



## **The Three-Legged Stool**

McDonald's success can, in part, be attributed to a simple philosophy established by our founder, Ray Kroc. This philosophy is often described as a three-legged stool. One of the legs is McDonald's, a second leg is our franchisee partners and the third leg is our supplier partners. The stool is only as strong as the three legs.

This means that the Company...the franchisee owners...and the suppliers each support the weight of McDonald's equally. For one to prosper, we each must prosper.

McDonald's is committed to ensuring that we select the best business partners available – both in terms of franchisee and supplier partners. These are the people that are the foundation of our business – they make it possible for us to successfully operate our global brand on a local level.

### **FRANCHISEES**

Currently, approximately 70% of our Canadian restaurants are franchised operations. For more than 30 years, our franchisee partners have played an important role in our tremendous growth in Canada, by providing unparalleled levels of quality, service, cleanliness and value to our customers. They are an essential part of our business and, as we look to the future, will be a key player in our strategy for growth in the country.

The franchising relationship is a partnership between the franchisee and McDonald's that involves working together to ensure that each customer visit is an enjoyable one. This partnership is also a unique opportunity for an individual to own and operate a business, while at the same time having access to the resources of a major multi-billion dollar organization.

McDonald's management places a premium on quality operations, offering McDonald's franchisees one restaurant at a time. Opportunities become available either through new restaurants or the sale of existing restaurants.

McDonald's seeks hands-on franchisees – active, on-premise owners prepared to work full-time running their McDonald's operation – not just investors. McDonald's recruits and trains individuals who are motivated, have entrepreneurial talent and a business background. A restaurant background is not necessary. Flexibility regarding relocation within a given geographic region and a willingness to adhere to strict operating standards and guidelines, are among the personal qualities sought.

The franchisee/company relationship stresses personal commitment to the business and emphasizes people, community commitment, financial management and a sharing of goals, principles and ideals.



New restaurants are franchised to existing operators who have proven track records; to new franchisees and to company employees. Even before franchising agreements are finalized, prospective franchisees begin a comprehensive operations training program to prepare them for McDonald's sophisticated management and operational system and strictly enforced standards of QSC & V – quality, service, cleanliness and value.

Generally, McDonald's grants a franchisee rights to operate a restaurant for a specified period in return for monthly payments – based on a percentage of gross sales – for rent, service fees and advertising contributions. McDonald's supports the franchisee by providing advice, training and marketing expertise.

When developing a new restaurant, McDonald's undertakes site selection, site improvement, property acquisition and building construction. The franchisee is responsible for restaurant furnishings and kitchen equipment, inventory, decor, signs and landscaping, as well as the pre-opening activities of hiring and training of personnel.

## **SUPPLIERS**

While McDonald's is a global company, operating 31,000 restaurants in 119 countries serving more than 45 million customers a day worldwide, we always look to operate our brand on a local level. This includes our supplier network where McDonald's strives to source products and supplies locally.

McDonald's Canadian supplier network is comprised of more than 120 leading Canadian businesses. These businesses are an integral part of the extended McDonald's family. They provide McDonald's with quality products at competitive prices through a network that is second to none. They create new products, help reduce costs to our existing system, and ensure that our customers receive the same great taste of McDonald's in every market across the country.

McDonald's Canada is committed to supporting our local economy. In 2002, McDonald's purchased approximately \$680 million worth of food and paper products from our network of Canadian suppliers.

McDonald's suppliers play a crucial role in our success, and they, in turn, have become extremely successful companies in their own right. If there is a single key to McDonald's success, it is the three-legged stool philosophy, the “inter-dependence” of the three main partners – franchisees, suppliers and the Company.