

McDONALD'S ECONOMIC IMPACT WITH REBUILDING AND REIMAGING ITS RESTAURANTS IN SOUTH LOS ANGELES, CALIFORNIA

A Report to McDonald's Corporation

**Study conducted by Dennis H. Tootelian, Ph.D.
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McDONALD'S AS A MEMBER OF THE COMMUNITY

McDonald's Current Presence in the South Los Angeles Area

The McDonald's Corporation and its restaurant owner/operators represent a major economic presence in their communities. A total of 24 McDonald's restaurants currently operate in the South Los Angeles (South L.A.) area. Combined, these 24 restaurants employ about 1,180 people, many of whom are in management and career support staff positions.

The average McDonald's restaurant in South L.A. generated nearly \$2.5 million in sales in 2010, or more than \$6,750 every day of the year. This means that in 2010, on the average, every resident of the South L.A. area spent about \$84.50 in a McDonald's.

The economic implications of McDonald's presence in the South L.A. area are that the restaurants generate: 1) jobs directly by their own hiring, 2) jobs indirectly because of their spending within the community results in additional economic activity, 3) revenue opportunities for other businesses located within the area due to McDonald's spending, and 4) tax dollars that benefit both the South L.A. area and the State.

McDonald's Plans for Rebuilding and Reimaging its Restaurants in the Community

Over the next five years, McDonald's plans to totally rebuild 6 restaurants (25.0%) and reimage (renovate) 8 other restaurants (33.0%). As a result, significant improvements will be made to 14 of its 24 restaurants (58.3%).

The economic impact of this program can be examined in two parts. The first is the result of the increased spending for construction in the year in which the rebuilding and/or renovation takes place. This represents a one-time economic benefit to the community. The second part concerns the on-going changes in sales patterns, and

thereby expenditures to serve the growth in revenues, that result from the improvements made in the restaurants.

Economic Impact of Rebuilding and Reimaging McDonald's Restaurants

Currently, McDonald's estimates the cost to rebuild a restaurant to be \$2.4 million, and the average cost to renovate a restaurant to be \$800,000. The total cost of this program will be \$20.8 million, with \$14.4 million for rebuilding and \$6.4 million for renovating.

Economic Impact of Rebuilding Six Restaurants

It is assumed that there will be some out-migration of dollars spent to rebuild 6 McDonald's restaurants—not all of the money will be spent within the immediate South L.A. area. For this analysis, it was conservatively estimated that the spending within the area to rebuild a restaurant would be about \$410,280, totaling nearly \$2.5 million for the six restaurants. *To the extent that more spending can be made within the immediate South L.A. area, the economic impact will be greater than what is reported here. Additionally, the impact will be greater than reported here for the broader Los Angeles area as there will be less out-migration of dollar expenditures when the larger geographic area is considered. In all likelihood, the impact will be at least double and perhaps triple the amounts shown when considering Los Angeles County.*

According to McDonald's it takes about 120 days to rebuild a restaurant. While all or most employees will be shifted to other locations during this time, it was assumed that there would be lost sales and resulting lost expenditures during the reconstruction period. Most likely, much of the sales would be shifted to other McDonald's restaurants within the South L.A. area, but to be most conservative, it was assumed that the sales and expenditures during this time would not be recovered.

Therefore, the net spending within the South L.A. area in the year in which the 6 restaurants are rebuilt would be more than \$1.0 million, or nearly \$168,135 per restaurant. This is the result of subtracting the lost sales and expenditures in the community from the conservatively estimated spending to rebuild the restaurants.

The multiplier effects of McDonald's employment and overall expenditures to rebuild 6 restaurants create about 22 jobs and more than \$1.8 million in local area spending. Based on how these funds are typically recycled in the community, this results in the following additional expenditures within the local economy:

	<u>Total</u>	<u>Per Restaurant</u>
• Housing:	\$570,285	\$95,050
• Groceries:	\$238,975	\$39,830
• Automobiles and gasoline:	\$253,460	\$42,240
• Apparel:	\$ 81,470	\$13,580
• Entertainment:	\$ 81,470	\$13,580
• Health care:	\$ 52,500	\$ 8,750

	<u>Total</u>	<u>Per Restaurant</u>
• Insurance/pensions:	\$150,270	\$25,050
• Taxes:	\$246,220	\$41,040
• Other:	\$135,780	\$22,630

Economic Impact of Reimaging Eight Restaurants

It also is assumed that there will be some out-migration of dollars spent to renovate 8 McDonald's restaurants—not all of the money will be spent within the immediate South L.A. area. For this analysis, it was conservatively estimated that the spending within the area to renovate a restaurant would be about \$136,760, totaling nearly \$1.1 million for the 8 restaurants. *To the extent that more spending can be made within the immediate South L.A. area, the economic impact will be greater than what is reported here. Additionally, the impact will be greater than reported here for the broader Los Angeles area as there will be less out-migration of dollar expenditures when the larger geographic area is considered. In all likelihood, the impact will be at least double and perhaps triple the amounts shown when considering Los Angeles County.*

According to McDonald's, sales at an average restaurant will be lost for about 1.5 days during the renovation process. While all or most of these sale and resulting expenditures will be shifted to other locations within the South L.A. area during this very short time, it was assumed that the sales and resulting expenditures are not recovered.

Therefore, the net spending within the South L.A. area in the year in which the 8 restaurants are renovated would be more than \$1.0 million, or nearly \$133,735 per restaurant. This is the result of subtracting the lost sales and expenditures in the community from the conservatively estimated spending to renovate the restaurants.

The multiplier effects of McDonald's employment and overall expenditures to renovate 8 restaurants create about 23 jobs and more than \$1.9 million in spending. Based on how these funds are typically recycled in the community, this results in the following additional expenditures within the local economy:

	<u>Total</u>	<u>Per Restaurant</u>
• Housing:	\$604,800	\$75,600
• Groceries:	\$253,440	\$31,680
• Automobiles and gasoline:	\$268,800	\$33,600
• Apparel:	\$ 86,400	\$10,800
• Entertainment:	\$ 86,400	\$10,800
• Health care:	\$ 55,680	\$ 6,960
• Insurance/pensions:	\$159,360	\$19,920
• Taxes:	\$261,120	\$32,640
• Other:	\$144,000	\$18,000

Total Economic Impact of Rebuilding and Reimaging Fourteen Restaurants

Overall, it was conservatively estimated that the total net spending, reduced for lost sales during construction periods, within the area to rebuild and renovate the fourteen restaurants would be nearly \$2.1 million. *To the extent that more spending can be made within the immediate South L.A. area, the economic impact will be greater than what is reported here. Additionally, the impact will be greater than reported here for the broader Los Angeles area as there will be less out-migration of dollar expenditures when the larger geographic area is considered. In all likelihood, the impact will be double or triple the amounts shown when considering Los Angeles County.*

The multiplier effects of McDonald's employment and overall expenditures to rebuild 6 restaurants and renovate 8 others create about 45 jobs and more than \$3.7 million in spending. Based on how these funds are typically recycled in the community, this results in the following additional expenditures within the local economy:

	<u>Total</u>	<u>Average for 14 Restaurants</u>
• Housing:	\$1,175,080	\$83,935
• Groceries:	\$ 492,415	\$35,175
• Automobiles and gasoline:	\$ 522,260	\$37,300
• Apparel:	\$ 167,870	\$11,990
• Entertainment:	\$ 167,870	\$11,990
• Health care:	\$ 108,180	\$ 7,725
• Insurance/pensions:	\$ 309,625	\$22,115
• Taxes:	\$ 507,340	\$36,240
• Other:	\$ 279,780	\$19,985

McDonald's as an On-Going Member of the Community

According to McDonald's, an average restaurant that has been totally rebuilt will generate sales 20% higher than before, and an average restaurant that has been renovated (reimaged) will generate sales 7.5% higher than before. As a result of these increases in revenues, McDonald's will spend more in the South L.A. area to serve that demand.

