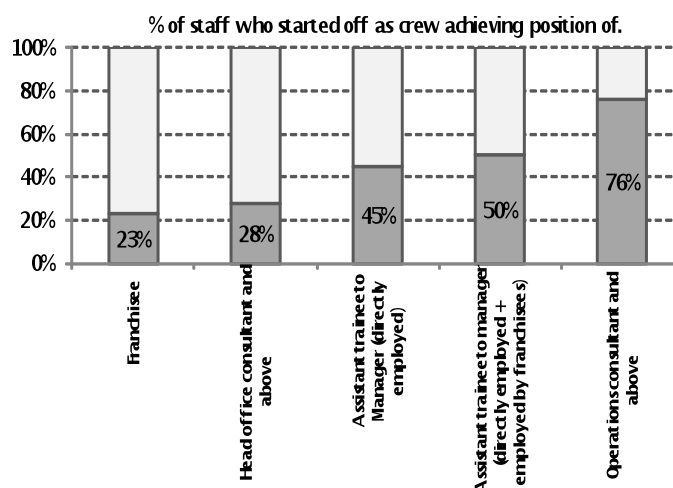


Source: McDonald's

Especially in the case of younger workers, McDonald's provides a way into the labour market for people who go into education programmes or other jobs, but employment data shows that McDonald's also offers a career path for those who decide to stay with the company. Employees who start as crew members have the chance to progress to management level. As Figure 25 shows, significant proportions of crew members regularly go on to become managers and consultants in operations or head offices. For example, McDonald's France reports that 80% of its restaurant managers started their career as a

crew member. According to McDonald's figures, 23% of franchisees started as crew members and it is possible for crew members to manage their own restaurant within 36 months.<sup>101</sup>

**Figure 25: Career advancement of McDonald's employees (2008)**



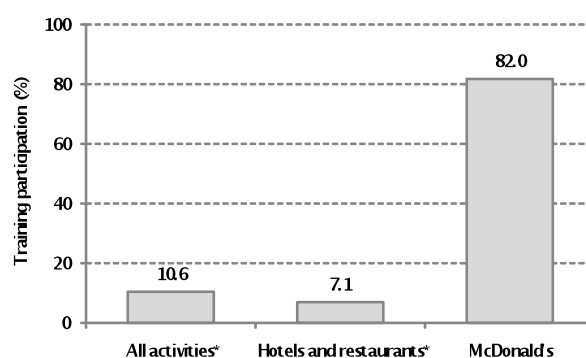
Source: McDonald's

## 3.5 Equipping employees with transferable skills

### 3.5.1 Training

The creation of access to career opportunities is supported by McDonald's employee training programmes. Across all industries in the EU approximately 11% of workers participated in education and training in 2008/09. In the hotels and restaurants sector, this number was 7%.<sup>102</sup> In contrast, McDonald's trains 82% of its crew each year (Figure 26).

**Figure 26: Proportion of employees in the EU receiving training (2008/2009)**



Note: \* participation in education and training by sex, age groups and NACE Rev. 1.1.

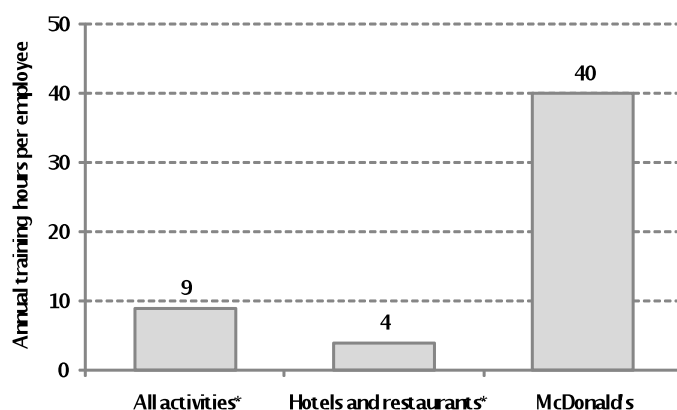
Source: McDonald's, Eurostat

<sup>101</sup> Figure provided by McDonald's.

<sup>102</sup> Source: Eurostat.

The training offered by McDonald's is also more intensive than the training available in most other enterprises. On average, EU businesses provide nine hours of training per employee per year. The figure is four hours in the hotels and restaurants sector.<sup>103</sup> McDonald's provides an average of 40 hours of training per crew member<sup>104</sup> and an average of 34 hours of training to all its employees (restaurant crew and management as well as head office staff) across its EU countries.

**Figure 27: Annual training hours provided in the EU (2009)**



Note: \* Participation in education and training by sex, age groups and NACE Rev. 1.1.

Source: McDonald's, Eurostat

The training provided by McDonald's provides transferable skills that can benefit employees after they move on to other employers.<sup>105</sup> A report on 'Internal and External Labour Markets and Social Mobility' by the Leeds Metropolitan University concludes that "giving people the opportunity to learn practical business skills and gain transferable skills which can then be sold to other employers is possibly the most important factor in social mobility, especially when it is offered to those who might not otherwise have had the chance"<sup>106</sup>. Table 3 provides some examples of transferrable skills acquired by McDonald's employees.

<sup>103</sup> Hours in Continuing Vocational Training (CVT) courses per employee. Source: Eurostat.

<sup>104</sup> Average weighted by the number of crew per EU country.

<sup>105</sup> Beaulier and Caplan (2007), for example, make the point that simple attributes that can be acquired in 'menial' jobs such as responsibility, cooperation and punctuality can be lifelong assets in many other occupations, especially for younger workers. Source: Beaulier, S. and Caplan, B. (2007) 'Behavioral economics and perverse effects of the welfare state', *Kyklos*, vol. 60 (4), pp. 485–507.

<sup>106</sup> Leeds Metropolitan University, Policy Research Institute, Internal and External Labour Markets and Social Mobility - McDonald's as a Case Study (P.41).

**Table 4: Transferable skills acquired at McDonald's per job level (training and restaurant work)**

Job role	Transferable skills acquired
Crew member	▪ Team work, customer service, effective communication, taking responsibility
Crew trainer	▪ Leading by example, assessment of crew skills, helping people realise their potential
Shift manager	▪ Interpersonal skills, understanding business practices, advanced organisational skills
Assistant manager	▪ Commercial skills, finance, marketing, leadership and HR
Restaurant manager	▪ Leadership skills, business management skills

Source: McDonald's

### 3.5.2 Qualifications

McDonald's training in a number of countries leads to qualifications that are certified by official accreditation bodies in many Member States (Table 4). This increases skills portability for employees and contributes to the pool of qualified workers available to employers in the wider economy. In 2010 McDonald's increased the number and range of courses offered to its staff: for example, it now provides some 8,000 apprenticeships in Europe.

