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Keio Business School

# McDonald's Japan (A)

## "Winner takes all." ― Den Fujita
## Did he win or lose?

In December 1994, Den Fujita, president of McDonald's Japan, delivered a statement, "Mission Space Battleship McDonald's," to its employees and franchisees.

> Compared to the previous financial results, no matter what may have been the case on the ground, we exceedingly regret the number of our sales and profits in the fiscal year of 1994. We, as a result, have decided to change our marketing plan for the fiscal year of 1995, and to adopt the concept of value and price destruction to achieve glorious success the next fiscal year.
>
> We, McDonald's Japan, hereby declare to start massive attacks by way of price destruction, and ask you all to be engaged in a mortal combat in the competitive Japanese restaurant industry.
>
> My fellow employees and franchisees, follow the course of our actions!

Den Fujita thought that the deflation of the Japanese economy would continue in the long-term, and decided to implement a price destruction strategy to survive in the competitive Japanese restaurant market. In 1995, McDonald's Japan announced to increase its system wide sales[1] from 250 billion Yen in 1995 to 500 billion Yen by 2000, the numbers of its restaurants from 1,400 in 1995 to 5,000 by 2000, and to increase its system wide sales to 1 trillion Yen by 2005.

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[1] the total of company store sales and franchise store sales

## Fujita Trading

Den Fujita was born on 1926 in Osaka as the second boy of the family. His father was an engineer working for a British carbon product manufacture. His mother was Christian. He was the smartest and the most curious child in his neighborhood. His arrogant behavior, however, earned him a bad recommendation from a teacher of his elementary school. He, as a result, failed to enroll in the junior high school he wanted to study at, and had to wait for one more year as a sixth grade student until he was accepted at Kitano Junior High School. At the school, he became friends with young Osamu Tezuka, to be a legendary animator in Japan. Tezuka was one year junior to him and was always drawing portraits of teachers. Den Fujita later told that he had received a portrait of something from Tezuka at the time.

At Matsue High School, he confidently gave his own opinions in front of his classmates. His attitude made him the most famous and popular student in the school. He became the leader of the cheerleading team, the chairman of the school festival, and the representative of the graduating class. Even though his classmates were passionate about German philosophy and discussing the ideals found therein, he did not hesitate to exclaim, “Money talks in the real world. You can’t achieve anything ideal without money.”

In 1948, Den Fujita was enrolled in the faculty of law, University of Tokyo. He had to earn tuition fees and living expenses since his father had passed away. He was raised in an internationalized atmosphere, so could somehow communicate with American soldiers staying in Japan after the World War Ⅱ. He started his college life as a student in the daytime and as an interpreter for the GHQ in the night time. He earned approximately ¥10,000 to ¥20,000 each month, told his classmates, “Money is the power of the future,” and hung out at Ginza with friends like Osamu Dazai, novelist, even the night Dazai was drowned.

One day, Den Fujita got familiar with an American sergeant. The sergeant was lending money to his colleague with extremely high rates. If his colleague could not pay the money back to him, he seized distribution supplies for the debt, sold them to the black market, and earned huge amount of money. Den Fujita, at the time, resembled a Chinese man, so he put sunglasses on and pretended to be a Japanese-born Chinese, calling himself “Mr. Chin.” He decided to become an assistant to the sergeant, and started importing bags and electronic products to sell at “Post Exchange” shopping stores for the U.S. Army. In 1950, one year before graduation from the college, he founded a trading company, Fujita Trading, at age 24.

When Den Fujita was studying at the University of Tokyo, he took the civil service examination not to be a government official but just to test his abilities. He scored well on the exam, and the

Ministry of Finance gave him an offer. Even though working for the Ministry was regarded as an extremely successful career, he declined the offer and decided to pursue his career as a business person.One day, Den Fujita got information that one company had kept huge amounts of sandbags as stock even after the World War Ⅱ . He bought them all for next to nothing, and went to an embassy. At the embassy, one of the colonies of the mother nation was in danger of disputes. He negotiated to sell the sandbags at a fixed price, and made a huge profit.

Next, Den Fujita started importing accessories and apparel, and became an authorized importer of Christian Dior in Japan because he realized that the female upper-class was a good target to make more money. When he imported products of the brand, he ordered to localize the products, for example, the angle a bag opens, to meet the needs of Japanese consumers. His creativity gave him another success, and he became one of Christian Dior’s biggest importing agencies in the world. Through the business with the global brand, he became acquainted with Shigeru Okada, section chief of Mitsukoshi Department Store.At the time, Den Fujita kept saving ¥50,000 each month in his banking account, later ¥100,000 and ¥150,000, to prepare for sudden accidents. Later then, the monthly saving amounted over 400 million Yen. This effort gave him a credit as a reliable business person.

## McDonald’s Japan

In 1969, the Chicago branch of Fujita Trading made a phone call to Den Fujita to tell him that Raymond Albert Kroc of McDonald’s Corporation wanted to arrange a meeting. Den Fujita, at first, thought that he would decline the offer because he had been fully occupied in the trading business and running wax museums.

McDonald’s was originally opened as McDonald’s Bar-B-Que Restaurant in 1940 in San Bernardino, California by the brothers Richard “Dick” and Maurice “Mac” McDonald. The brothers had been fairly successful in running the restaurant taking advantage of car hop services. The restaurant, however, became a popular teenager hangout, and family customers began to choose other restaurants. The brothers shut down the restaurant, and reviewed their restaurant operation. They found out that the leaving rate of waitresses was high, and that customers had to wait for a long time until foods were served even though hamburgers were accounted for almost 80% of the total orders.

The brothers pursued efficiency of the restaurant’s operation based on the Ford system. They adopted a self-service window without tables and waitresses, ordered cooking machinery which enabled inexperienced workers to complete cooking jobs in a single operation, reduced the number of items from 25 to 9, and introduced make-to-stock manufacturing to reduce customers’ waiting time. In 1948, the brothers re-opened the first McDonald's.

In 1955, when Ray Kroc visited McDonald's in California as a salesperson of multimixers, cooking machinery to make milkshakes, he saw plenty of vehicles and customers making a long line in front of the restaurant. There were 150 customers in the line, but, surprisingly, the products were cooked and served just in 15 seconds per customer.

Ray Kroc was fascinated by the operation, and persuaded the brothers to give him a chance to operate McDonald's in Des Plains, Illinois as a franchisee. Ray Kroc later bought out the right to manage the franchise system, and started to spread its chain throughout the United States. He charged only $950 per franchisee for the admission fee and only 1.9% of sales for the royalties. He did not even receive any rebate or kickback from suppliers.

McDonald's Corporation later edited operating manuals, introduced a leasing system that allowed the company to purchase real estate to be lent to franchisees, and implemented marketing strategies which targeted kids and family segments. These ideas drove the sales and profits of the company.

When Ray Kroc tried to meet Den Fujita, the number of McDonald's restaurants surpassed 1,500, and the sales of the company was about to reach 500 million dollars. Ray Kroc had already negotiated with major Japanese trading firms and nationwide supermarket stores. He, however, was tired of their business practice which took a lot of time to get headquarters' approval. When Ray Kroc met Den Fujita, he instantly sensed Den Fujita's talent as a successful business person and asked Den Fujita to be the partner of the joint venture in Japan.

Den Fujita thought that contrary to what McDonalds was, a trend which started among the wealthy would last in the long-term, but one which became popular to the mass market would not go on. Furthermore, Den Fujita did not think that he could make money selling hamburgers at 15 cents, ¥54 at the time.

Den Fujita did not have anything to lose, so he decided to keep bullish during the negotiation. He demanded the right of management and personnel of the company even though the investment ratio was even, and the promise that both of the shareholders would not require any dividend and all profits should be re-invested in Japan. He even demanded to make the royalty, which McDonald's Japan pays to McDonald Corporation, just 1% of its sales. Ray Kroc made objections especially to the rate of royalty, and offered 5% at first, and then 3%. Den Fujita, however, firmly rejected the counteroffer and affirmed to Ray Kroc, "If you don't take it, that's it." Both parties reached an agreement at 1%, which was the lowest in the world.

In 1969, when Ray Kroc and Den Fujita had been negotiating, the Japanese government deregulated direct investment policies in Japan's restaurant industry, and made it open to foreign investors. In 1970, Kentucky Fried Chicken entered the Japanese market, and so did Mr. Donuts in

1971. The next year, domestic enterprises Lotteria and Mos Food Services started their business. In terms of establishing a joint venture with McDonald's Corporation, Isao Nakauchi, founder of Daiei, one of the major supermarket stores in Japan, was about to reach an agreement. The negotiation, however, was deadlocked at the last minute because Isao Nakauchi demanded majority shares of the joint venture. Daiei, instead, started Domdom Co, **(See Chart 1)**.

In January 1971, Den Fujita began to prepare for opening its first restaurant right after he had made the contract with Ray Kroc. In February, Den Fujita dispatched his subordinate to Hamburger University in Chicago. In April, Den Fujita opened Hamburger University in Japan to have its employees learn QSC+V (Quality, Service, Cleanness and Value), mission of McDonald's restaurants. In May, Den Fujita founded McDonald's Japan inside the office of Fujita Trading.