Assuming that 6 restaurants are rebuilt and 8 others are renovated, the economic impacts of the 24 restaurants on an on-going basis are presented below.

McDonald's as an Employer. After the reconstruction, McDonald's restaurants will employ nearly 1,345 people in management, support staff, and operations staff positions. Reflecting this large employment base, McDonald's will spend nearly \$14.8 million on wages. This equates to more than \$40,480 every day of the year.

Providing its employees with sick leave, vacations, etc., McDonald's will spend nearly \$6.4 million on benefits for its employees after reconstruction, which averages nearly

\$17,500 per day. The restaurants will pay more than \$1.4 million in payroll taxes, or nearly \$3,950 each day.

When the multiplier effects of its employment and expenditures for wages and benefits *alone* are factored into the impact on the South L.A. area, McDonald's presence in the area will create more than 3,490 jobs and nearly \$61.4 million in spending.

On an individual restaurant basis, the average McDonald's will employ nearly 56 people, and spend nearly \$615,660 a year on wages and \$266,100 on benefits. Combined, wages and benefits will consume more than 32.8% of the average McDonald's restaurant's sales. Payroll taxes will take nearly 2.3% of revenues. The multiplier effects of employment and spending in the community of the average McDonald's restaurant will create nearly 145.5 jobs and generate nearly \$2.6 million in spending just from wages and benefits.

As a Provider of Career Positions. McDonald's restaurants provide opportunities for people seeking careers in management and support staff positions. Nearly 130 people, or 9.5% of its employees, will be employed in management and support staff positions. It is assumed that the growth in number of employees to meet increases in demand will occur at the crew level, while changes for career employees will be in the form of slightly higher compensation. McDonald's also prides itself on offering career opportunities to younger people since nearly 70.6% of the restaurant managers will be 35 years of age or younger.

Reflecting the growth in career and non-career positions, McDonald's restaurants will spend more than \$9.3 million on salaries and benefits for its career employees after reconstruction. This equates to more than \$25,540 every day of the year, and account for nearly 20.3% of restaurant revenues. Payroll taxes for career positions will cost more than \$909,510, or more than \$2,490 per day.

When the multiplier effects of its employment and expenditures for salaries and benefits for career employees *alone* are factored into the impact on the South L.A. area, McDonald's presence in the area just in terms of career employees will create more than 330 jobs and nearly \$37.9 million in spending.

On an individual restaurant basis, the average McDonald's after construction will continue to have more than 5.3 people in career positions, and will spend more than \$388,450 on manager and support staff salaries and more than \$155,380 on benefits. Combined, wages and benefits will consume nearly 20.3% of the average McDonald's restaurant's sales. Payroll taxes will take 1.5% of revenues.

McDonald's as an Employer of Women. McDonald's restaurants are a major employer of women in both career and non-career positions. Assuming current patterns continue after reconstruction, women will comprise more than 66.2% of those employed by McDonald's, representing a labor force of nearly 885 people. Women will occupy about 66.2% of the operations staff positions, 52.1% of the support staff positions, and 68.2% of the restaurant management positions. Overall, nearly 80 women will occupy about 61.6% of the career positions in McDonald's.

McDonald's restaurants will spend nearly \$9.8 million, or about \$26,815 per day, on salaries and wages for their female employees in operations and restaurant management positions. These expenses will consume nearly 15.2% of McDonald's revenues. Additionally, benefits for women will amount to nearly \$2.2 million. This equates to nearly \$5,935 each day. Payroll taxes for women will cost nearly \$954,855, or more than \$2,615 per day.

When the multiplier effects of its employment of women and expenditures for their salaries, wages and benefits *alone* are factored into the impact on the South L.A. area, McDonald's presence in the South L.A. area will generate nearly 2,300 jobs and nearly \$34.7 million in spending.

On an individual restaurant basis, the average McDonald's after reconstruction will employ nearly 56 people, of whom 36.8 will be women. These restaurants will spend nearly \$407,820 a year on wages and salaries for women in operations and restaurant management positions, and another \$90,235 for benefits. Combined, wages and benefits for women employees will consume more than 18.5% of the average McDonald's restaurant's sales. Payroll taxes will take nearly 1.5% of revenues.

The multiplier effects of employment and spending in the South L.A. area of women working in the typical McDonald's restaurant will create about 95.7 jobs and generate more than \$1.4 million in spending just from salaries, wages, and benefits.

Length Of Employment With McDonald's. Employees of McDonald's restaurants tend to stay with the organization for periods of time at least comparable to national averages for all workers. Reflecting McDonald's desires to hire people of all ages, 71.2% of the operations staff will be 35 years of age or younger, 63.6% of the support staff will be 36 to 55 years of age, and 70.6% of the restaurant managers will be 35 years of age or younger. *This assumes that current patterns of employment remain as they were in 2010.*

The average length of employment of a person in an operations staff position at McDonald's is more than 2.3 years, which is about comparable in length to the national average for workers in the younger age category. Managers of McDonald's restaurants have an average length of employment of nearly 7.7 years, which is about 2.5 times the national average given the age categories of its employees.

Overall, the average McDonald's employee, irrespective of position, works for the restaurants for more than 3.1 years, which is about 3.0% longer than the national average for all workers in these approximately comparable age categories.

McDonald's Contributions to the South L.A. Area. McDonald's restaurants contribute significantly to the South L.A. area by returning much of the revenues they generate to the local economy. After the reconstruction, McDonald's restaurants collectively will spend more than \$19.1 million dollars in South L.A.'s communities, or nearly \$52,455 per day. These restaurants will return nearly 30 cents of every dollar they earn to the

South L.A. area alone. Viewed differently, based on population statistics, McDonald's will spend about \$27.35 per resident of the South L.A. area based on current population estimates.

The single largest expense category for McDonald's is the salaries and wages of its employees. After reconstruction, the restaurants collectively will spend nearly \$14.8 million on wages for operating staff and restaurant managers, or more than \$40,480 per day. They will spend nearly \$6.4 million, or nearly \$17,500 per day, for benefits such as sick leave, vacations, etc. Combined, McDonald's will spend nearly \$21.2 million on employee wages and benefits in the South L.A. area.

