

# Daily Herald

Big Picture . Local Focus

## Moving on down the line

### Area suppliers follow McDonald's to the Far East

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BEIJING — When people eat a McDonald's hamburger or french fry, understand that McDonald's did not make that food. There is no McHerd of cows or McPickle factory.

A sophisticated web of outside, mostly privately-owned suppliers stock the restaurants from the fish to the Happy Meal toys.

Because the McDonald's fast-food chain began in Des Plaines in 1955, many of those suppliers at work around the world still call the suburbs home.

When setting up a supply chain in a country that never had American-style fast-food restaurants, McDonald's executives rely on many of those same suppliers to replicate there the experience they created here.

In China, that means Aurora-based OSI Group handles beef production.

Chicago-based East Balt Bakery makes its buns, even being sure ones for the Big Mac get the correct number of sesame seeds placed in the correct "constellation."

Downers Grove-based Havi Group ships and stores food, also making much of its packaging. Havi refrigerated trucks ship and collect frozen and cooled products at its huge refrigerated distribution center in suburban Beijing.

Northfield-based Kraft Foods has an Oreo cookie crumb factor in Suzhou, just north of Shanghai. The crumbs are used in soft-serve ice cream McFlurries.

Such is the importance McDonald's attaches to setting up a high quality, reliable troop of suppliers when going into a new market as it did in Hong Kong in the 1970s and in mainland China in the 1980s.

McDonald's took years to set up its supply lines before opening its first restaurant in China in 1990. Even so, in the beginning, it imported almost all its food, much of it frozen or



COURTESY OF MCDONALD'S

**Chicago-based East Balt Bakery's facility in the suburbs of Beijing makes Big Mac buns that are indistinguishable from buns served in suburban Chicago restaurants.**

refrigerated. But the goal, as in other markets, was to have items produced locally, shortening the supply chain.

Modern farming methods had to be taught in the countryside. Production plants had to be built. Refrigerated trucks had to be acquired.

Where once grew traditional Chinese rice, these days there are fields of potatoes, American-style sweet corn, lettuce and cucumbers.

The average farm in China is still about a fifth of an acre and a "herd" of cows is still five or less. But because of the needs of McDonald's, British and Australian corn-fed cows now roam the wide-open ranges of Inner Mongolia.

More than 90 percent of the food served in China is now made there, much of it with the assistance of Chicago-area suppliers.

The Chinese still can't make flour to McDonald's standards, so U.S. flour is imported. Sesame seeds, onions, pickles and orange juice also are imported.

With operations in more than 100 countries, McDonald's worldwide network has head-turning implications.

Already snow peas in its Chicago-area Asian Salads and some lettuce is being imported from China. As are almost all of the toys for Happy Meals.

And one day that McChicken sandwich at the Gurnee McDonald's may be served with a Chinese chicken.

"China is going to be a strategic source of chicken for the world," predicted Al Bryant, vice president of McDonald's supply chain in Asia, Pacifica, Middle East and Africa.

Already, chicken and apple pies flow from McDonald's suppliers in China to Singapore and Japanese markets. Havi packaging goes from China to Europe.

Currently, McDonald's supply chain is challenged by the sheer size of China, the fourth largest country in the world. It's a bit smaller than the United States and has a lot of mountains and deserts to cross.

"The hills are high and the emperor is far away" goes the old Chinese proverb.

China's headlong rush toward economic development has helped. McDonald's executives talk about products once taking days to get to their processing plants but now arriving in hours over newly paved roads.

However, some products still have to make long journeys. For example, the trek for ketchup to some restaurants is nearly 2,500 miles.

Many companies looking to do business in China comment upon the length of time it takes to set up operations and the difficulty of overcoming the many obstacles that crop up.

"The attraction in the beginning is the huge marketplace with 1.3 billion people," said Paul O'Connor, president of World Business Chicago, a not-for-profit organization promoting international trade. "It can be an exasperating process ... Without bribes it can be even more

difficult. For a company like McDonald's (which doesn't bribe) the pressure must have been tremendous."

Indeed, as many as 80 percent of the foreign businesses in China "have never made a profit," according to Usha C. V. Haley, director of the Global Business Center at the University of New Haven and author of "The Chinese Tao of Business."

Even McDonald's lost some money as late as last year and it is unclear if its suppliers are yet in the black.

Although McDonald's in China is predominately an urban phenomenon, with restaurants only in big cities, its suppliers are often in rural China.

And rural China is undergoing a mammoth transformation, unprecedented in history.

Already, along the coast between Shanghai and Beijing, an estimated 150 million people who once were farmers reside in the growing urban area. Of the 800 million people in China's countryside, an estimated 300 million are headed to its cities, according to estimates cited by Ted Fishman, Chicago-based author of "China Inc."

The reason for the mass migration is economic. Some farm labor is paid as little as 25 cents an hour, Fishman said.

The difficulty of what McDonald's suppliers faced building a network in China has McDonald's supply chain guru Bryant in awe.

Many of those suppliers owe their existence to McDonald's and are proud that customers don't realize that the menu is entirely stocked by them — sans McHerd, sans McPickle, sans anything made by McDonald's.

"Our suppliers have allowed us to keep our same standards all around the world," Bryant said. "And many are doing the work on handshake agreements."

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