When Den Fujita planned marketing strategies of McDonald's Japan, he tried to fit them into Japanese local consumers. For example, 80% of the restaurants in the United States were operated by franchisees. Den Fujita, on the contrary, determined not to rely on franchisees and to manage all the restaurants directly in the startup stage of the company. He changed the pronunciation of the brand to [mʌ-ku-dɔʻ-nʌʻ-ru-dɔ] to get local consumers familiar with the brand.

Den Fujita also made an objection to McDonald's Corporation in terms of the location of its first restaurant in Japan. He made a short list which included Ginza, Tokyo Tower, Akasaka, and Chigasaki, seaside of suburban Tokyo. He chose Ginza from the list because he thought, "Foreign culture tends to spread from the center of the nation. If McDonald's became popular in Ginza, citizens across the nation would keep their eyes on it." He started to observe the streetscape of Ginza with his binoculars standing at his office located on the 6th floor of Fujita Trading in between Shinbashi and Ginza. He realized that the east side of the main street, Chuo Street, had more pedestrians than the west side, and judged that Ginza Mitsukoshi, one of the most traditional department stores in Japan, was the best location to build its first restaurant. It took almost one year of negotiations with the department store, but Den Fujita finally got approval from Shigeru Okada who had been appointed to one of the senior executives of the department store. McDonald's Corporation, however, made an objection to the decision, and recommended Chigasaki as the first site. At the time in the United States, vehicles had come into wide use and car-friendly shopping malls built in suburban areas attracted huge amount of middle-class consumers.

Den Fujita came up with an idea and sent a letter, "The first restaurant is under construction in Chigasaki," to the U.S. headquarters. In reality, the building for the first restaurant in Chigasaki was completed, but the final approval was suspended because the city council was opposed to the plan at the last minute. Den Fujita did not pay any attention to Chigasaki and continued to prepare for the restaurant in Ginza.

On July 18, Sunday of 1971, Rey Kroc flew from Chicago to Japan. He was told that the original plan in Chigasaki was officially cancelled and, furthermore, that the building in Ginza was not being constructed yet. It was because the time Mitsukoshi Department Store, the owner of the building, gave McDonald's Japan for the construction was only 39 hours, so as to not interfere with the operations of the department store. Rey Kroc shut himself in his room at Hotel Okura with anger and desperation.

Den Fujita, in fact, had got a vacant lot to rehearse the construction over and over. At 6 o'clock in the evening, Den Fujita ordered to start constructing right after the department store had closed. Two days later, at 11 o'clock of July 20th, McDonald's first restaurant in Japan opened as Den Fujita had scheduled.

Mitsukoshi Department Store estimated that daily sales of the restaurant would amount to ¥150,000 to ¥200,000, with hamburgers sold at ¥80. Huge amount of customers, however, rushed to the self-service window of the restaurant from the opening day. The media reported that monthly sales amounted to 40 million Yen even though the initial investment of the company was just 30 million Yen. The location policy, which focused on downtown areas, was estimated as an excellent business model and imported to McDonald's Corporation.

The news report, however, was not true. Crowds in front of the restaurant were just spectators out of curiosity rather than consumers for shopping. The sales of the restaurant amounted to less than one third of the number reported by newspapers, and even worse, the second restaurant opened in Yoyogi could not attract enough customers.

Den Fujita was forced to rebuild marketing strategies of the restaurants. He changed the main target of the restaurants from adults to kids and young families and the marketing concept from hamburgers to the Western culture as fashion. He let Ronald McDonald walk down the main street of Ginza back and forth to attract pedestrians. He named trash boxes on the street "Thank You Box" and promoted eating of hamburgers leaning on them as fashionable even though it had been regarded as rude behavior by Japanese tradition to eat something standing or walking down a street. He even asked ad agencies to arrange interviews of himself to tell, "The sense of taste is fixed by age 12, and you eat whatever you had eaten in youth for the rest of your life," and, "Those who don't think hamburgers taste good are not human beings but must be gorillas or chimpanzees", all in an effort to attract consumer attention. In 1974, McDonald's Japan made profits for the first time since the first restaurant had opened.

In 1977, McDonald's Japan opened the first drive-through restaurant at Suginami, Tokyo and increased restaurants at suburban areas. The next year, a restaurant in Enoshima, a seaside of suburban Tokyo, was opened. There had been huge traffic on the street along the seashore throughout the summer, and the monthly sales of the restaurant exceeded 100 million Yen which broke the world record of McDonald's.

In 1978, McDonald's Japan introduced the POS, the point of sale system, developing electronic cash registers with Matsushita Communication Industrial Co., Ltd. At restaurants of McDonald's Japan, mechanical registers made by Sweda, which had been regarded as one of the most durable registers in the world, were malfunctioning because the machines could not stand the frequency of use, causing the fuses of the machines to burn out.

After introducing the POS, McDonald's Japan could record and analyze sales information every single minute, enabling the reduction in the disposal of food. The size of the registers was decreased by half, so that the customers' waiting time was reduced from 60 seconds to 32 seconds. The POS was connected to computing systems for suppliers in 1986, so that the company could order foodstuffs automatically. The POS was later imported to McDonald's Corporation.

In 1982, the sales of McDonald's Japan amounted to 70.2 billion Yen, exceeded the sales of Kozo Zushi, takeaway sushi chain, and became the biggest enterprise in the Japanese restaurant industry.

## Everyday Low Price

In the autumn of 1985, McDonalds' same-store sales in Okinawa, one of the most competitive markets in Japan, fell below that of the previous year. McDonald's Japan continued promotions including discount coupons and public relations toward American citizens living inside the American Bases as well as mass advertising, but the competition with Burger King, Mos Food Services and so forth got intense. In 1986, McDonald's Japan started the One Dollar Campaign, in which Big Macs, which cost ¥370 at the regular price, were sold for just $1, and released the Big Mac Value Set, where the total price was reduced by ¥220. The decline of sales, as a result, in Okinawa was limited to less than 10%. In 1987, McDonald's Japan released the Thank You Set where a hamburger, French Fries, and a drink were sold at ¥390, approximately a 30% discount, nationwide. Lotteria started to sell the San-pachi Set where similar products were sold at ¥380. Sante Ole, Kentucky Fried Chicken and some other fast food chains started discount campaigns to compete with McDonald's. In 1988, McDonald's Japan released the Sabu-rock Set where the set menu was ¥360.

McDonald's Japan explained that it introduced the campaign not for a discount war but for a promotion to increase the number of customers who visit McDonald's for a meal. A consumer survey revealed that only 25% of the customers visit McDonald's for a meal, and others recognize products of the restaurant just as snacks for kids and teenagers. After the discount campaign, the percentage of purchasing the set menu, surprisingly, jumped up to 95%.

In 1990, Lotteria, which had imitated discount campaigns of McDonald's Japan, fell into 3rd among the hamburger chains. Mos Food Services, which pursued its own marketing strategy, like cooking to order, the use of organic vegetables, and restaurant location focused on the outskirts of cities, became 2nd in the industry.

In the early 90's, McDonald's Japan had faced a slowdown in its growth. In 1992, the company increased the number of restaurants by 92, but the sales grew by just 1%, and the ordinary profits were down by more than 10%. The organization was filled with a sense of anxiety, and quite a few top executives left the company.

Den Fujita ordered to edit the White Paper to review business management of the company. In the analysis, the relationship between the nationwide consumer price index and McDonalds' average sale per customer was discussed. Since McDonald's Japan kept raising the price of products and introducing new products in the 80's, the growth rate of average sales per customer surpassed that of the consumer price index in the early 90's. In 1991, the average sale per customer, as a result, reached ¥791 **(See Chart 2)**. Den Fujita concluded that continuous price increases during the Bubble Economy resulted in the decrease of customers.

The White Paper was secretly sent to McDonald's Corporation the next year. McDonald's Japan drew up a mid-term management plan based on advice from McDonald's Corporation.

In 1994, McDonald's Japan announced to start the everyday low price strategy and released the Value Set where a hamburger, French Fries and a cup of drink were sold at ¥400 to ¥600. In September, the company also started a two week campaign where a ¥210 hamburger is sold at ¥100. During the campaign, some household wives came to McDonald's, and ordered 30-40 hamburgers to freeze at home as snacks for their kids.

Den Fujita spoke in an interview about the price setting for the campaign, "The price, ¥100, had a huge impact on the market, but it was not important. ¥100 is just a round number for consumers. What we actually had wanted to do was to experiment how consumers react to a price discount (Nikkei Business, October-24th, 1994)." McDonald's Japan frequently conducted consumer surveys and concluded that the customer satisfaction with a hamburger was only 30% at ¥210, 70% at ¥130 and 100% at ¥80 **(See Chart 3)**. Den Fujita commented in an another interview that McDonald's Japan had continuously conducted customer surveys and test marketing, so consumers made a decision about the price, and, in other words, McDonald's Japan just listened to the voice of its customers.