In addition to operating expenses, McDonald's restaurants will have a substantial investment in their physical facilities. With the average cost of construction being about \$2.4 million, McDonald's restaurants will have a combined investment of about \$57.6 million in the South L.A. area, not counting the value of the land. In addition, it will have spent \$20.8 million for rebuilding 6 restaurants and renovating 8 others during the five years of reconstruction.

When the multiplier effects of McDonald's employment and overall expenditures, excluding the investment in their physical facilities, are factored into the impact on the South L.A. area, McDonald's presence in the area on an on-going basis will create more than 3,490 jobs and more than \$55.5 million in spending. Based on how these funds are typically recycled in the community, this will result in the following additional expenditures within the local economy:

• Housing:	\$17.5 million
• Groceries:	\$ 7.3 million
• Automobiles and gasoline:	\$ 7.8 million
• Apparel:	\$ 2.5 million
• Entertainment:	\$ 2.5 million
• Health care:	\$ 1.6 million
• Insurance/pensions:	\$ 4.6 million
• Taxes:	\$ 7.6 million
• Other:	\$ 4.2 million

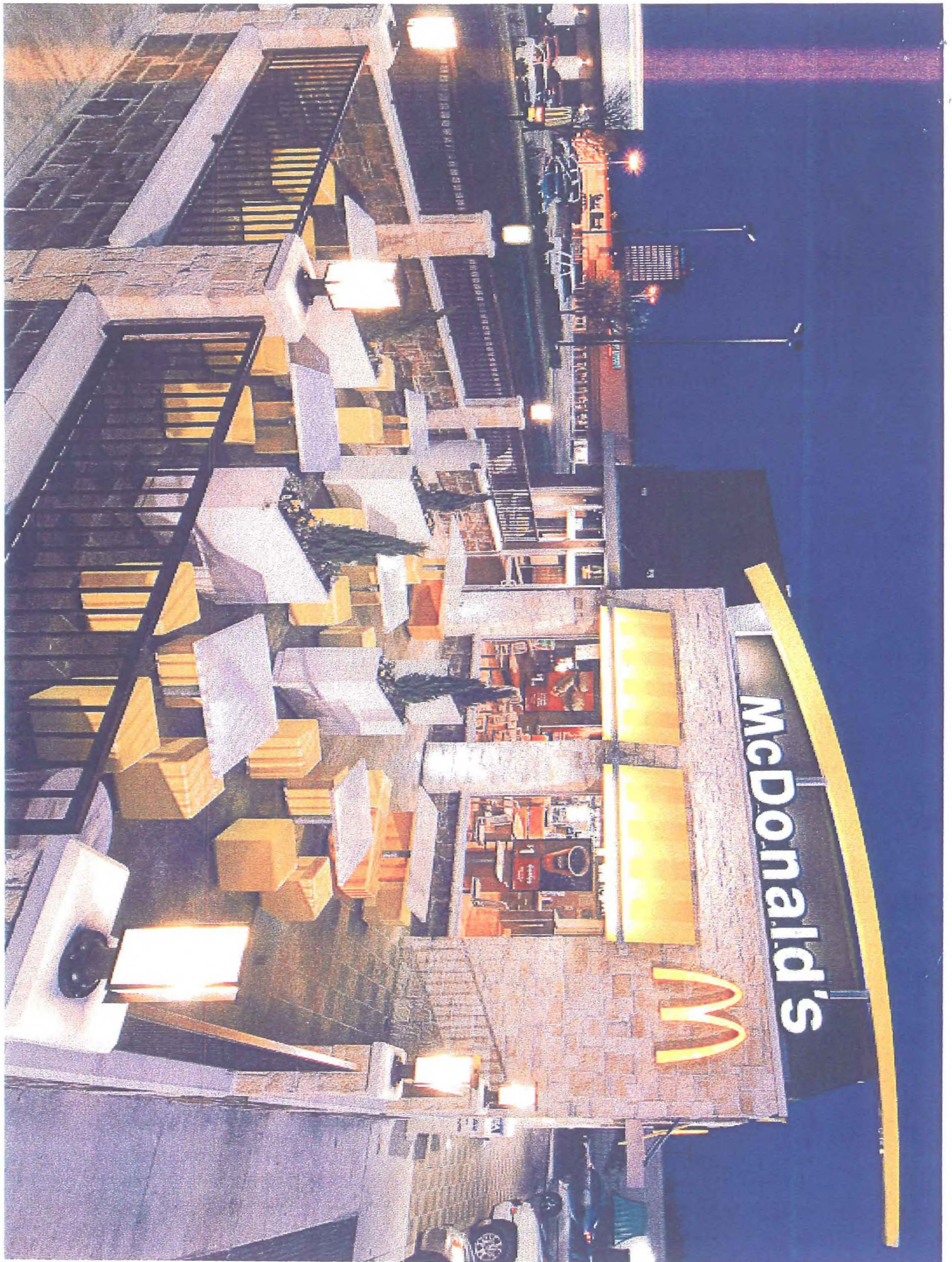
On an individual restaurant basis, the average McDonald's after reconstruction will employ nearly 56 people and spend about \$797,735 in the South L.A. area, or more than \$2,185 per day. Wages and benefits for operating staff and restaurant managers will account for the major portion of the average restaurant's expenditures in the South L.A. area. Wages will average nearly \$615,660 and benefits will add another \$266,100, bringing the total to nearly \$881,755 a year in these expense categories alone.

The multiplier effects of employment and spending in the community of the average McDonald's restaurant will create nearly 145.5 jobs and generate more than \$2.3 million in spending. Typically, these funds will be recycled in the following manner:

- Housing: \$728,730
- Groceries: \$305,375
- Automobiles and gasoline: \$323,880
- Apparel: \$104,100
- Entertainment: \$104,100
- Health care: \$ 67,090
- Insurance/pensions: \$192,015
- Taxes: \$314,625
- Other: \$173,510

McDonald's as a Taxpayer. After reconstruction, McDonald's restaurants in South L.A. will generate more than \$64.4 million in revenues, or nearly \$176,565 every day of the year. They will spend more than 3.1% of their revenues, and more than 3.4% of their total expenses, for business taxes, licenses, and payroll taxes. Overall, McDonald's will spend more than \$2.0 million on these taxes, or nearly \$5,530 per day. These expenditures do not include state and federal income taxes.

On an individual restaurant basis, the average McDonald's after reconstruction will generate nearly \$2.7 million in revenues and employ nearly 56 people. It will spend nearly \$24,030 on business taxes and licenses, and more than \$60,060 on payroll taxes. Combined, these expenses will average about \$230 per day, and account for more than 3.4% of total expenses.