**Table 5: Official recognition of McDonald's training and development programmes**

Accreditation	2007	2008
Countries where completion of the restaurant crew training and development programmes lead to nationally-recognised qualifications or credits towards such qualifications	30%	30% <sup>1)</sup>
Countries where the completion of the restaurant management training and development programmes lead to nationally-recognised qualifications or credits towards such qualifications	50%	50% <sup>2)</sup>
Countries offering further accredited or locally-recognised training/development programmes	30%	30% <sup>3)</sup>
Countries offering none of the above	30%	50% <sup>4)</sup>

Note: percentages relate to the top 10 European countries. Countries counted: 1) UK, FR, NL; 2) DE, UK, FR, SE; NL 3) UK, NL; 4) ES, IT, PL, Russia, AT

Source: McDonald's

**Table 6: Examples of official recognition of McDonald's training and development programmes**

Country	Programmes	Diplomas/qualification
France	<ul style="list-style-type: none"> <li>▪ CQP or 'Certificat de Qualification Professionnelle' for Managers</li> <li>▪ VAE – 'Validation des Acquis'. See case study p.37</li> </ul>	<ul style="list-style-type: none"> <li>▪ Started in 2006 – 170 CQP-validated in 2006; 500 CQP-validated in 2010</li> <li>▪ Started in 2004 – 30 diploma Bac+3 (Bachelor) in 2004; 100 diploma Bac+3 validated in 2010</li> </ul>
Germany	<ul style="list-style-type: none"> <li>▪ Apprenticeship Programme – 3 years' education as a specialist in system catering</li> </ul>	<ul style="list-style-type: none"> <li>▪ Started in 2008 with 2100 validated the same year; 3000 validated in 2010</li> </ul>
Austria	<ul style="list-style-type: none"> <li>▪ Apprenticeship Programme – 3 years</li> </ul>	<ul style="list-style-type: none"> <li>▪ Started in 1998 – 100 validated in 2010</li> </ul>
Switzerland	<ul style="list-style-type: none"> <li>▪ Apprenticeship Programme – 3 years education (commerce, IT and restaurants)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Commerce and IT apprenticeships started in 1998 – 500 validated since then with 100 validated in 2010</li> <li>▪ Restaurant apprenticeships started in 2005</li> </ul>
Denmark	<ul style="list-style-type: none"> <li>▪ Apprenticeship Programme for Shop Assistant Education – 2 years' education in sales and service</li> </ul>	<ul style="list-style-type: none"> <li>▪ Started in 2007 – approx. 80 people per year</li> </ul>

Source: McDonald's

Table 7 and Box 10 provide a more detailed example of the qualifications that can be acquired by employees during their time with McDonald's UK.



**Table 7: Opportunities for qualifications at McDonald's UK**

Job role	Opportunities for qualifications
Apprentice	▪ Within 12 months, apprentices can achieve a Level 2 Apprenticeship in hospitality
Crew member	▪ Can achieve Level 1&2 Certificates in adult literacy and numeracy
Shift manager	▪ Can achieve a Level 3 Diploma in shift management
Restaurant manager	▪ Can graduate with a Foundation Degree in Managing Business Operations from Manchester Metropolitan University

Source: McDonald's

### Box 10: McDonald's UK apprenticeship and education programmes

McDonald's UK has expanded its core training to include optional online learning through its employee website [www.ourlounge.co.uk](http://www.ourlounge.co.uk) and since January 2009 has provided apprenticeships to employees. Apprentices have the opportunity to gain a valuable, nationally-recognised qualification, equivalent to five GCSEs grade A-C. Apprenticeships offer a progressive route to a McDonald's UK A-level equivalent qualification – a Level 3 Diploma in Shift Management.

### Box 11: French Ministry validates professional experience at McDonald's France with classical degrees of French educational institutions

**High youth unemployment partly due to lack of qualification:** Every year 150,000<sup>107</sup> young people quit the French education system without any recognised qualification or degree. The fact of not having a degree reduces the chances of these individuals finding a job, reduces their chances for social mobility<sup>108</sup> and results in high youth unemployment<sup>109</sup>.

**Official recognition of professional experience – the VAE programme:** The French legislator created a legal framework, the VAE or Validation of Acquired Experience<sup>110</sup> to address the issue of high youth unemployment and to increase employability of workers with low or no qualification. The VAE is a procedure that allows French education institutions such as universities, institutions of higher education and vocational secondary education (*lycées professionnels*) to grant classical original degrees (i.e. bachelor, vocational diploma) partly or totally based on work experience<sup>111</sup>. By creating VAE, the French Government puts professional experience at an equal level with classical education degrees.

**French authorities encouraging companies to take part in the VAE programme:** Companies can engage with education institutions to get official accreditation of their employees' professional experience acquired within their business. The accreditation of their work experience and competences will increase their mobility in internal and external labour markets<sup>112</sup>. The overall objective of that VAE is to enable employees that have no classical diplomas a sustainable professional career.

**A role to play for McDonald's France as the largest employer of young people in France:** McDonald's France is the largest employer of young people in France with more than 45,000 employees of under-25 year-olds. For 70% of its employees, working at McDonald's is their first job<sup>113</sup>. Many of these job starters have low

<sup>107</sup> <http://www.elysee.fr/president/les-dossiers/jeunesse/l-action-en-faveur-de-la-jeunesse.1688.html> accessed 24.04.2011

<sup>108</sup> Please see section "McDonald's as an enabler to social mobility" on page 39 for specific analysis on social mobility.

<sup>109</sup> 22,3% of 15-24 years old in France are unemployed. Source: INSEE, 2010.

<sup>110</sup> Validation of Acquired Experience or 'Validation des Acquis de l'Expérience' established by Law 2002-73 of 17 January 2002 on 'modernisation sociale', JORF, 18 January 2002, page 1008.

<sup>111</sup> Required minimum of work experience of three years.

<sup>112</sup> <http://www.elysee.fr/president/les-dossiers/jeunesse/l-action-en-faveur-de-la-jeunesse.1688.html> accessed 24.04.2011

<sup>113</sup> Source: McDonald's France.

qualification or no degree at all; 56% of shift/assistant managers and 67% of crew members have a secondary education degree or below<sup>114</sup>. In this context, McDonald's France considers VAE as an opportunity to obtain official validation and recognition for its employees' professional experience and training.