McDonald's Japan explained how the company could make a profit even if the price of a hamburger was discounted to ¥100 as follows. When the regular price of a hamburger is ¥200, its cost of production is ¥80 for raw materials, ¥60 for labor costs, ¥30 for fuel, light and water charges, ¥15 for other costs, so the company can make ¥15 as the profit. If the selling price was reduced by ¥100 and the company could sell three times as many hamburgers, all the costs could be reduced by one-third. The cost of production, as a result, would be ¥20 for labor costs, ¥10 for fuel, light and water charges, and ¥5 for other costs. The cost of raw materials, the biggest concern for the company, also could be reduced if the amount of purchasing and the productivity of factories increased. In this way, McDonald's Japan could reduce the cost of raw materials to ¥60 without downgrading the quality of its products. The company also insisted that it could make more profits according to the increase of customer visit because other products, which are more profitable, would also be sold. During the campaign, the amount of hamburgers sold amounted to 27.5 million, eighteen times as many as that of the same period of the previous year.

In Japan, the year 1995 started with tragedies, and the nation was in turbulence. In January, there was an earthquake disaster in the western region, devastating Kobe and Osaka. In March, a group of religious extremists caused a sarin gas attack on Tokyo's subway. In April, Japan's enormous trade surplus affected foreign exchange markets, and the Japanese Yen marked ¥79.75 against the U.S. Dollar, the highest in the history.

The strong Yen was beneficial for McDonald's Japan, enabling the company to purchase a variety of foodstuffs from all over the world, like beef for hamburgers from Australia and potatoes for French Fries from the United States. Den Fujita had run a trading company since he was 24 years old, so had developed insights into foreign exchange markets. He forecasted that imports would cause deflation in the Japanese economy according to a rapid rise of the Yen, and that retailers would have to reduce prices to meet consumer needs to be successful in a deflationary economy **(See Chart 4)**.In April of 1995, five months after McDonald's Japan had delivered a statement, "Mission Space Battleship McDonald's," the company cut the price of hamburgers from ¥210 to ¥130 **(See Chart 5)**.Other fast food chains reacted to the McDonalds' everyday low price strategy differently. Sante Ole cut the price of a Croquette Burger from ¥200 to ¥100. Mos Food Services increased the number of items like hot dogs, and First Kitchen increased sandwiches on its menus. Nippon Dining changed the brand of its restaurants located at train stations from Sundine to Sundine Express, shifting its main items from hamburgers to sandwiches. Restaurant Morinaga sold off approximately 40 Morinaga Love restaurants to Japan Tobacco Inc., and withdrew from the hamburger business.

In the fiscal year of 1995, the sales of McDonald's Japan reached 211.8 billion Yen, breaking the past record for the first time in the last three years, the ordinary profits amounted to 18.7 billion Yen, and the same-store sales grew by 14% compared to the previous year.

## Human Resource Management

When McDonald's Japan opened the first restaurant at Ginza, payroll to part-time employees per hour, not per day, was an epoch-making tactic in the Japanese labor market.

The percentage of part-time employment at McDonald's Japan had increased due to the growth of the company. When the first restaurant opened in 1971, the ratio of full-time employees and part-time employees was 1 to 8.4, and this ratio became 1 to 20 in the late 90's.

At McDonald's Japan, the roll of part-time employees was not limited to being merely assistants to full-time employees. Part-time employees, being called the "Crew", became the main workforce applying the operation manual, in which there were approximately 25,000 articles, published by McDonald's Corporation. The payroll per hour was increased by ¥10 per promotion. There were dozens of titles according to skills and performances and a few part-time employees could be promoted to "Trainer", who would be in charge of training rookie crews, or the "Swing Manager", who was the highest ranked personnel among the crew. Top management of crews was eligible to take off-the-job training at Hamburger University. High performers among crews had an opportunity to be hired as full-time employees. In one year, McDonald's Japan hired almost half of the new full time employees out of 204 from former crews of its restaurants.

McDonald's Japan declared in Article 1 of its work regulation that the company would try to become a company which pays the highest salaries in Japan. The company kept the promise to its employees and once paid bonuses which were equal to 11 months of their yearly salaries when the company achieved good financial results.

McDonald's Japan thought that hiring ordinary people and developing their skills and performances would be more valuable and efficient rather than hiring first-class talents. so that, every single employee hired by the company was sent to Hamburger University for one month to learn about restaurant operations. Once he or she graduated from Hamburger University, the year of graduation was recorded in his or her personnel file, even tough the university, where he or she had really graduated, was never recorded in the file.

McDonald's Japan gave the President Award or the Den Fujita Award to those who had achieved excellent results. The company gave a monetary gift and a day-off on the birthday of each employee. The company even sent flowers to wives of its employees on their birthdays. This practice reflected a managerial philosophy of Den Fujita that employees owe their hard work and focus on their jobs to the support of their wives.

## Value Chain

When McDonald's Japan negotiated with its suppliers to purchase raw materials, both parties held the Supplier Quality Status Meeting. At the meeting, McDonald's Japan precisely explained its midterm business plan to assist its suppliers to plan their own master production schedule. Next, suppliers were forced to release all the elements of their cost structure, including raw materials, construction, delivery, and even yield rates. Lastly, both parties set the shared expectation for the deal. McDonald's Japan, if necessary, visited supplier's factories to engage in "Kaizen" activities to reduce the cost of the supplier.

Since McDonald's Japan clearly understood the cost structure of all the suppliers, the company could demand cost reduction based on some reasons. The company never requested rebates, kickbacks or financial support for new campaigns.

McDonald's Japan stressed the long-term relationship with its suppliers because it was one of Den Fujita's business philosophies. He thanked suppliers, who had understood Den Fujita's vision and had started dealings with McDonald's Japan in 1971, because the volume, the company could order, was so small at the start-up stage. McDonald's Japan organized "The Family Club" and invited its suppliers to business seminars and golf competitions. The Company also insisted that it had reduced the amount of deals but had never stopped any deal completely, even if its suppliers did not accept a requested cost reduction. On the other hand, the pressure McDonald's Japan put on its suppliers was so intense that it was reported that even bottlers of Coca Cola Company could not make a profit.

In the mid 90's, McDonald's Japan introduced the Global Purchasing Information Analysis produced by McDonald's Corporation. The system connects the computers located at 150 country headquarters on-line. Under the system, the supplier, the whole sale price, the cost of delivery, and the cost of insurance of each foodstuff were displayed on the screen. The person, who is in charge of purchasing, analyzed the information and made decisions accordingly. Utilizing the system, McDonald's Japan achieved to reduce the cost of cod, caught and delivered from Alaska to be cooked for Filet-O-Fish, by 50%.

McDonald's Japan continued to develop cooking machinery to pursue efficiency and standardization of its production system. Averaged-sized restaurants were equipped with grills which could cook 24 pieces of meat at a time. Meat was cooked by the machine in only 2 minute and 40 seconds. Den Fujita claimed that the cooking time was, "about half compared to that of other fast foods chains (Nikkei Business, August 28th, 1995)." In the 90's, McDonald's Japan introduced grills which could roast meat on both sides simultaneously so that crews would not have to flip them, and toasters which reduced the time of baking bread for Filet-O-Fish from 50 to just 11 seconds.

In 1999, McDonald's Japan started to implement "Made for you" to correspond to the Food Recycling Act to be enforced the next year. The company had adopted the direct operation system, in which products are cooked and stocked in advance. Under the old system, the company had to dispose foods when it committed an error of production forecasting. The company regulated to dispose French Fries cooked and stocked for more than 7 minutes and hamburgers for more than 10 minutes. Under the new system, the order was displayed on the screen at the kitchen right after a crew had taken orders from customers and inputted the information into the POS. Crews at the kitchen just had to cook according to the instruction displayed on the screen. Customers could enjoy eating fresh foods, and the company could reduce the amount of food disposed as a loss. The restaurants, which had introduced "Made for you," reduced the rate of disposing of hamburgers and Chicken Mc Nuggets from 0.8% to 0.3%.

The company announced to complete implementing "Made for you" at all its restaurants by 2005.

## Restaurant Operations

Den Fujita used to visit sites proposed for new restaurants to make the final decision since McDonald's Japan was founded. The company set the procedure which consisted of thirty articles as the number of new store openings had increased **(See Chart 6)**. The company implemented 3-4 day investigation on the site and made the final decision in two weeks. After that, the design and interior decoration were completed in 45 days to open a restaurant. The company insisted that the success rate of the system reached 99%.

In the 90's, McDonald's Japan renewed the decision making process and introduced the Mc Geographic Information System. All the data around the site for new restaurants, including its geography, demography, household incomes, the number of schools and supermarket stores, and the location of train stations, were installed in its computing system. The company insisted that data analysis about the site was completed in only 5 seconds, and the calculation errors between sales projections on the system and actual sales were minimized by 5%.

In 1976, McDonald's Japan opened its first franchised restaurant at Urasoe, Okinawa. McDonald's Corporation achieved quick success expanding its franchise chain, yet McDonald's Japan continued to carefully select its franchisees.