Southern California
Irvine, CA



BEFORE

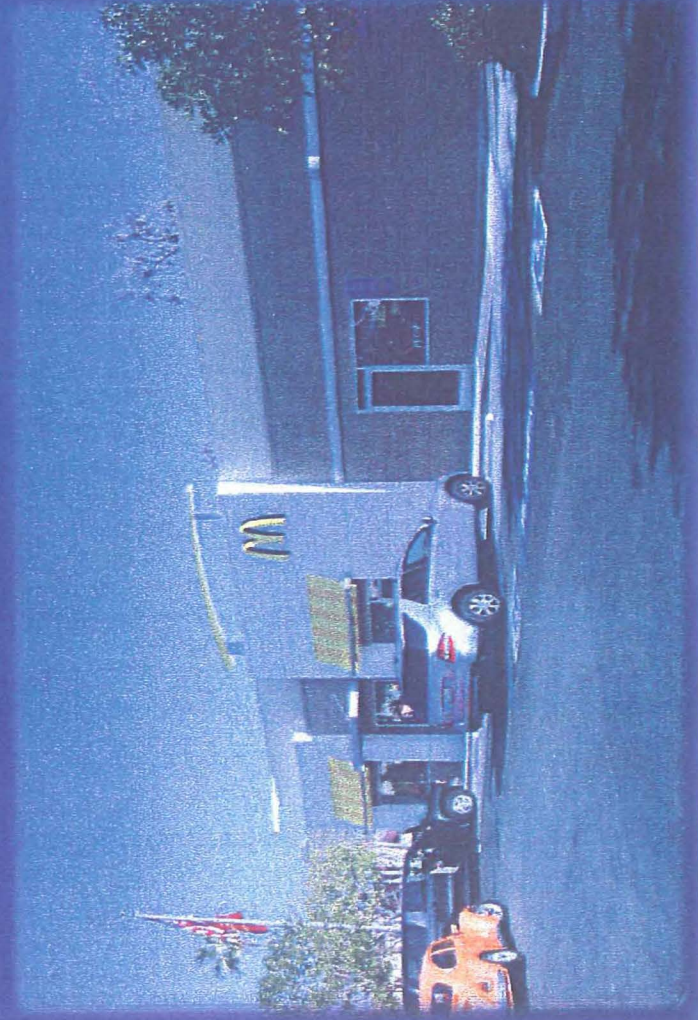


AFTER

Southern California
Irvine, CA

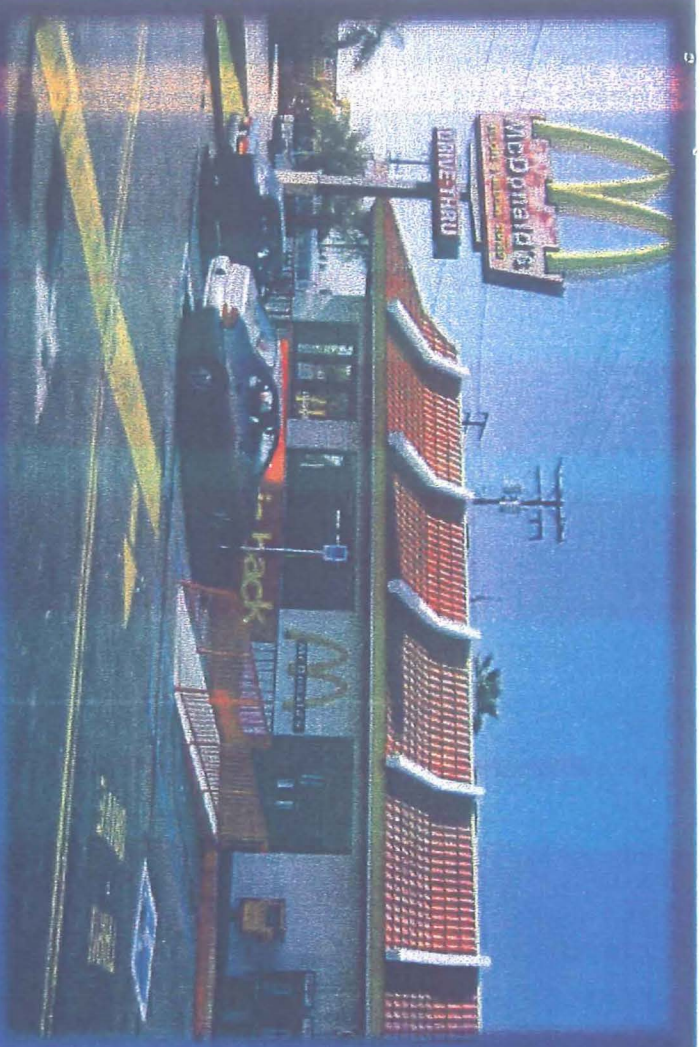


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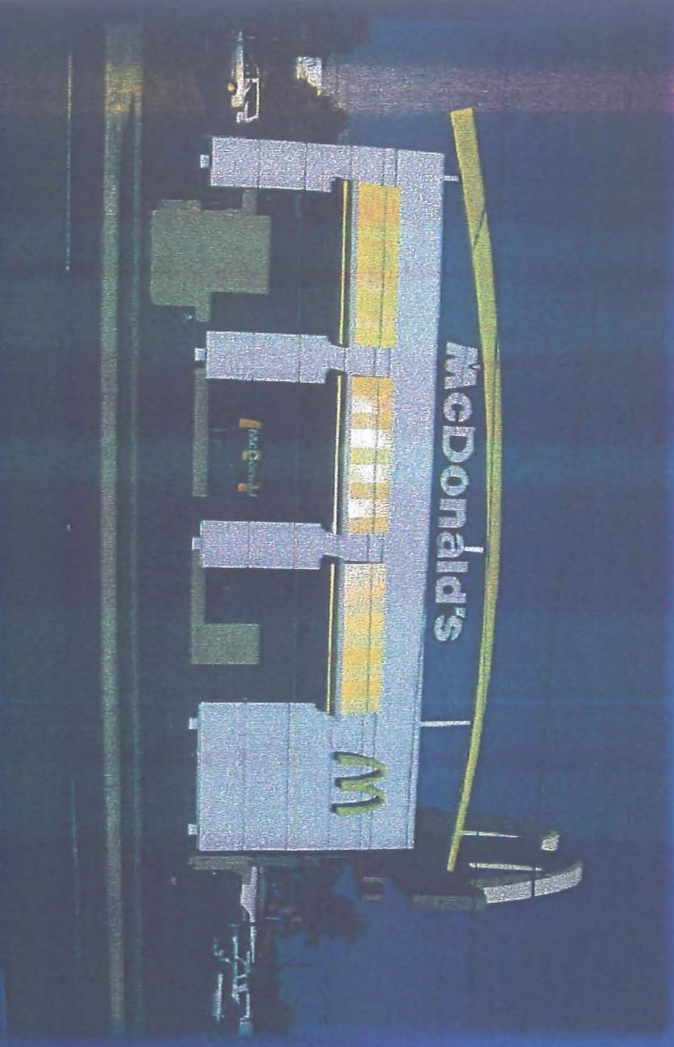