**Accreditation and validation of professional experience at McDonald's France:** McDonald's France and its franchisees encourage their employees to take part in VAEs to develop their professional competences and to prepare their future. Providing employees with access to officially recognised degrees will help remove barriers to career progression, especially outside the McDonald's system, as official qualification is considered an important factor influencing social mobility<sup>115</sup>. Candidates generally receive 6 days of coaching by external consultants taking place during working hours and financed by McDonald's France and its franchisees. The successful completion of VAE degrees<sup>116</sup> will also be taken into account for individual's internal promotion. Other than the satisfaction of being rewarded an official degree, McDonald's employees consider that the successful completion of VAE increases their employability<sup>117</sup>.

#### VAEs for McDonald's employees across the board

- **For restaurant managers:** Since 2004, McDonald's France has established a partnership with the Chamber of Commerce and Industry of Versailles that led to the recognition of McDonald's restaurant managers' professional experience equivalent to a bachelor diploma in administration and trade delivered by the ISPP Groupe ESC<sup>118</sup> Rouen and validated by the Ministry of Education. The company also agreed a partnership with ACFCI (Association of French Chamber of Commerce and Industry) in 2008. Restaurant managers have now the opportunity to complete VAEs at ESC Toulouse, EUROMED /EAG Marseille and ESCM Tours / EGC Orléans. So far, 130 McDonald's restaurant managers acquired a diploma, 96% of candidates acquired a bachelor degree in their first attempt<sup>119</sup>, 80% of candidates declared that they would not have engaged in this way without support from the company, 92% of successful candidates still work with McDonald's<sup>120</sup>.
- **For crew members:** On 22 March 2011 the Minister of Education signed an agreement with McDonald's enabling 1.200 crew members to get certification of their professional experience via the VAE and getting a C.A.P. degree in restaurant business<sup>121</sup>. Since, a first group of 6 crew members benefited of a 8 month training with the DAVA<sup>122</sup>, an official body coordinating for validation of VAEs – of which 5 have already obtained their degree. New sessions will start at the end of 2011 across France.
- **For shift/assistant managers:** In October 2011, the company will support 10 managers in aiming to receive a BTS<sup>123</sup> degree in business management equivalent to a classical higher education degree.

A list of employee-related awards won by McDonald's in 2010 can be found in Annex 2 (page 54).

<sup>114</sup> Source: McDonald's France

<sup>115</sup> OECD, Integrational transmission of disadvantage: mobility or immobility across generations? A review of the evidence for OECD countries, social, employment and migration working papers No. 52. 2007

<sup>116</sup> The applicant presents a portfolio of his achievements and work experience to a committee at the educational institution. Based on the portfolio and an interview with the applicant, the committee will decide if the candidate's experience shows work that merits credit toward a degree.

<sup>117</sup> 84% are convinced that the VAE enables them to better position them on the external labour market.

<sup>118</sup> ESC or 'Ecole Supérieure de Commerce' are education institutions that deliver 3rd level education degrees.

<sup>119</sup> 72% of candidates had a level of education of below or at high School degree.

<sup>120</sup> Study among restaurant managers having completed VAE, 2011 (86 respondents), McDonald's France.

<sup>121</sup> C.A.P. or 'certificat d'aptitude professionnelle' provides official vocational diploma in a specific sector.

<sup>122</sup> DAVA or 'Dispositif Académique de Validation des Acquis' coordinates the validation of VAEs based on vocational training and equivalent professional experience.

<sup>123</sup> BTS or Higher Technicians' Certificates are generally 2 year-courses that can be accessed after the 'baccalauréat' (academic qualification of French secondary education). BTS generally focus on study sales, accounting or management.

## McDonald's as an enabler to social mobility

Evidence suggests that social mobility has stagnated<sup>124</sup> or declined<sup>125</sup> slightly in Western Europe since the decades immediately after the Second World War despite the existence of compulsory universal education over the post-war period.

Social mobility can be thought of in absolute and relative terms. The former refers to processes of adjustment in the income or occupational structure of the economy. The latter is associated with an individual's opportunities for progression within the social hierarchy. Social mobility can also be thought of as intra-generational (chances for social progression within an individual's own life time) and inter-generational (a comparison of achieved social position with that of one's parents)<sup>126</sup>. In general, those countries with higher levels of social mobility also have lower inequality.

Research<sup>127</sup> shows that one important facilitator of upward social mobility from positions of poverty and deprivations are internal labour markets which allow for progression from 'entry' level employment to higher status work. Education, fair access to training and removing barriers to progression is also considered a highly important factor influencing social mobility<sup>128</sup>.

Although McDonald's cannot impact all factors related to social mobility (e.g. social capital, cultural capital, early years influence), the company's contribution can be measured by how it equips recruits with low skills or qualifications to be successful in the labour market, either through progression in McDonald's own internal labour market or through enhancing their competitiveness in the external labour market (e.g. transferrable skills).

Facts in this report support the view that McDonald's enables social mobility as it provides employment opportunities to a diverse workforce (see section 3.3 p.28) with opportunities for career progression (see section 3.4 p.32). McDonald's can also be considered as an enabler to social mobility in so far as the company widens participation in voluntary education and training (see section 3.5.1 p. 33) and also through the accreditation (see section 3.5.2 p.35) of its own qualifications and apprenticeships.<sup>129</sup>

The report on Internal and External Labour Markets and Social Mobility by Leeds Metropolitan University confirms that "there is enough evidence to suggest that McDonald's does indeed create the *opportunities* for social mobility"<sup>130</sup> and states that one

<sup>124</sup> E.g. Goldthorpe and Erikson, 1992; Goldthorpe, 2004

<sup>125</sup> E.g. Blanden et al, 2005; 2006; 2007

<sup>126</sup> UK Department for Work and Pensions, Research Report No 450, Factors influencing social mobility, Dr. A. Nunn, Dr. S. Johnson, Dr. S. Monro, Dr. T. Bickerstaffe and S. Kelsey, p.1

<sup>127</sup> Leeds Metropolitan University, Policy Research Institute, Internal and External Labour Markets and Social Mobility - McDonald's as a Case Study p.5

<sup>128</sup> OECD, Integrational transmission of disadvantage: mobility or immobility across generations? A review of the evidence for OECD countries, social, employment and migration working papers No. 52. 2007.

<sup>129</sup> Leeds Metropolitan University, Policy Research Institute, Internal and External Labour Markets and Social Mobility - McDonald's as a Case Study, p.7

<sup>130</sup> idem p.9

of the telling facts in support of this hypothesis is in the number of McDonald's senior executives who started out as crew.<sup>131</sup>

Other studies like the Furnham report on 'The true impact of jobs in the service and hospitality sector on young people'<sup>132</sup> and the Work Foundation report on 'McDonald's and the UK enterprise agenda'<sup>133</sup> find that McDonald's is as an example of how businesses can recruit low skilled people and give them genuine opportunities to progress via structured training programmes.