For example, the manager of a franchisee was required to work full time at the restaurant living near the site, and to own more than 10 percent of shares of the franchisee company. Progressive royalty toward franchisees was enforced because McDonald's Japan insisted that big restaurants and the ones located in crowded areas had to face severe competition, and, as a result, advice from McDonalds' supervisors had to be increased **(See Chart 7)**. To be a franchisee of McDonald's Japan, he or she had to spend at least 75 million Yen, including 2.5 million Yen for the admission fee, 7.5 million Yen as the deposit, 40 million Yen for the building construction, 5 million Yen for leasing the kitchen machinery, and some more for the working capital.

McDonald's Japan, in contrast, reinforced its employees to become its franchisees to show a new career path to its middle management. The number of employees, who could not be promoted from the store manager to the area supervisor, increased as the number of restaurants had increased.

Employees of McDonald's Japan, who had worked for more than ten years, were eligible to apply to be a franchisee. They just had to prepare about 10 million Yen to be a franchisee since they could borrow the building and equipments from McDonald's Japan. They could even borrow up to 40 million Yen to open a restaurant, and sell the store back to McDonald's Japan when they retired at age 60. This system functioned as a retirement allowance.

McDonald's Japan expected satellite shops as an innovative store strategy when the company announced "Mission Space Battleship McDonald's" in 1994. Satellite shops were small size restaurants McDonald Corporation had opened inside shopping malls, amusement parks, universities, and hospitals in the U.S. The break-even point of McDonald's conventional restaurants were 100,000 in demography and 20 million Yen in sales per month, but that of satellite shops were just 10,000 potential customers around the business region and 3-5 million Yen in sales per month. Satellite shops could reduce the size of a store by 30% and that of its kitchen by half compared to the conventional restaurants because they shared offices and warehouses with its flagship restaurants. McDonald's Japan called the store location plan, opening satellite shops around one flagship restaurant, " the connecting-the-dot strategy."

Some insiders told that McDonald's Japan was aiming to defeat Mos Food Services, the second biggest hamburger chain at the time, but Den Fujita argued that he never thought of other companies in the hamburger chain industry and the company was just trying to increase new customers.

In 1990, however, the fast food division of Seven Eleven Japan exceeded McDonald's Japan in sales. Den Fujita said, "There are 5,000 Seven Eleven stores in Japan, so there could be McDonald's every 150 meters along a major street (Nikkei Shinbun, December 7th, 1995)."

Store managers of existing restaurants were not happy about the opening of satellite shops in their neighborhood, and made objections to its headquarters, but Den Fujita, who had possessed great charisma in the organization, executed the strategy. One business magazine, at the time, cautioned the company about the strategy,

"Massive store opening is a big risk which could confuse store operations" says one of the presidents of major fast food chains. Even though McDonald's Japan has original manuals for its restaurant operations, it would not be easy to manage its human resource if the number of new store openings increased rapidly. The company also has to care about the initial cost of opening 650 new stores (Nikkei Business, August 28th, 1995).

Since 1991, the number of new store openings had been approximately 100 per year, but McDonald's Japan opened 350 in 1995 and 530 in 1996. The number of restaurants, as a result, increased from 865 in 1991 to 3,822 in 2001. Den Fujita told his projection as follows, "We would like to achieve 10,000 restaurants and 1 trillion Yen in sales by 2010. The market scale of the restaurant industry in Japan is 30 trillion Yen, so a 5% share of the industry amounts to 1.5 trillion Yen. McDonald's Japan had already achieved a 5% share at 75 business regions nationwide. So, McDonald's Japan opened restaurants in business regions where the share of the company was less than 5%. We don't care about the decline of same store sales because we just need to increase our sales over all. I could say that we should open a restaurant where a stone was thrown and hit from here, the president's office located at the 14th floor of Shinjuku Island Tower, or every 100 meters (Weekly Toyo Keizai, March 18th, 2000)."

It was expected that McDonald's Japan had to compete with a variety of companies, both of hamburger chains and other food restaurant chains, to achieve a 5% share in the Japanese restaurant industry **(See Chart 8)**. Den Fujita spoke of the rise of Starbucks, "Coffee shops are in a different category, because their target customers are different from ours (Weekly Toyo Keizai, March 18th, 2000)," and "Our rivalry in the future would be Japanese food chains (Nikkei Business, July 2nd, 2001)."

Fujita Future Research Laboratory, internal consulting firm of McDonald's Japan, however, suggested opening a brand-new style café.

## McCafe

In December 1998, McDonald's Japan opened its first McCafe at Ebisu, Tokyo. The items sold at the restaurant were salads, original coffee, desert including muffins and cake, and so forth. McCafe had opened in more than 30 countries including Australia and France. McDonald's Japan set to open 1,000 restaurants as its business goal and opened new McCafe restaurants in Kyoto, Chiba, and Kobe in December 1999.

## Pret a Manger

In June 2002, McDonald's Japan established Pret a Manger Japan, Inc. as a joint venture with Pret a Manger of the United Kingdom. McDonald's Japan, at the time, made a short list to start a brand-new restaurant in Japan. McDonald Corporation had operated Boston Market, specializing in rotisserie chicken, Donatos Pizzeria, Aroma Café, and Chipotle Mexican Grill. McDonald's Japan chose Pret a Manger as the most acceptable food for Japanese consumers.

Pret a Manger was a sandwich chain which opened its first restaurant at Victoria district, London in 1896. The restaurant focused on business persons working at the city as its main target. They had little time for lunch, so there had to be just a few tables and chairs in its restaurants. At Pret a Manger, the best selling item was the organic sandwich.

In September 2002, McDonald's Japan opened its first Pret a Manger restaurant at Hibiya, Tokyo. The company had planned to open 5 restaurants in the year, 80 by 2004, and 500 in the future.

## Half priced hamburgers and going public

McDonald's Japan experimented with a ¥80 campaign nationwide in 1996 and with a ¥65 campaign in three cities to investigate how its break-even point shifts. Den Fujita told the press that if the Yen got strong, the price of imports could get cheaper, and McDonald's Japan could reduce the cost of a hamburger to ¥32.5 and the selling price to ¥65.

In February 2000, McDonald' Japan started the half-price campaign nationwide on weekdays. On weekdays, the price of a Hamburger was discounted from ¥130 to ¥65, that of a Cheeseburger from ¥160 to ¥80, and that of a Filet-O-Fish from ¥240 to ¥120. The company said that this campaign attracted business people who had reduced money for lunch in the long-term recession. During lunch time, there were long lines in front of McDonald's located at office and college districts to buy hamburgers which were even cheaper than rice balls sold at convenience stores **(See Chart 9)**. The number of Hamburgers and Cheeseburgers sold at McDonald's on weekdays increased by 4.8 times as that of the previous year, and the number of customers in 2000 reached to 1.3 billion.

Other fast food chains immediately announced price discounts to compete with McDonald's. Lotteria ran a limited time campaign on which the price of a hamburger was reduced to ¥65. Mos Food Services, which had publicly announced not to discount the price of its items, decided to start combined sales, a hamburger, a side dish and a drink at ¥520. Matsuya reduced the price of a regular sized rice bowl topped with beef from ¥400 to ¥290, and some convenience stores reduced the price of a rice ball from ¥110-130 to ¥80-100.

At Yoshino-ya, which reduced the price of a regular sized rice bowl topped with beef to ¥250 as a limited time campaign, some restaurants had to be closed because consumers rushed to the restaurants and ate all the foodstuffs the company had stocked. McDonald's Japan, in contrast, was well prepared for the campaign because the peak of its operation was lunch time on weekends. The company also estimated that it could increase the equipment operation rate of its factories because the sales of five days on weekdays amounted to the same as those of two days on weekends. In 2000, McDonald's Japan achieved 431.1 billion Yen in its system wide sales and 357.8 billion Yen in sales, the highest in its history **(See Chart 10)**. When McDonald's Japan opened its first restaurant at Ginza in 1971, it was criticized that the restaurant would close in three weeks. When the company achieved 10 billion Yen in sales in 1975, and Den Fujita declared to achieve 100 billion Yen in sales, critics made fun of him that Japanese consumers would not eat hamburgers that much. After thirty years had passed, in contrast, the media praised McDonalds' business, "Den Fujita forecasted that the demand of hamburgers would increase as the western culture, the



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simplification of eating habits, and people's behavior trying to save time spread in Japan. We have to admit that he was just right (Nikkei Shinbun, June 26th, 2001; July 22nd, 2001)." ¥65 hamburgers had a huge impact on Japanese economy, and they even dropped the consumer price index. McDonald's Japan was recognized as one of a few winning companies in the deflation economy and long-term recession.

The operating profits of McDonald's Japan, however, decreased by 4% to 29.4 billion Yen because investments on store equipment, including custom made cooking machines and Italian made coffee machines, amounted to 5.4 billion Yen to make existing restaurants more competitive. The ordinary profits also decreased by 6.7% to 29.2 billion Yen because of the cost of renovation for 267 restaurants. The company explained the reason of the decrease in profits, "There were prior investments to be spent, so the earning capability of McDonald's Japan was temporarily reduced (Nikkei Shinbun, March 1st, 2001)."