AFTER

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El Segundo, CA



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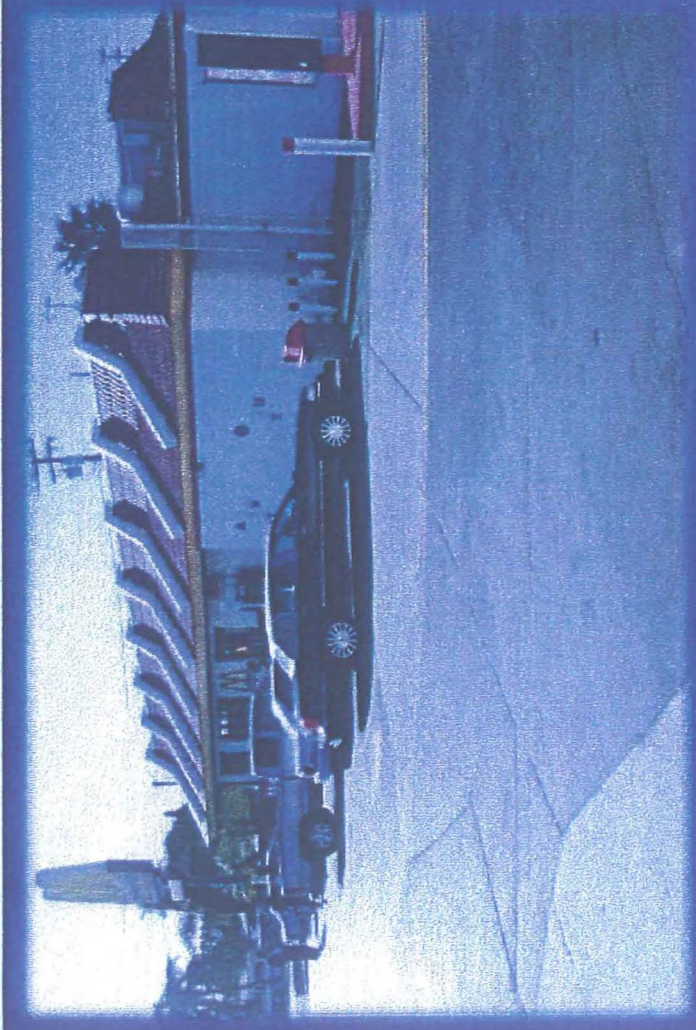


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El Segundo, CA

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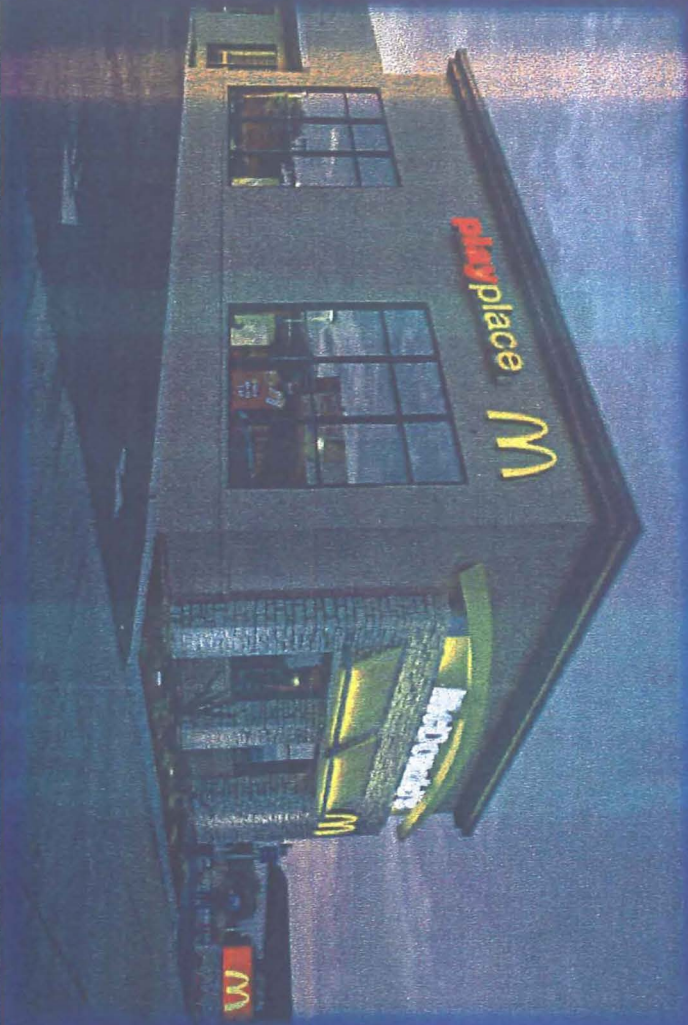
AFTER