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<sup>131</sup> Report finds taht in the UK, at least 30% of franchisee managers started as crew and 50% of the executive team began their McDonald's career in restaurants (p.9)

<sup>132</sup> A. Furnham, *Brighter Futures - the true impact of jobs in the service and hospitality sector on young people*, University College London, 2006

<sup>133</sup> The Work Foundation, A. Westwood with L. Reynolds, *Who is being served? McDonald's and the UK enterprise agenda*, 2004

## 4 Business opportunities within McDonald's: franchisees

### Box 12: Franchisees: key findings

- 71% of McDonald's restaurants in Europe are operated by franchisees.
- McDonald's franchises almost exclusively to individuals, not to corporations, partnerships, or passive investors.
- 23% of McDonald's franchisees in Europe started their career as crew members.
- McDonald's franchise agreements typically are granted for 20 years. Long-term agreements provide stability and security for franchisees.
- McDonald's franchisees have the opportunity to grow their own business with a proven business model, a global brand and with ongoing support.
- McDonald's does not sell products or equipment to its franchisees. Instead franchisees purchase from a network of independent suppliers approved by McDonald's.
- Franchisees operate as local businesses, recruiting, training and promoting local people and engaging with the local community.

### 4.1 Summary

The franchising model reflects McDonald's broader business structure, involving a mixture of system standards and individual opportunities. Franchisees operate the majority (71%) of McDonald's European restaurants, working within the company's business model but using their business skills to manage their own restaurant(s). McDonald's franchises almost exclusively to individuals and the number of restaurants that each operates is increasing.

Long-term agreements give franchisees stability and security as well as ongoing support from McDonald's experts. This ranges from access to an organised network of independent suppliers selling at large-volume prices to advice on optimising restaurant operations. Franchisees are also engaged to provide inputs for national business strategies.

McDonald's restaurants are located in almost every country in Europe and the company franchises to people who can demonstrate that they understand their local community. Franchisees are therefore often local people and come from diverse backgrounds, including a notable number of former McDonald's crew members. They are encouraged to maintain close involvement with their communities and do so by recruiting, training and promoting many local people and by contributing to civic and charitable activities.

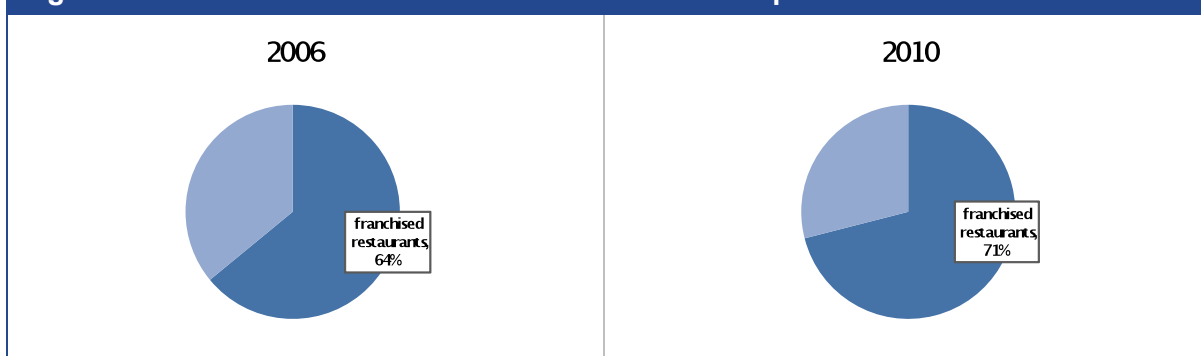
## 4.2 The McDonald's franchising model

Franchising is a business model aimed at the distribution of goods and/or services based on the licensing of a brand, a set of intellectual property rights (brand names, trademarks) and a business format – all bundled and sold as an asset.<sup>134</sup> This business 'kit' is sold by the franchisor – the creator of the systems (for instance McDonald's) – to independent partners (for instance McDonald's franchisees). Each franchisee invests in the 'kit' in order to operate the business opportunity for themselves. McDonald's is one of the nearly 10,000 franchised brands that operate in Europe.<sup>135</sup>

Franchising fits in the context of McDonald's business structure: local management in Europe, with its four Division Presidents<sup>136</sup> and the Managing Directors in each country, lead on European strategies at local level based on market intelligence from consumer and employee insights. This means that management teams in each country adopt and adapt McDonald's worldwide and pan-European business approaches to reflect their local culture, environment and traditions.

Similarly, franchisees in local areas operate the majority of McDonald's European restaurants, working with McDonald's in each country but managing their own restaurant(s). As Figure 28 illustrates, across Europe, 71% of McDonald's restaurants are operated by franchisees. In the EU, the percentage of franchised restaurants is even higher, at 75%, while in Austria, Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, and Portugal more than 80% of McDonald's restaurants are franchised.

**Figure 28: Share of franchised restaurants in Europe: 2006 and 2010**



Source: McDonald's

### 4.2.1 Franchise agreements

The franchise agreement grants the franchisee the rights to operate a specific McDonald's restaurant for a certain period, usually 20 years. McDonald's locates, develops and constructs the restaurant under its own direction and retains ownership of the facilities. A McDonald's franchisee rents the restaurant real estate, but purchases the fittings,

<sup>134</sup> European Franchising Federation <http://www.eff-franchise.com/spip.php?rubrique6> [accessed February 2011].

<sup>135</sup> European Franchising Federation: total number of franchised brands for 20 European countries in 2009: 9,971.

<sup>136</sup> McDonald's European business operations are organised around 4 Divisions: North Division, South Division, West Division, East Division (see 'Introduction & Background' for further detail).

equipment and the right to operate it. To maintain consistency, the franchisee is obligated to use the McDonald's brand, as well as McDonald's formulas, systems, specifications for menu items, and methods of operation, inventory control, bookkeeping, accounting and marketing, trademarks and service marks as well as concepts for restaurant design, signage and equipment layout.<sup>137</sup>

McDonald's franchises almost exclusively to individuals, not to corporations, partnerships, or passive investors.

Before becoming a McDonald's franchisee, franchise candidates are required to participate in a training process that takes between 9 and 14 months to complete. This training programme is designed to train the franchise candidate in all aspects of operating a McDonald's restaurant and to assist McDonald's in evaluating the candidate's potential as a franchisee. McDonald's will consider the candidate for a franchise when his/her training is successfully completed, as determined by McDonald's. McDonald's does not pay or reimburse the candidate during the training process; the candidate pays for the cost of training materials. The franchisee will also benefit from continued training during his or her time as a franchisee.