On July 26th of 2001, McDonald's Japan was listed on JASDAQ. The public offering price was ¥4,300 and the market capitalization amounted to 571.7 billion Yen. The company raised approximately 49 billion Yen by the public stock offering.

The media and private investors had paid much attention to the listing, but institutional investors were careful with deciding their positions. They pointed out a couple of reasons for their concern, including the recession of the Japanese economy, the lack of growth strategies, the unremarkable financial results compared to other fast food chains **(See Chart 11)**, the influence of McDonald's Corporation, managerial dependence on Den Fujita, and the relationship with family business, for example, Fujita Trading and Den Fujita Inc. **(See Chart 12)**. There was a rumor that Den Fujita had been eager to get the company listed on the Tokyo Stock Exchange, but the company's relationship with the family business threw question into the credibility of the corporate governance of McDonald's Japan.

McDonald's Japan claimed that there were 1.4 billion new shareholders, and most of them were private investors. Den Fujita said, "Shareholders are valuable as much as customers. I would like to drive our business listening to the voice of shareholders." He also criticized other listed companies, "They rely on banks, care too much about internal savings, and ignore shareholders' interests. McDonald's Japan would like to attract private financial assets to JASDAQ and to revitalize Japanese stock market (Nikkei Shinbun, July 27th, 2001)." Den Fujita also said, "We would like to invest money on new stores to increase the number of restaurants to 10,000. To do so, I am planning to purchase real estate as a new strategy. M&A is not our short-term option (Nikkei Shinbun, June 28th, 2001)." As Fujita had said, 25 billion Yen out of 49 billion Yen was spent for investments on new store openings. It was also reported that Den Fujita and his two sons would earn 61.1 billion Yen when they would sell the stocks, and the stocks they would keep amounted to 150 billion Yen.

## Deficit and retirement

In September 2001, the Ministry of Agriculture, Forestry and Fisheries announced that a milk cow was found at a farm in Chiba which might be infected with bovine spongiform encephalopathy, commonly known as mad-cow disease. Right after this news was broadcasted, Japanese consumers stopped buying and eating beef. In October, the monthly sales of McDonald's Japan dropped by 17% compared to the same month of the previous year.

The company had also suffered foreign exchange fluctuation and the increase of royalty payments, which increased from 1% of its system wide sales to 2.5% **(See Chart 13)**, resulting from the contract renewal with McDonald's Corporation. The sales of 2001 were 361.7 billion Yen, just 1.1% increase from the previous year, and the ordinary profits fell to 18.9 billion Yen, a 35.4% decrease from the previous year.

In February 2002, McDonald's Japan announced its transformation into a holding company by way of a company split and to change its corporate name to McDonald's Holdings Company (Japan), Ltd.

On March 27th, 2002, Den Fujita was appointed to the chairman and CEO, and Yasuyuki Yagi was appointed to the president and COO at the shareholders' meeting. The stock price of the day dropped by 35% from the offering price to ¥2,810 **(See Chart 14)**, causing some shareholders to make complaints at the meeting, "Board members have to be serious about the huge decrease in profits", "At the very least, the company should increase dividends", "Hamburgers don't taste good any more", and "The coffee is just bad, even though the price is the same as that of Doutor Coffee(Nikkei Shinbun, March 28th, 2002)."

On February 14th, 2002, about one month before the meeting, McDonald's Japan announced to end the half-priced campaign on weekdays. As a result, the price of a hamburger on weekends was reduced from ¥130 to ¥65, but that of on weekdays was raised from ¥65 to ¥80. Consumers made objections to the decision, and the same store sales of the company had decreased by more than 10%. In August, the company again discounted the price of a hamburger to ¥59, the lowest in its history.

Restaurant operations of McDonald's got confused as the everyday low price strategy had continued. Some consumers began to order dozens of hamburgers at a time and to purchase drinks at another shop. The number of customers, who visit McDonald's at the peak time for lunch, had dramatically increased, but the restaurants, of which the financial results were in decline, had to decrease the number of crews as much as possible to balance in the black. Critics made fun of crews working for McDonald's, saying that their pants and skirts got worn-out because they always had to run upstairs. The number of job rotations increased and store managers were transferred at short periods as the number of restaurants had increased. The time store managers could supervise their restaurants decreased because they were assigned to submit data and paper to its headquarters. Several departments at the headquarters simultaneously ordered different instructions to store managers.

Since 2000, Japanese fast food chains, including udon noodles and rice balls, had enjoyed a boom, too.

In 2002, McDonald's Japan reported 320.7 billion Yen in sales and 2.3 billion Yen in ordinary losses because of the cost of closing 176 stores. The company reported a loss for the first time since 1973, the third fiscal year of the company.

The stock price had fallen below ¥2,000 since the company announced to be in the red, and dropped to ¥1,690 on January 20th, 2003, 60% decline from the offering price.

In March 2003, Den Fujita, at 76, announced at the shareholders' meeting to retire from the chairman and CEO of McDonald's Japan. He used to go around restaurants on weekends, by a car his wife drives, to listen to the voice of consumers and to initiate Kaizen activities. He, however, told in his final speech, "My managerial philosophy, realism and perfectionism, was implemented by observing each restaurant, not sitting and making decisions at the head office. My physical condition, however, has not been so good since the last year, so I can't look around my restaurants any more. I have to say that it is time to step down."He also said, "It's over for a big enterprise like McDonald's Japan to be directed by a single leader" (Nikkei Shinbun, March 29th, 2003).

The board of directors, held after the meeting, appointed Pat Donohue, former CEO of McDonald's Canada, as the representative director of McDonald's Japan, and became the chairman and CEO of the company later in the year. At the same time, Gen Fujita, first son of Den Fujita, resigned as director of the company.

In February 2004, McDonald's Japan announced that Eikoh Harada, former president of Apple Japan was appointed to the Vice Chairman and CEO of McDonald's Holdings Company (Japan), Ltd., to turnaround its business under new management.

On April 21st, 2004, Den Fujita died at age 78. It was just one year after he had resigned from the company.

# Chart 1: The Number of Restaurants of Major Hamburger Chains

| チェーン名 | 1970 | 71 | 72 | 73 | 74 | 75 | 76 | 77 | 78 | 79 | 80 | 81 | 82 | 83 | 84 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Domdom | Start | | | | | | | | | 210 | | | | | |
| Wimpy | Start | | | | | | | | | | | | | | |
| **McDonald's** | | **Start** | **18** | **39** | **59** | **79** | **105** | **127** | **167** | **216** | **265** | **303** | **347** | **396** | **457** |
| Lotteria | | | Start | 14 | 37 | 51 | 60 | 77 | 100 | 150 | | | 352 | 404 | 437 |
| Mos Food Services | | | Start | 2 | 6 | 21 | 44 | 67 | 90 | 113 | 139 | 150 | 180 | 200 | 250 |
| Daily Queen | | | | Start | | | | | | | | | 214 | 234 | 250 |
| Sante Ole | | | | | Start | | | | | | | | | 15 | 107 |
| Morinaga Love | | | | | | Start | | | | | | 30 | | 39 | 47 |
| First Kitchen | | | | | | | | Start | | | 27 | | | | 56 |
| Wendy's | | | | | | | | | | | Start | | | | |
| Burger World | | | | | | | | | | | Start | | | | |
| Sundene | | | | | | | | | | | | Start | | | |
| Early Bird | | | | | | | | | | | | | | | Start |
| Becker's | | | | | | | | | | | | | | | |
| White Castle | | | | | | | | | | | | | | | |
| Freshness Burger. | | | | | | | | | | | | | | | |
| Burger King | | | | | | | | | | | | | | | |

| チェーン名 | 85 | 86 | 87 | 88 | 89 | 90 | 91 | 92 | 93 | 94 | 95 | 96 | 97 | 98 | 99 | 2000 | 01 | 02 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Domdom | | 345 | | 385 | | | | 386 | | | | | | | | | | |
| Wimpy | | 39 | | | | | | 26 | | | | | | | | | | |
| **McDonald's** | **534** | **575** | **606** | **655** | **706** | **778** | **865** | **956** | **1040** | **1092** | **1479** | **2004** | **2437** | **2852** | **3258** | **3598** | **3822** | **3891** |
| Lotteria | 458 | 470 | 506 | 556 | 620 | 639 | 651 | 600 | 591 | 579 | 577 | 592 | 606 | | 621 | 656 | 637 | |
| Mos Food Services | 300 | 400 | 600 | 700 | 800 | 915 | 1015 | 1103 | 1193 | 1277 | 1330 | 1387 | 1426 | 1481 | 1525 | 1561 | 1566 | 1551 |
| Daily Queen | 266 | 281 | 250 | 246 | 247 | 252 | 180 | 188 | 198 | 187 | 155 | | | | | | | |
| Sante Ole | 112 | | 78 | 77 | | 80 | | | | 80 | | 88 | 107 | | | | | |
| Morinaga Love | | | | | | | | | | | 48 | | | | | | | |
| First Kitchen | 77 | 80 | 75 | 70 | 80 | 82 | | 80 | 79 | 87 | 89 | 92 | 100 | 97 | 109 | 119 | 119 | |
| Wendy's | | | 29 | 27 | | 27 | | | 34 | | 50 | 63 | 84 | 89 | 91 | 98 | 99 | |
| Burger World | | 20 | | 34 | | | | | | | | | | | | | | |
| Sundene | | 29 | | | | | | | | | | | | | | | | |
| Early Bird | | 15 | 19 | | | | | | | | | | | | | | | |
| Becker's | | Start | | 7 | | | | | | | | | 41 | | 36 | 35 | | |
| White Castle | | Start | 3 | | | | | | | | | | | | | | | |
| Freshness Burger. | | | | | | | | Start | 2 | 4 | 12 | 30 | 50 | 59 | 81 | | | 150 |
| Burger King | | | | | | | | | Start | | 10 | | 15 | | | 43 | | |