Southern California
Lompoc, CA



BEFORE

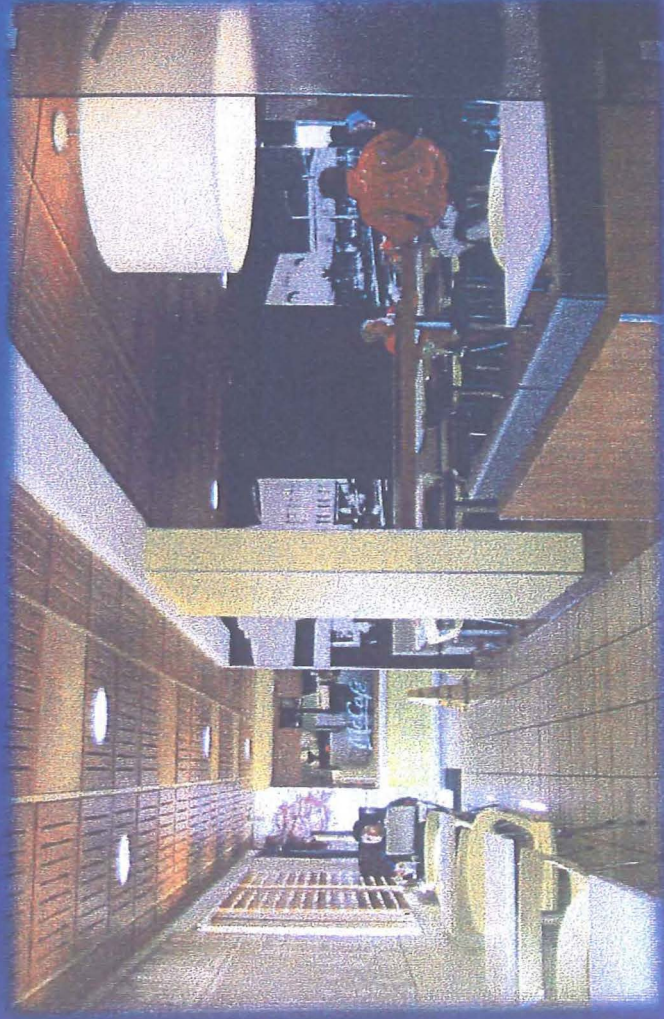


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Lompoc, CA

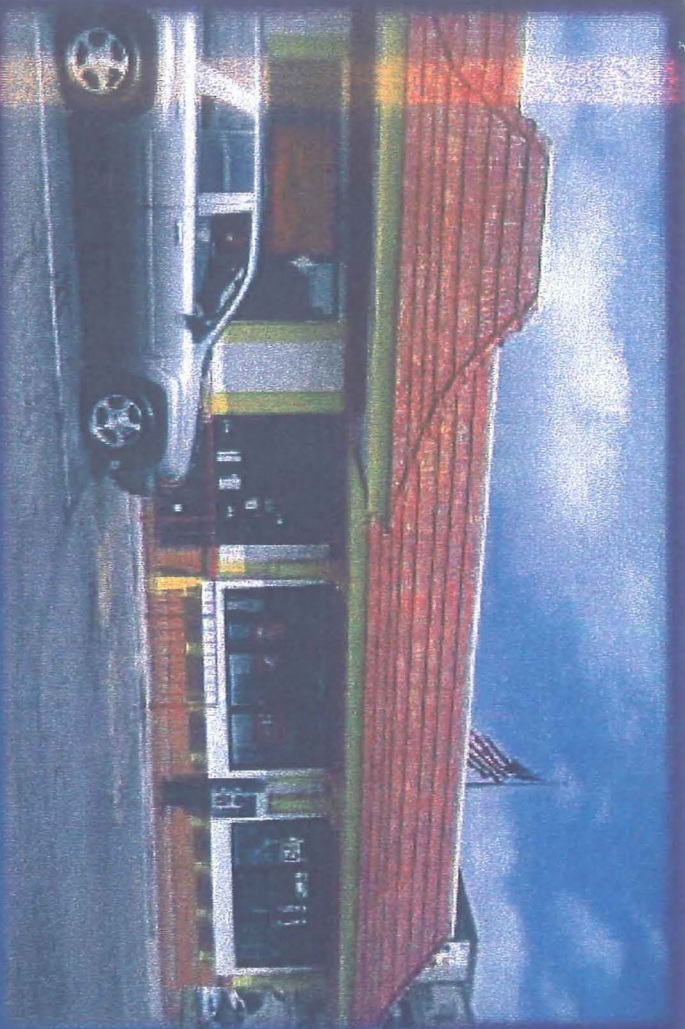


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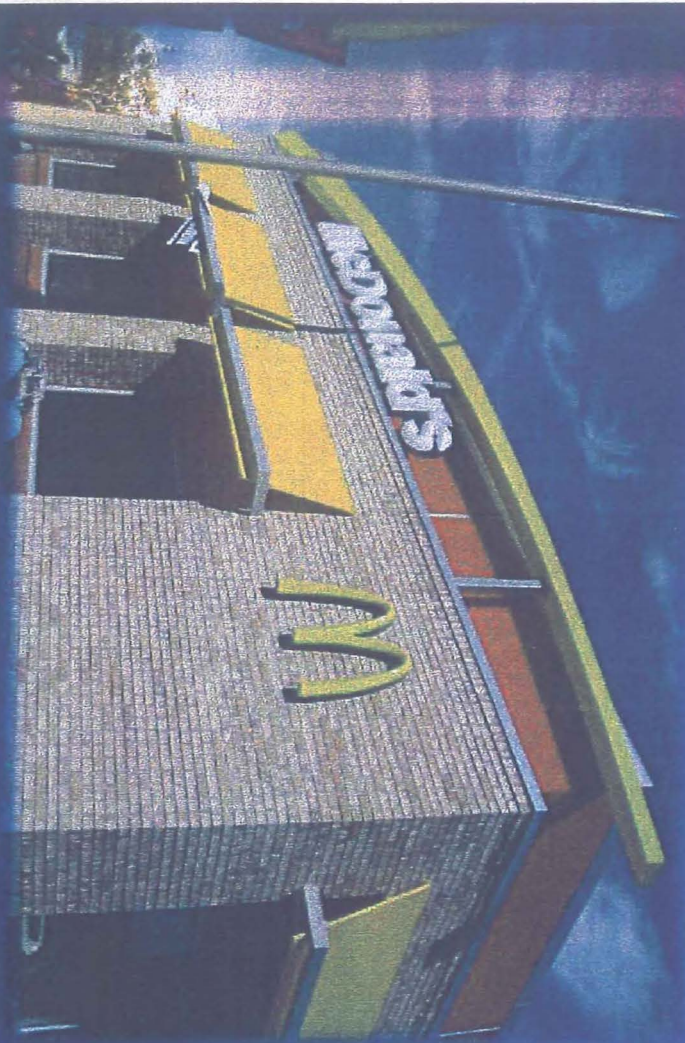


AFTER

Southern California
Fullerton, CA



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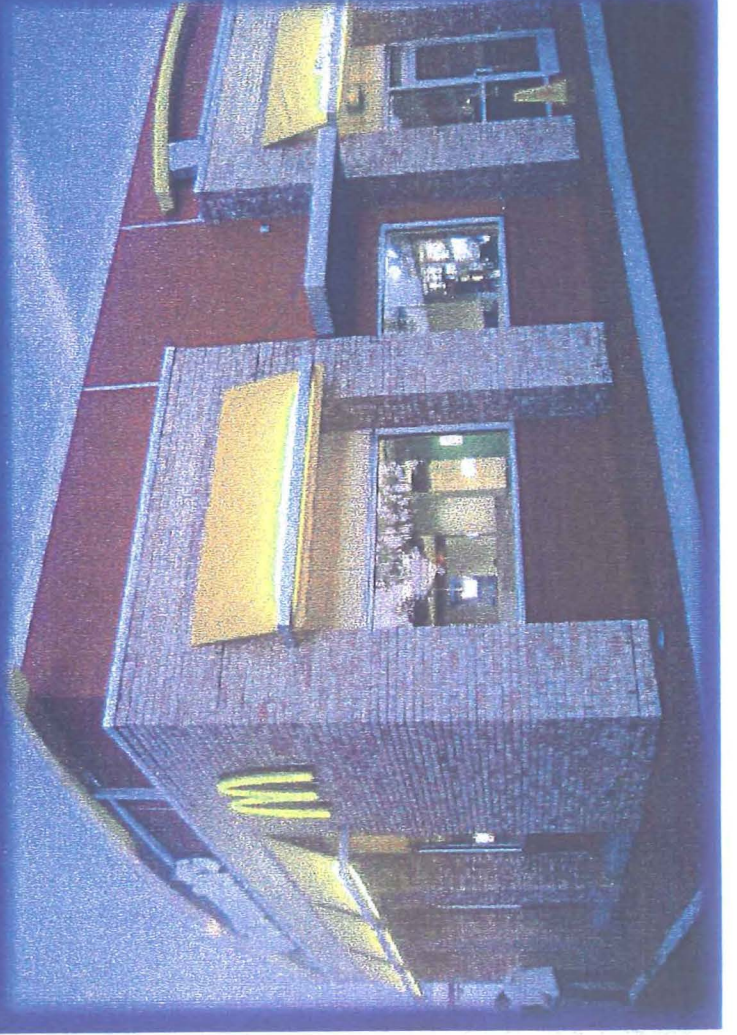
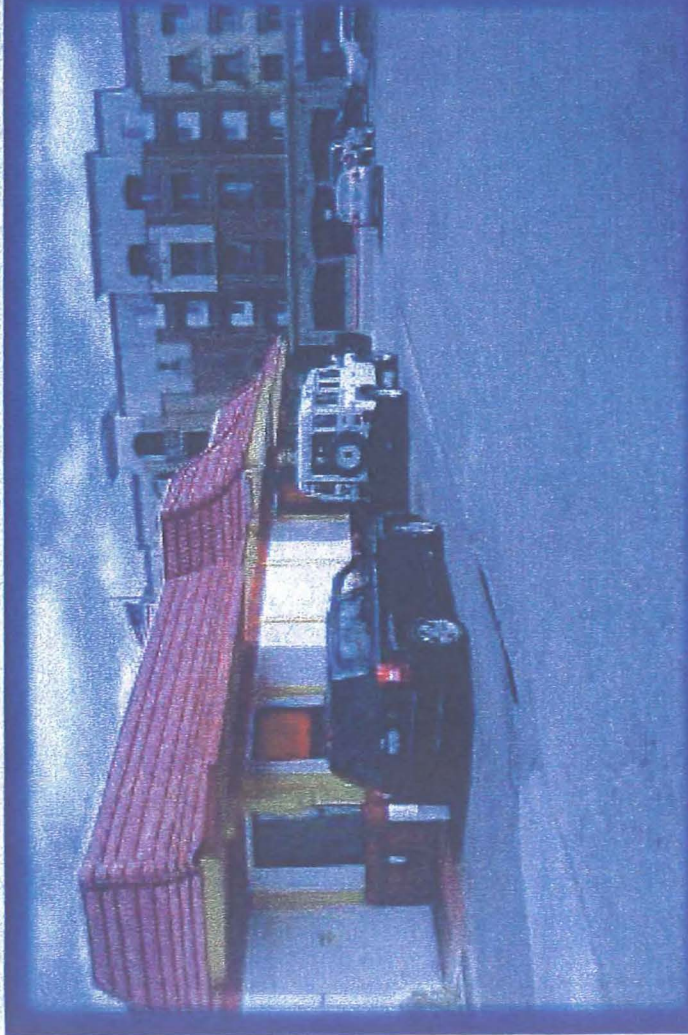