### Box 13: Marcel Blauwendraat – ingredients to run a successful business



**Marcel Blauwendraat**  
**Operates in Amsterdam/the Netherlands**  
**Franchisee since: 2005**  
**Number of restaurants: 7**  
**Number of employees: 700**

Marcel, a franchisee operating in the centre of Amsterdam, is the chairman of the Dutch Franchising Leadership Group (DFLG), a member of the Board of Ronald McDonald's Sports Centre, and is heavily involved in supporting Ronald McDonald House Charities (RMHC) programme.

Compared with his previous business experience, Marcel believes that McDonald's differentiates itself by the support he receives as a franchisee from the McDonald's country head office. The most valuable assistance he receives is both personal and employee training, in addition to McDonald's field operations support. *"McDonald's is about people. During the franchisee training, you discover the real impact of a team: it truly is the people who make the difference and make the business".*

Marcel also points out that *"It's important to develop on every level. No matter what age or background: every McDonald's employee gets the chance of further training."* He explains that teamwork, speed, friendly customer service and an eye for detail are most important skills employees acquire during training. ***"Training equals growth", says Marcel.***

Individual restaurants also benefit from high-profile national marketing activities that would otherwise be beyond their reach.

Marcel: *"I appreciate the support I get from the Centre. But I'm also grateful for the freedom I get: freedom to be an entrepreneur, freedom to make a difference, freedom to give people a job and freedom to help those who may not get a chance elsewhere to grow".*

<sup>137</sup> A franchisee must operate the franchise according to McDonald's Q.S.C. & V. standards - Quality, Service, Cleanliness and Value.



*Source: McDonald's – Marcel Blauwendraat, McDonald's franchisee*

A substantial portion of the cost of the restaurant must be funded from personal resources and the remainder may be financed. Depending on the country, initial investments from the franchisee can vary between €500,000 and €750,000. McDonald's does not provide financing or loan guarantees and absentee investors are not allowed. The financial requirements vary depending on the method of acquisition. McDonald's takes into consideration the franchise candidate's background and experience as well as the characteristics of the market in which the restaurant is located (see section 4.4.1 on the socio-economic background of franchisees).

Payments to McDonald's include a one-time initial fee, an interest-free franchise security deposit that is refundable at the end of the franchise term, monthly rent, monthly percentage fees based on the restaurant sales and marketing fees.

### 4.3 McDonald's franchisees

The company franchises to people who can demonstrate that they understand the communities and people in the areas where the restaurants are located. This means that franchisees often operate in the neighbourhoods where they now live. McDonald's looks for franchisees who can demonstrate their ability to lead and develop people they will employ and that are committed to customer service.

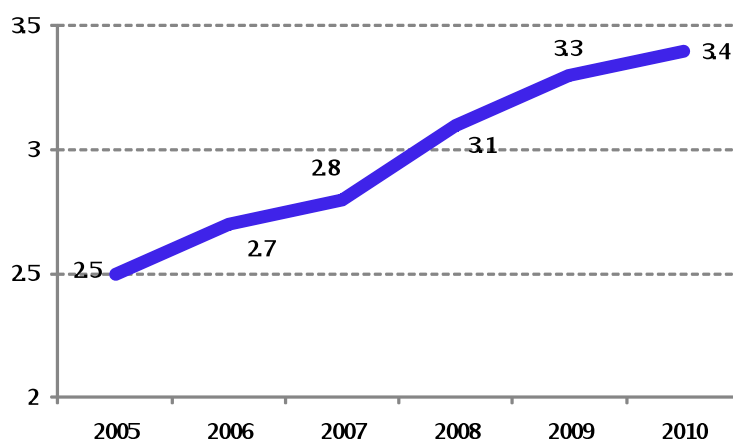
In Europe, the number of franchised restaurants increased by 849 units between 2006 and 2010 (see Table 8). In the European Union alone, the number of franchised restaurants has increased by 658 units in the last four years from 3,977 to 4,635 restaurants. The average number of restaurants operated per franchisee has increased: on average each franchisee operated 2.5 restaurants in 2006, which rose to 3.4 restaurants in 2010 (see Figure 29).

**Table 8: Number of franchised restaurants in Europe (2006-2010)**

<b>Restaurant type</b>	<b>2006</b>	<b>2008</b>	<b>2010</b>
Total restaurants	6,403	6,628	6,968
Company-operated restaurants	2,289	2,051	2,005
Franchised restaurants	4,114	4,577	4,963
<b>% of franchised restaurants</b>	<b>64%</b>	<b>69%</b>	<b>71%</b>

*Source: European Franchisees & Franchised Restaurants Reports, 2006-2010*



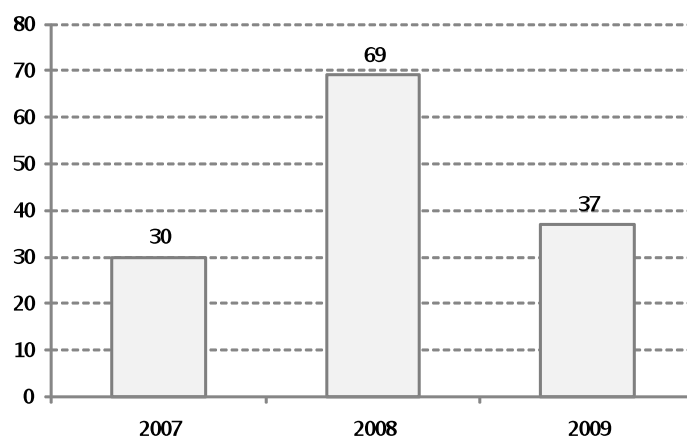
**Figure 29: Average number of restaurants per franchisee (2005-2010)**

Source: European Franchisees & Franchised Restaurants Reports, 2006-2010

#### 4.4 Business opportunities for individuals

McDonald's franchising model provides business opportunities for individuals using a tested business model and the long-term agreements of 20 years provide relative stability and security.

However, despite long-term franchise agreements, the McDonald's franchising system remains open to new franchisees and hence provides new opportunities for individuals to set up their own business. From 2007 to 2009, 136 new franchisees entered the McDonald's system in Europe (see Figure 30).