**Chart 2: The Average Sale per Customer & the Consumer Price Index**

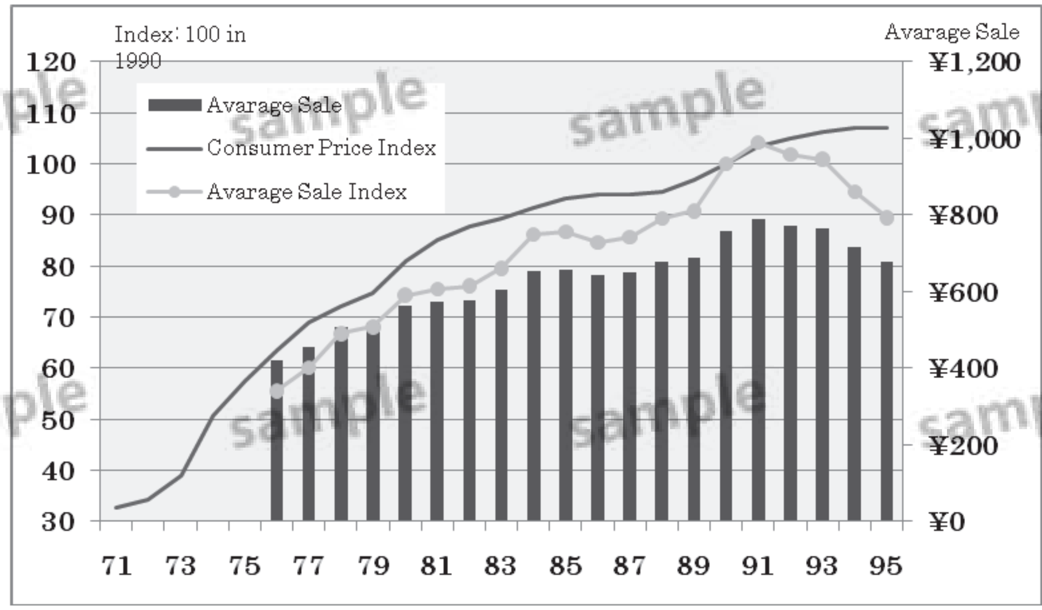
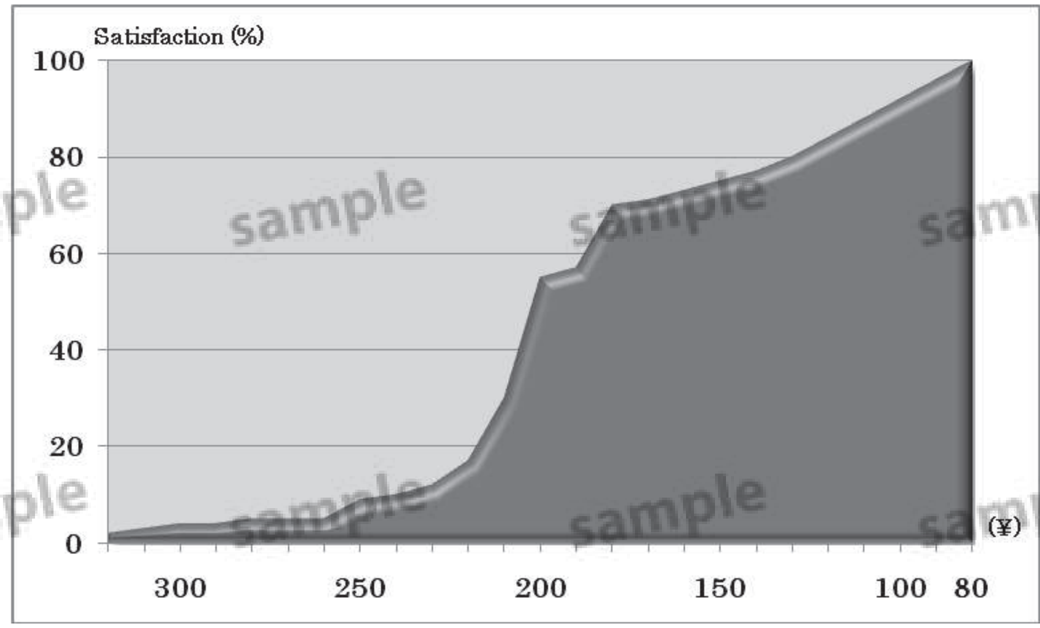



**Chart 3: The Price Sensitivity of a Hamburger**



## Chart 4: The Consumer Price Index in Japanese Restaurant Industry

| Year | Y-o-Y (%) | Year | Y-o-Y (%) |
|---|---|---|---|
| 1971 | 11.0 | 1991 | 2.8 |
| 1972 | 7.7 | 1992 | 2.4 |
| 1973 | 14.5 | 1993 | 1.9 |
| 1974 | 24.7 | 1994 | 1.1 |
| 1975 | 16.3 | 1995 | −0.1 |
| 1976 | 9.7 | 1996 | −0.3 |
| 1977 | 7.3 | 1997 | 2.5 |
| 1978 | 4.4 | 1998 | 0.8 |
| 1979 | 2.9 | 1999 | 0.3 |
| 1980 | 6.3 | 2000 | −1.0 |
| 1981 | 5.2 | 2001 | −0.6 |
| 1982 | 3.3 | 2002 | 0.3 |
| 1983 | 2.7 | | |
| 1984 | 3.0 | | |
| 1985 | 2.2 | | |
| 1986 | 1.7 | | |
| 1987 | 0.9 | | |
| 1988 | 0.8 | | |
| 1989 | 3.7 | | |
| 1990 | 2.4 | | |

**Chart 5-1: The Price of a Hamburger & the Exchange Rate between JPY & USD**

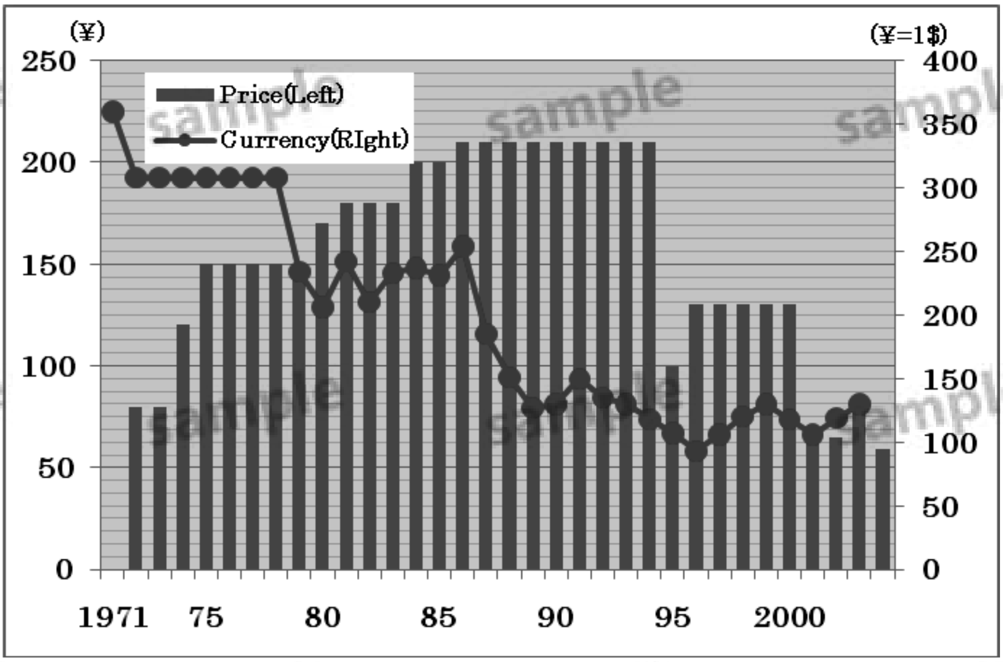



**Chart 5-2: The Price of Major Items (JPY)**

| | Cheese Burger | Teriyaki Burger | Filet-O-Fish | Big Mac | Apple Pie |
|---|---|---|---|---|---|
| 1971 | 100 | | 100 | 200 | 60 |
| 1973 | 140 | | 150 | 280 | 80 |
| 1974 | 180 | | 200 | 330 | 150 |
| 1977 | | | | 350 | |
| 1979 | 200 | | 220 | 360 | 150 |
| 1980 | 200 | | 240 | 370 | 150 |
| 1983 | 230 | | 260 | 370 | 150 |
| 1985 | 240 | | 260 | 370 | 150 |
| 1987 | 240 | | 260 | 370 | 150 |
| 1989 | 240 | 260 | 260 | 370 | 150 |
| 1990 | 240 | 280 | 280 | 380 | 160 |
| 1995 | 160 | 190 | 240 | 280 | 150 |
| 1996 | 80 | 190 | 120 | 280 | 150 |
| 1997 | 120 | 190 | 190 | 250 | 150 |
| 2000 | 100 | 200 | 200 | 250 | 100 |