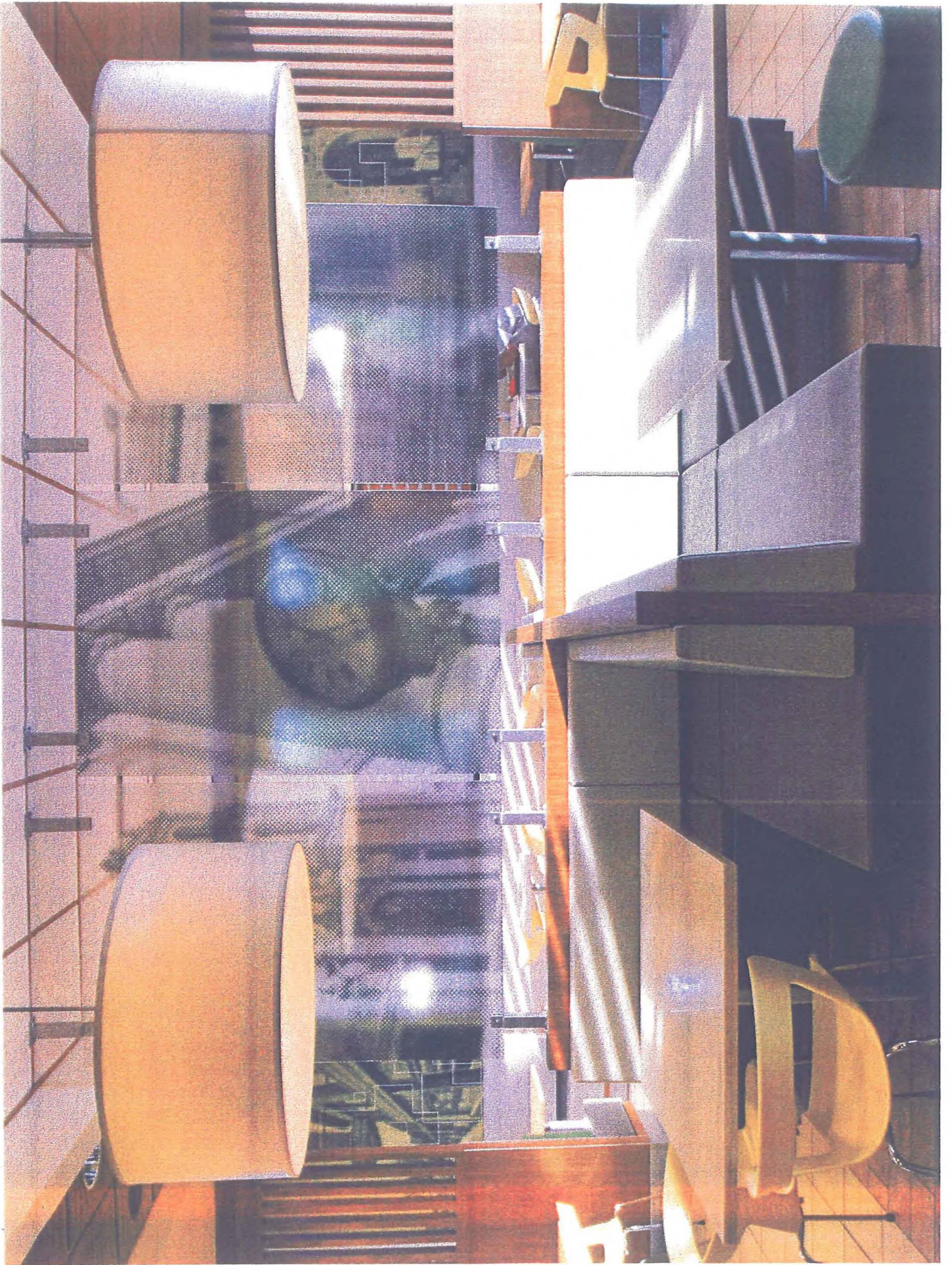
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Southern California
Fullerton, CA