**Figure 30: New McDonald's franchisees in Europe (2007-2009)**

Source: European Franchisees & Franchised Restaurants Reports, 2006-2010

McDonald's offers New Term franchisee agreements to so-called 'Next Generation franchisees' (i.e. a parent's franchise is taken over by a daughter or son). In Germany for example, out of the 259 franchisees operating 1,115 restaurants, 39 are Next Generation franchisees.

#### Box 14: Harald Getrey sen. & jr. – benefits of long-term agreements & second generation franchisees



**Harald Getrey Snr. & Jnr.**  
**Operate in Saarland and Rhineland**  
**Palatinate/Germany**  
**Harald Getrey Snr. franchisee since: 1979**  
**Harald Getrey Jnr. franchisee since: 2009**  
**Number of restaurants: 11**  
**Number of employees: 650**

Harald Getrey Snr. was one of the first franchisees to open a McDonald's restaurant in Germany. The long-term franchisee agreement played an important role in his decision to engage in a partnership with McDonald's. ***"Through this long-term agreement, we were able to create a sustainable, growing business as the size and scale of the McDonald's operation offers fantastic reliability when planning for the future"*** he says.

Both Harald Getrey Snr. and Jnr. agree the benefits of being a McDonald's franchisee are the high level of brand awareness, a fair and robust financial partnership, the reduced level of risk, a qualified business-partner, high innovation-power and an excellent reputation that supports securing favourable bank loans.

Harald Getrey Jnr. grew up with the McDonald's business: *"When I was four years old, I had my first experience in the kitchens of my parent's restaurants making cheeseburgers. There was no question about what kind of job I wanted as an adult"*. Hence, Harald organised every step of his education to support his goal of becoming a McDonald's Franchisee. Harald Jnr. believes having McDonald's as partner *"gives you the opportunity to create and develop new ideas with the support of the company in order to improve performance."*

Since Harald Jnr. took over from his father in 2009, he has worked hard to develop the franchise further still. Harald Jnr. strongly believes in investing at least 80% of his time in engaging with employees. *"For over 30 years, our family have lived the philosophy that it is essential to motivate our people to deliver the best customer service in order to increase sales and develop the business. For example, in 2010 we introduced a new bonus programme for the restaurant management team. Investing in our employees is the best return on investment for our business"*.

Source: McDonald's – Harald Getrey Sen. & Jnr., McDonald's franchisees

Long-term relationships also provide a framework for ongoing support. McDonald's employs a staff of real estate, construction, equipment, purchasing, marketing, communications and quality assurance experts to assist franchisees in running a successful business. This support includes:

- **location and equipment:** viability is investigated extensively when sites are selected, while the restaurants are fitted out to be technologically advanced and efficient;
- **buying power:** McDonald's organises a network of independent suppliers to make food, paper products, equipment, etc., available at large-volume prices;
- **operations:** field consultants provide franchisees with operations, management and business advice to help optimise sales and profits;
- **brand promotion and protection:** individual restaurants benefit from high-profile national promotion activity that would otherwise be beyond their reach;

- **research and development:** the results of national-level research and development work to create new products and forecast market trends are passed on to franchisees; and
- **input into national business strategy:** elected franchisee representatives in each country provide input to local management on national business tactics through Country Leadership Councils.

#### Box 15: Ruy González – business opportunities at McDonald's



**Ruy González**  
**Operates in Madrid/Spain**  
**Franchisee since: 1996**  
**Number of restaurants: 3**  
**Number of employees: 111**

After a successful career in the hotel industry, Ruy wanted to run his own business. It was the McDonald's franchising model that provides opportunities for individuals, using a tested business model, that convinced Ruy to apply for a franchise. ***"McDonald's franchising is a pretty safe bet in terms of business profits"*** he explains, adding *"both McDonald's and its franchisees strive for continuous improvement and excellence together. This makes my job both challenging and exciting"*.

There are also opportunities to develop and grow within the McDonald's system as the company, where practicable, allocates new restaurants to its successful franchisees. Ruy became a franchisee in 1996 and now owns 3 successful restaurants.

Source: McDonald's – Ruy González, McDonald's franchisee

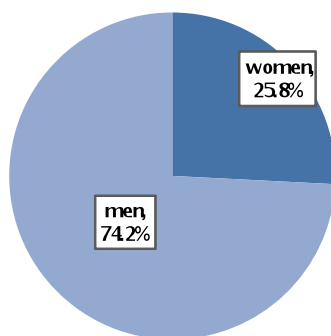
## 4.5 Community relevance

### 4.5.1 Diverse socio-economic backgrounds

In Europe, McDonald's restaurants are located in communities with very diverse socio-economic situations and the company franchises to people who can demonstrate that they understand the communities in which restaurants are located. This means that franchisees often operate in the neighbourhoods where they grew up or now live and as a result have diverse socio-economic backgrounds, ranging from experienced managers in other businesses and former McDonald's employees to High School teachers.

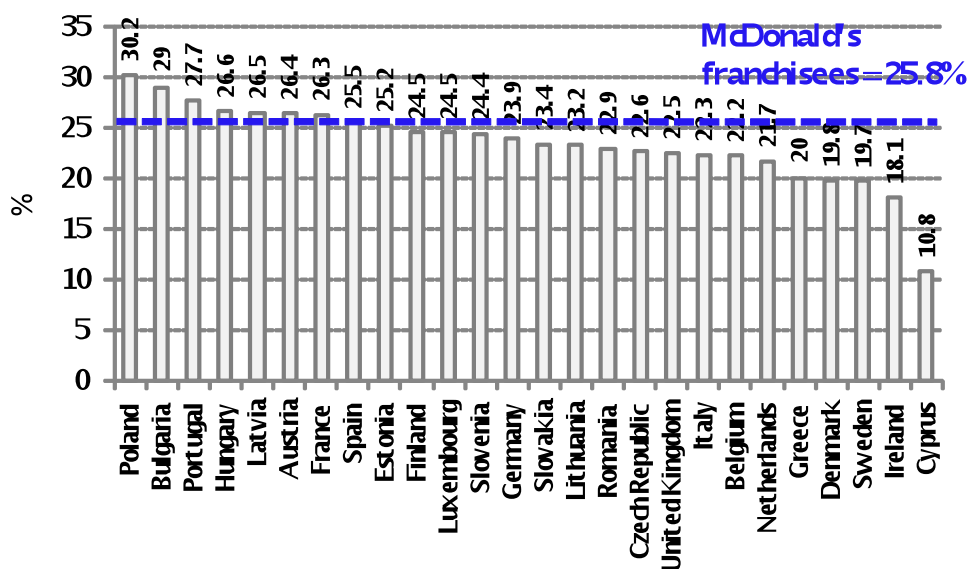
As explored in Chapter 3, almost a quarter (23%) of McDonald's franchisees started their career as crew members. In the UK, for example, over half of the franchisees are former McDonald's employees. Also, a quarter are women (Figure 31), a higher proportion than the overall representation of women among employers (in all sectors) in 19 EU Member States (Figure 32).