## Chart 6: An Example of the Procedure to Judge Restaurant Location

**1. Size of a Restaurant**

More than 130 ㎡ for a regular size restaurant
More than 65 ㎡ on the 1st floor
At least 6 ｍ along a pavement
900 ～ 3,300 ㎡ of real estate along a major road if planning a drive-through restaurant

**2. Business Region**

Numbers to be clarified on a survey
The number of schools, apartments and offices
The number of school kids, residents and office workers
- More than population of 100,000 & household of 30,000 within a 2 km radius
The volume of traffic, both of pedestrians & vehicles in front of the restaurant
- More than 15,000 pedestrians in front of the restaurant during the sales time

**3. Profitability**

More than 150 million Yen of sales as the 1st year projection
Market survey
Consumer attitude and favorableness, consumer demography, frequency to visit restaurants neighborhood, consumer evaluation toward restaurants neighborhood, traffic generators near the location site where prospective customers gather, proximity to other restaurants

## Chart 7: The Percentage of License Fees from a Franchisee to McDonald's Japan

| Annual Sales | Percentage |
|---|---|
| Less than 120 | 5.0% |
| 120–150 | 6.0% |
| 150–180 | 6.5% |
| 180–200 | 7.0% |
| 200–220 | 7.5% |
| 220–240 | 8.0% |
| 240–300 | 8.5% |
| 300–400 | 9.0% |
| 400–500 | 9.5% |
| More than 500 | 10.0% |
| **Promotion Fees** | 4.5% of annual sales |

(Million Yen)

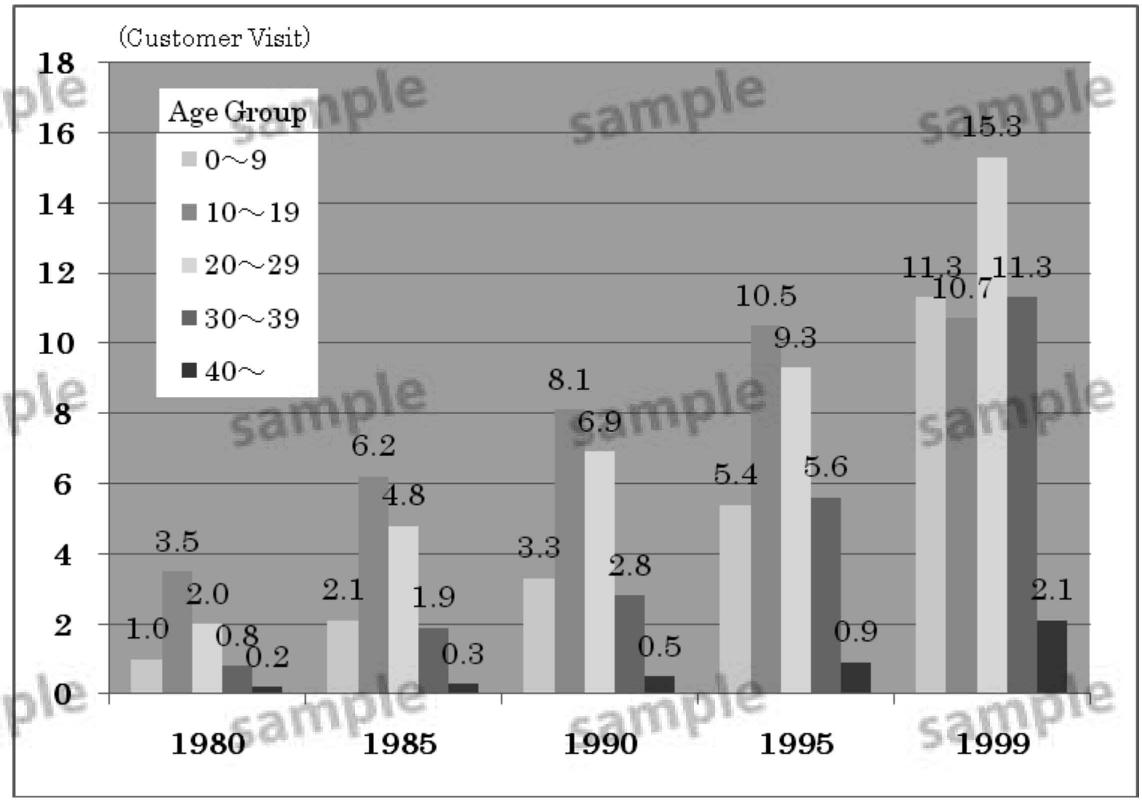
**Chart 8-1: Consumers Image Surveys about Fast-food Chains**

| | 1989 | 1991 | 1994 | 1996 | 1998 | 2000 |
|---|---|---|---|---|---|---|
| **1st** | **McDonald's** | **McDonald's** | Mos Food S. | Mos Food S. | Mos Food S. | Starbucks |
| **2nd** | KFC | Mos Food S. | Mr. Donuts | Skylark Gardens | **McDonald's** | Freshness Burger |
| **3rd** | Mos Food S. | Mr. Donuts | Doutor Coffee | **McDonald's** | Subway | Mos Food S. |
| **4th** | Lotteria | KFC | Ai-ya | Bamiyan | Yoshino-ya | **McDonald's** |
| **5th** | Skylark | 31's Ice Cream | **McDonald's** | Doutor Coffee | Bikkuri Donkey | Saizeriya |

**Chart 8-2: Consumer Evaluation of McDonald's**

| | 1989 | 1991 | 1994 | 1996 | 1998 | 2000 |
|---|---|---|---|---|---|---|
| **Standing** | ① | ① | ⑤ | ③ | ② | ④ |
| Quickness | 59.5% | 59.0% | 39.3% | 41.3% | 40.4% | 33.8% |
| Taste | 52.6% | 51.9% | 44.0% | 43.4% | 44.7% | 41.2% |
| The number of items | 48.9% | 48.3% | 27.0% | 25.7% | 29.7% | 23.2% |
| Service by employees | 46.2% | 45.8% | 38.2% | 35.0% | 35.6% | 26.4% |
| Price reasonableness | 32.8% | 32.2% | 18.9% | 46.3% | 48.2% | 47.5% |
| Cleanness | 26.6% | 26.3% | 20.2% | 12.8% | 16.8% | 14.1% |
| Design of restaurants | 11.7% | 11.8% | 11.5% | 12.7% | 14.9% | 10.4% |
| Healthiness | 5.8% | 5.9% | 5.9% | 7.1% | 8.7% | 8.1% |

**Chart 9: The number of Customer Visit by Age group**



## Chart10: Financial Results (One Hundred Million Yen)

| Year | Number of Total Restaurants | Number of Franchised Restaurants | Systemwide Sales | Sales of McDonald's Japan | Ordinary Profits | Net Income | Same-store Sales |
|---|---|---|---|---|---|---|---|
| 1971 | 5 | 0 | 2 | 2 | −0.6 | N/A | − |
| 1972 | 19 | 0 | 15 | 15 | −0.6 | N/A | N/A |
| 1973 | 39 | 0 | 37 | 37 | −1.6 | N/A | N/A |
| 1974 | 59 | 0 | 67 | 67 | 0.02 | N/A | N/A |
| 1975 | 79 | 0 | 103 | 103 | 4 | N/A | N/A |
| 1976 | 105 | 1 | 151 | 147 | 4 | N/A | N/A |
| 1977 | 127 | 2 | 225 | 221 | 16 | N/A | N/A |
| 1978 | 161 | 4 | 316 | 310 | 24 | N/A | N/A |
| 1979 | 212 | 9 | 400 | 387 | 23 | N/A | N/A |
| 1980 | 264 | 15 | 497 | 474 | 24 | 10 | N/A |
| 1981 | 302 | 19 | 600 | 568 | 40 | 17 | N/A |
| 1982 | 346 | 32 | 698 | 652 | 47 | 21 | N/A |
| 1983 | 394 | 50 | 842 | 770 | 66 | 23 | N/A |
| 1984 | 455 | 64 | 1,072 | 980 | 94 | 40 | N/A |
| 1985 | 532 | 83 | 1,156 | 1,064 | 69 | 31 | N/A |
| 1986 | 573 | 86 | 1,298 | 1,166 | 88 | 37 | N/A |
| 1987 | 604 | 97 | 1,431 | 1,290 | 96 | 47 | N/A |
| 1988 | 653 | 100 | 1,523 | 1,365 | 115 | 48 | N/A |
| 1989 | 704 | 106 | 1,621 | 1,458 | 107 | 44 | N/A |
| 1990 | 776 | 124 | 1,749 | 1,578 | 112 | 50 | N/A |
| 1991 | 865 | 155 | 2,072 | 1,857 | 130 | 59 | N/A |
| 1992 | 957 | 179 | 2,120 | 1,879 | 103 | 47 | Decrease |
| 1993 | 1,041 | 222 | 2,120 | 1,859 | 105 | 48 | Decrease |
| 1994 | 1,169 | 287 | 2,152 | 1,844 | 121 | 51 | −4% |
| 1995 | 1,482 | 375 | 2,528 | 2,118 | 187 | 86 | 14% |
| 1996 | 2,004 | 460 | 2,982 | 2,479 | 205 | 109 | 3% |
| 1997 | 2,437 | 536 | 3,331 | 2,763 | 230 | 110 | −2.3% |
| 1998 | 2,852 | 590 | 3,779 | 3,143 | 260 | 146 | −0.3% |
| 1999 | 3,258 | 659 | 3,944 | 3,285 | 314 | 159 | −6.3% |
| 2000 | 3,598 | 766 | 4,311 | 3,578 | 292 | 168 | −0.7% |
| 2001 | 3,822 | 917 | 4,389 | 3,616 | 189 | 101 | −5.6% |
| 2002 | 3,891 | 1,089 | 4,027 | 3,207 | 20 | −23 | −12.1% |