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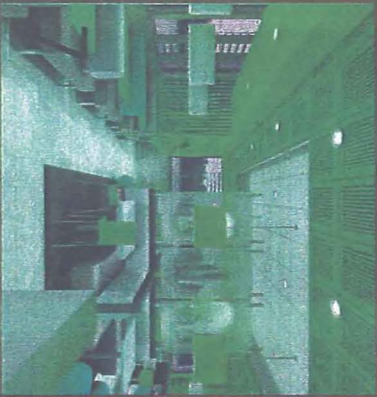
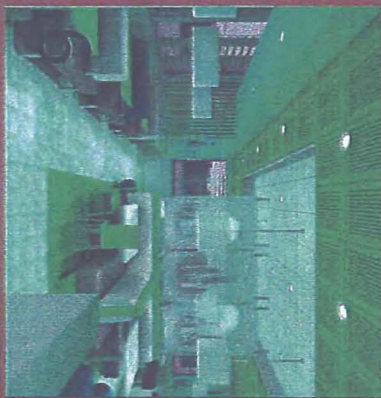
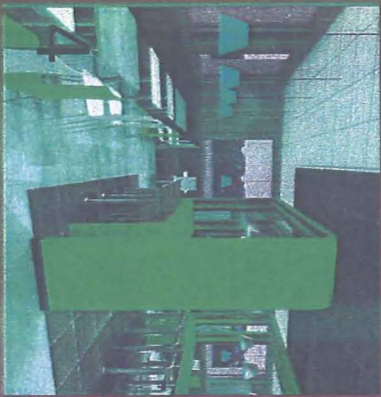
AFTER





Southern California

2011 RL



USRD PORTFOLIO

1. Fresh & Vibrant red
2. Fresh & Vibrant orange
3. natural FORM (Currently Only Through Casablanca)
4. Simply Bold
5. Young & Cheerful
6. Simply Modern yellow
7. Simply Modern red
8. Living Room

portfolio
interiors



CASABLANCA

1. Local Landscape
2. Modern Sculpture
3. *Modern Twist*

Southern California

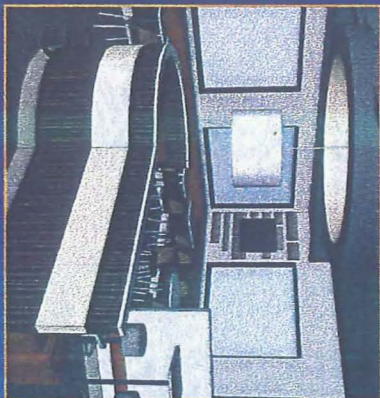
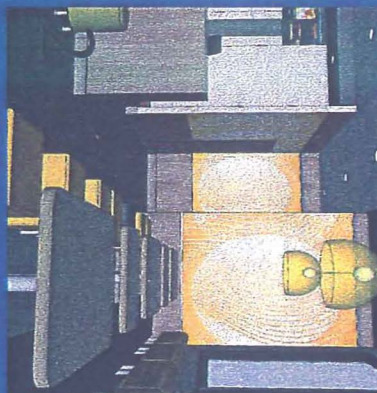
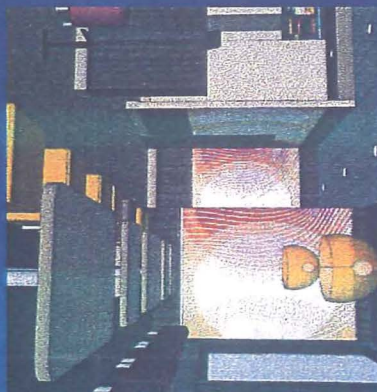


2011 RLC Plan To Win

Southern California



2011 RLC Plan To Win



CHARTER HOUSE

1. Play at Work pumpkin & berry
2. Play at Work sunburst & grass
3. Radiate

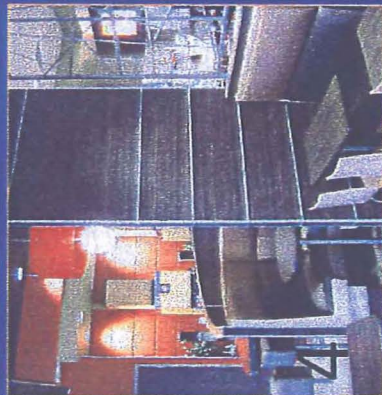
portfolio
interiors

Southern California



2011 RLC Plan To Win

portfolio
interiors



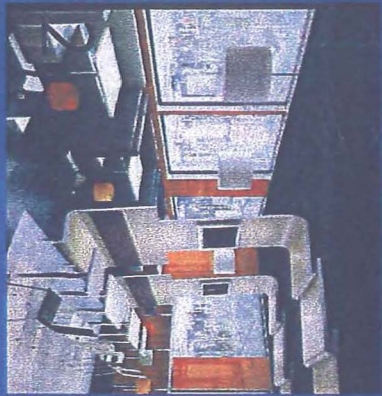
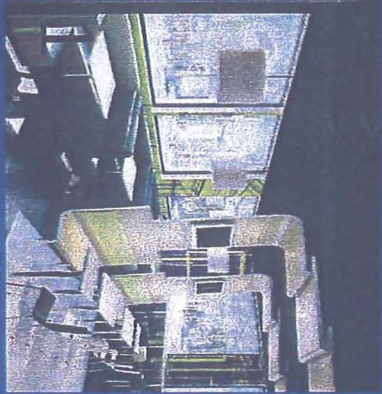
FCC

1. Vibe 1
2. Vibe 2
3. Fusion
4. Panache

Southern California



2011 RLC Plan To Win



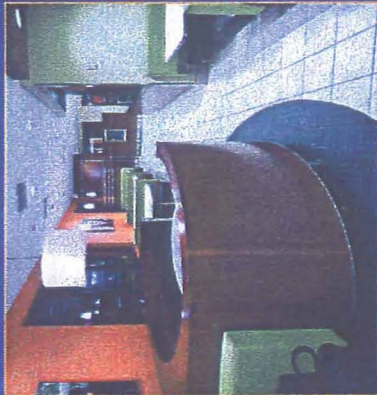
ISI

1. 2012 Today purple/lime
2. 2012 Today neutral
3. *Optika*
4. *Centric*
5. *Letra*

Southern California



2011 RLC Plan To Win



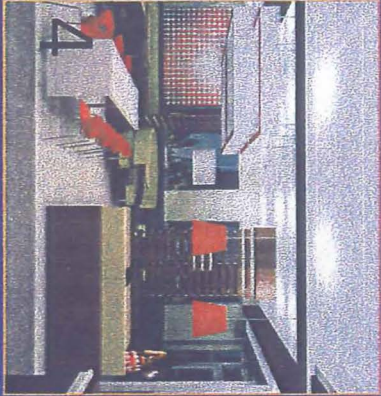
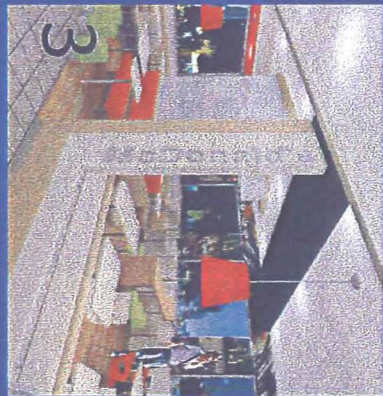
JBI

1. Pulse
2. Reflections
3. *Euphoria*
4. *Environs*

Southern California



2011 RLC Plan To Win



PARISI

1. Vibrant red
2. Vibrant orange
3. Piquant
4. Nuevo
5. Blast

SIMPLY Bold, ISI
Lake City, FL



SIMPLY MODERN, ISI

Milwaukee Wood



Euphoria-JBI
Glenpool, OK