Figure 31: Ratio of female franchisees in Europe



Source: McDonald's

Figure 32: Percentage of women employers\* in the EU (2008)



Note: \*Employers are workers who hold self-employment jobs and have engaged, on a continuous basis, one or more persons to work for them in their business as employees. No data available for Malta. Data for Estonia refers to 2004.

Source: UNECE Statistical Division Database, compiled from national and international (Eurostat and ILO) official sources

**Box 16: Amir Afsar – from crew member to franchisee**

**Amir Afsar**  
**Operates in Dublin/Ireland**

**Franchisee since: 2002**

**Number of restaurants: 4**

**Number of employees: Total 193**

Prior to joining McDonald's Ireland, Amir was involved in his father's jewellery business in Iran. During his time at college, he met a friend who had worked at McDonald's on a part time basis and had been promoted to the position of shift manager. The friend explained what his job entailed and how working at McDonald's had developed him as a person by improving his organisational skills and self-confidence. *"I had many friends at college who had part-time jobs"* says Amir *"but had never met one who was so passionate about his work and excited about the opportunities available"*. Amir applied for a job at McDonald's the next day and in 1982 he started his career as a part-time crew member.

Since the beginning, Amir was impressed by the fact that part-time employees were given the same opportunities and training as full-time employees. *"At every stage of my career with McDonald's, at every level and with every promotion, the company kept on investing in my professional and personal development through training"*. Amir worked his way up to restaurant manager and in this position helped open 27 restaurants in Ireland.

Throughout his time as a restaurant employee, Amir had the desire to own his own business. *"Not only had the company provided me with a great career but I was also aware that it gave **successful employees the opportunity to own their own business through a McDonald's franchise**"*. Amir is now the owner of 4 restaurants in the Dublin region.

Being a McDonald's franchisee includes many advantages according to Amir: *"McDonald's allows me access to all of its resources both locally and globally. This approach provides me with unmatched levels of support and allows me to run a very profitable business. Having McDonald's as a partner who is willing, not only to celebrate my success, but also to share the burden during more difficult times is a testament to the true partnership that exists between us"*. Amir also declares that being part of the McDonald's system means that he is at the forefront of innovative approaches within the restaurant sector, making the business competitive and thus securing a successful future.

Source: McDonald's – Amir Afsar, McDonald's franchisee

#### 4.5.2 Local engagement

Franchises are run as local businesses, recruiting, training and promoting local people that work there. In more economically depressed locations, employees benefit from employment and training opportunities that could be hard to find elsewhere in the area.

To operate a McDonald's restaurant successfully, managers and franchisees need to maintain a close understanding of the issues, needs, dynamics and demographics of the people in their local community. Franchisees are encouraged to engage directly with their local communities to find ways to make a positive local contribution.

Contributions to the community can involve civic and charitable activities: for example, franchisees may choose to support community sports teams or local scholarships. Engagement can also take the form of membership of local community institutions, regular interaction with local authorities and public services, sponsorship of local events and

organisations, fundraising for local charities and initiating projects related to the local environment. In addition, McDonald's encourages its franchisees to collaborate with local organisations in promoting physical activity, especially amongst children.

### Box 17: Gerald Thompson – Franchisee commitment towards local communities



**Gerald Thompson**  
**Operates in Manchester/UK**  
**Franchisee since: 2000**  
**Number of restaurants: 4**  
**Number of employees: 650**

Gerald operates four restaurants in the Manchester/Oldham area in the North-West of England. His relationship with McDonald's started with his first part-time job at the age of 16. Gerald enjoyed the job so much that he started a management career at the age of 18 before becoming a franchisee in 2000.

*"The trading areas for all four of my restaurants are in some of the more economically and socially challenging areas of Manchester, with serious problems related to unemployment, anti-social behaviour, gangs, crime and in one case racial intolerance" says Gerald. "Some of my restaurants were almost no-go areas for families in the evenings, weekends and school holidays".*

To tackle these issues and to build loyalty from the local community, he sought to gain a greater understanding of the local youth any anyone else who was making it difficult for his restaurants and other outlets to operate. *"It soon became obvious that my restaurants were viewed by the local community as a large corporate brand, an outsider, rather than part of the community".*

So Gerald began to work in the evenings, getting to know the teenagers who were causing most of the problems. He also spent time with local youth workers and set up a 'midnight basketball' project whereby he coached basketball whilst councillors, police and youth workers began to engage with the teenagers. Local youth began to see McDonald's not so much as a multi-national chain, but more as their local restaurant, run by local people.

Gerald also interacted with nearby schools and colleges via sponsorship and donations of either cash or prizes, for example reading and achievement certificates. He also introduced a work experience programme and attended local colleges giving lectures on food safety, health and safety and marketing. One of his dining area staff attended a local school every Monday morning helping children with their reading. Together with this team, he held a mother and toddler group in one of his restaurants every Tuesday morning. Another restaurant held a poetry competition which was judged by the local press. Gerald also qualified as a football coach through the McDonald's coaching programme and, as a result, has now coached and sponsored local teams.

*"To gain a greater understanding of the issues affecting the youth of today I volunteered to become a member of the 'Independent Monitoring Board' (IMB) at a local prison, which I am still involved in today." This involves attending a local prison once or twice a week and monitoring the standard of treatment young people receive. "This position has helped me to understand not only 'gang culture' issues, but the mindset of young people. I have cascaded this down to my management teams to help them build the same understanding". The IMB board is mainly made up of doctors, Magistrates and local business people and this has had the added advantage of gaining useful contacts with role models within the community.*



*"A further key to the success of my business is a commitment to our employees who come from my local community. I have always believed that there is potential in everyone who works for me". Under the McDonald's UK apprenticeship scheme, employees in Gerald's restaurant have the opportunity to gain nationally-recognised qualifications<sup>138</sup>.*

***"I believe it is vital that you are seen as part of the community in which you trade. This has become the foundation of my business and in return we have now been rewarded with fantastic customer loyalty".***

**Source: McDonald's – Gerald Thompson, McDonald's franchisee**

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<sup>138</sup> See 'Table 6 : Opportunities for qualifications at McDonald's UK' p. 36

## Annex 1 McDonald's Europe Flagship Farms case studies

The Flagship Farm case studies are written by an agricultural expert following farm visits and extensive discussions with the farmers and the supplier. The vehicle for sharing information is an online website ([www.flagshipfarms.eu](http://www.flagshipfarms.eu)) which houses the case studies and enables easy access to the information at varying levels of detail, depending on the level of stakeholder interest. A summary of some of the case studies is below.