## Chart 11: Financial Comparison to Other Fast-food Chains

| | McDonald's Japan | Yoshino-ya D&C | Mos Food Services | KFC Japan | Skylark |
|---|---|---|---|---|---|
| Capital to asset ratio | 49.9% | 56.4% | 67.8% | 71.3% | 38.1% |
| Growth ratio of ordinary profits | 27% | 31% | −18% | 70% | 108% |
| Turnover of total asset | 1.56 | 0.79 | 1.13 | 1.64 | 1.42 |
| Ordinary income ratio | 8.2% | 14.1% | 6.2% | 3.6% | 7.6% |
| Sales growth ratio | 44.3% | 45.0% | 7.1% | 2.0% | 19.2% |

(Growth ratio: the last three years)

## Chart12: Group Business Relationships

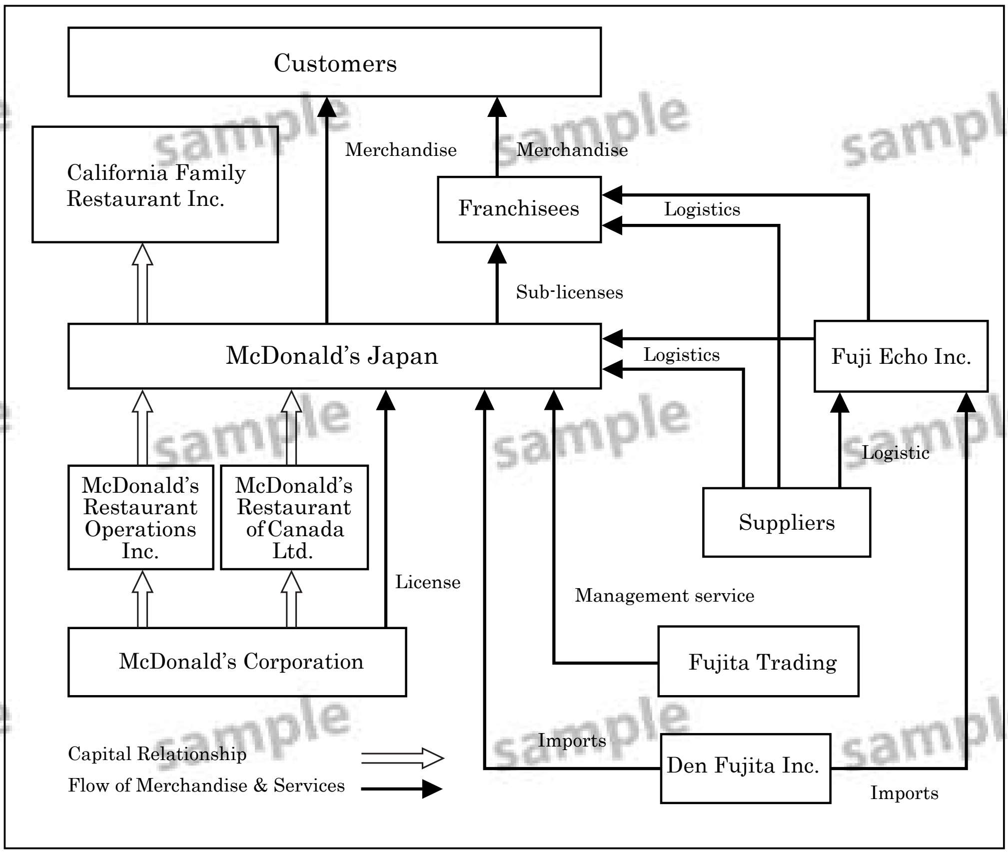
**3. Content of business**

McDonald's Japan runs hamburger restaurant business. This business is operated as company-operated restaurants and franchised restaurants.

McDonald's Japan pays McDonald's Corporation for license fees as its royalty and Fujita Trading for management service as its management fee. McDonald's Japan sub-licenses the logo and business system to franchisees which operate franchised restaurants, and in return, receives royalties from its franchisees.

The raw materials to be cooked both at company-operated restaurants and franchised restaurants are supplied by Fuji Echo Inc, 100% subsidiary of Fuji Baking Group, except bread used for hamburgers which is supplied by baking companies. Fuji Echo Inc. orders raw materials based on demand information on the computer network. Each supplier delivers raw materials to the co-operated delivery centers, and then Fuji Echo Inc. delivers them to each restaurant.

California Family Restaurant Inc. is the 100% subsidiary of McDonald's Japan founded to gather information of fast food chain industry in the U.S, and operates two hamburger restaurants.




(2001 Financial Report of McDonald's Japan)

## Chart 13: Contract Agreements

### 4. Critical Contracts

**(1) The franchise agreement with McDonald’s Corporation**

a. The date of the contract: August 26th, 1998

b. The contract partner: McDonald’s Corporation

c. The content of the contract:

McDonald’s Japan has made a franchise contract since July 14th, 1971 with McDonald’s Corporation. The contract functioned as the master agreement which allows McDonald’s Japan to exercise the right to use McDonalds’ logo, brand and technologies to operate McDonald’s restaurants in Japan, and the right as the franchiser of McDonald’s in Japan to authorize the sub-license to franchisees. The contract would expire on December 31st, 2000, so that McDonald’s Japan renewed the contract with McDonald’s Corporation on August 26th, 1998, which is effective as from January 1st, 2001.

The major contents of the contracts until 2000 and since 2001 are as follows.

| Contract period | From Jun 14th, 1971<br>To December 31st, 2000 | From January 1st, 2001<br>To December 31st, 2010 | From January 1st, 2011<br>To December 31st, 2030 |
|---|---|---|---|
| Royalty payment | 1% of the systemwide sales | 2.5% of the systemwide sales | 3% of the systemwide sales |

**(2) The management agreement with Fujita Trading**

a. The date of the contract: August 26th, 1998

b. The contract partner: Fujita Trading

c. The content of the contract:

McDonald’s Japan has made a management contract since May 13th, 1971 with Fujita Trading. Based on the contract, McDonald’s Japan obtains managerial information from Fujita Trading, which expands McDonald’s business in Japan. This contract composes a triangle, along with the joint venture contract between Fujita Trading and McDonald’s Corporation and the franchise contract between McDonald’s Japan and McDonald’s Corporation, which enables sustainable growth and long-term success of McDonalds’ business in Japan. The contract would expire on December 31st, 2000, so that McDonald’s Japan renewed the contract with Fujita Trading on August 26th, 1998, which is effective as from January 1st, 2001.

The major contents of the contracts until 2000 and since 2001 are as follows.

| Contract period | From Jun 14th, 1971<br>To December 31st, 2000 | From January 1st, 2001<br>To December 31st, 2030 |
|---|---|---|
| Royalty payment | 1% of the systemwide sales | 0.5% of the systemwide sales |

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**(8) The contract with Den Fujita Inc. about product sales and bill claims to Fuji Echo**

a. The date of the contract: September 1st, 1991

b. The contract partner: Den Fujita Inc.

c. The content of the contract:

This contract provides as follows.

The term of the contract or the condition of contract renewal are not provided in the agreement.

1. Den Fujita Inc. projects the unit sales of the next month and submits to McDonald’s Japan by 25th of every month based on the price and amount of imports.
2. The amount of commission Den Fujita Inc. charges is 2.5% of import transactions.
3. Requests for payment from Den Fujita Inc. to Fuji Echo are issued by the end of each month, and payments are made on 25th of the next month.

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(2000 Financial Report of McDonald’s Japan)

**Chart 14: Stock Price of McDonald's Japan**