PRODUCT	SUPPLIER & COUNTRY	CASE STUDY
Beef	Dempsey Farm, Ireland	<p><b>Innovation:</b> Installation of a reed bed filter system for the treatment of water demonstrates good environmental practice. The system harnesses natural processes, ensuring that water quality is maximised at low cost and without associated negative environmental impact.</p> <p><b>Impact:</b> Shows how beef production can be undertaken in an economically viable manner, whilst maintaining the welfare of the animals and controlling the impact on the environment.</p>
Tomatoes	Heinz Tomato Ketchup, Portugal	<p><b>Innovation:</b> Effective irrigation systems enable the farm to produce high yields of quality products while reducing unnecessary water use and saving costs.</p> <p><b>Impact:</b> Shows how tomato production can be undertaken in an economically challenging market, whilst reducing input costs, increasing yields, and ensuring food safety.</p>
Free-range Eggs	The Lakes, UK	<p><b>Innovation:</b> Tree planting enables birds to exhibit natural behaviours whilst also providing environmental benefits.</p> <p><b>Impact:</b> Demonstrates how free-range egg production can be undertaken with maximum benefit to the well-being of the flock and providing a diverse and sustainable business in a rural environment.</p>
Lettuce	Primaflor farm, Spain	<p><b>Innovation:</b> Biological repellents and sticky traps are used, avoiding the negative environmental impacts associated with manmade chemicals.</p> <p><b>Impact:</b> Shows how lettuce production in an area of low rainfall can be undertaken using water in an efficient and precise manner, combined with targeted application of fertilisers and plant protection products to improve effectiveness and protect the natural environment.</p>
Dairy	Friesland Campina, Holland	<p><b>Innovation:</b> Modern, well designed facilities enable the cows to demonstrate their natural behaviours and free choice in a safe environment. The floor design of the facilities also minimises ammonia emissions.</p> <p><b>Impact:</b> Shows how dairy production can be undertaken in a manner which maximises the welfare conditions of the cows, whilst reducing the impact on the environment.</p>



Cereals	Autrui-Sur-Juine, France	<p><b>Innovation:</b> Participation in Natura 2000<sup>139</sup> demonstrates the farm's commitment to protecting the biodiversity of the local environment.</p> <p><b>Impact:</b> Shows that European cereal production can yield high-quality milling wheat whilst undertaking practices which protect and enhance the natural habitat and reduce environmental impact.</p>
Potatoes	Farm Frites, Poland	<p><b>Innovation:</b> Innovative technology and efficient calibration has resulted in reduced fungicide use, minimising cost and negative environmental impact, and maximising yield. Farm Frites exceeds local legislation with regard to reward for its part-time work force.</p> <p><b>Impact:</b> Shows how potato production can be undertaken in a developing market using good practice and well-recognised techniques and equipment in a locally-relevant way. It focuses on good practice in the areas of soil use, water use, energy use reduction and employee welfare.</p>
Potatoes	Maximilian Hardegg, Austria	<p><b>Innovation:</b> The construction of wetland areas has provided the farm with a valuable water resource while encouraging wildlife and preventing regular flooding.</p> <p><b>Impact:</b> Shows how modern farming can provide environmental benefits for wildlife and biodiversity, whilst producing high-quality potatoes. It focuses on water management, soil testing, and demonstrates how by delivering consistently high-quality potatoes, supply contracts can be established.</p>
Florette baby leaf	Pentaflor horticola, Spain	<p><b>Innovation:</b> The use of greenhouses and mesh enables the farms to grow crops under ideal conditions, optimising the quality of the product and minimising the need for inputs such as water and crop protection products.</p> <p><b>Impact:</b> Shows how baby leaf production can provide high quality raw materials throughout the year, produced to high standards of food safety with strictly controlled inputs. It focuses on excellent employment practices, and on optimising growing conditions while minimising negative environmental impact. In particular it highlights good practice in plant and soil testing, irrigation, the use of greenhouses and communication between the grower and producer.</p>

<sup>139</sup> Natura 2000 is an ecological network of protected areas in the territory of the European Union.

## Annex 2 McDonald's Employer Awards in Europe (2010)

Country	Awarding Institution	Name of Award
Bulgaria	Hewitt's	Best Employer 2010
Ukraine	Hewitt's	Best Employer 2010
United Kingdom	Business in the Community	Skills in the Workplace
United Kingdom	Great Place to Work	Best Workplaces
United Kingdom	Great Place to Work	Best Workplaces in Europe
United Kingdom	Caterer and Hospitality	Best Places to Work in Hospitality
United Kingdom	Graduate Employer	Top 100 Graduate Employer
United Kingdom	CRF Institute	Britain's Top Employers
Ireland	Great Place to Work	Best Place to Work -5th place
Ireland	Great Place to Work	Best Employer 2010
Ireland	O2 Ability Award	Customer Service
Ireland	The Retail Excellence Ireland Award	Runners up in the Best Employer category
Denmark	Great Place to Work Institute	Denmark's Best Workplaces 2010
Denmark	Great Place To Work Institute Europe	Europe's Best Workplaces in 2010
Denmark	Danish Franchise Association	Danish Franchise Company of the year 2010
Denmark	Egedahl's Local Employment Council	Company of the year
Belgium	Great Place to Work Institute	Best Employers-5th place
Belgium	Great Place to Work Institute Europe	Best European employers -30th place
Netherlands	Great Place to Work	Best Workplace 2010
Netherlands	Diversity Price	2010-2nd place
Italy	Great Place to Work Institute	Ranked 23rd
Germany	TOP Arbeitgeber	Das Deutsche Schulerbarometer
Germany	TOP Arbeitgeber	TOP Employer 2010
Germany	Employer Branding Awards	Biggest Image Change
Germany	Beruf & Familie	Certificate for family-friendly HR policy
Hungary	Hewitt	Best Employer
Poland	Student's Employer of the year	Student's Employer of the year
Czech Rep. & Slovakia	National Council of Handicapped Persons	
Austria	Quality Labor	Investor in People
Portugal	Best Place to Work Institute	Best Place to Work in 2010
France	Great Place to Work Institute	Great Place to Work 2010
France	Top Employer France 2010	Top Employer France 2010
Switzerland	GPTW	Ranked among the 15 best employers in Switzerland
Switzerland	Swiss Institute	UND Family & Profession for Men and Women

