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Bold
Decision
to Go
Cage-Free

THAT'S
2 BILLION
EGGS A
YEAR

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Easterbrook,
CEO, McDonald's

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50
Companies
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MONEY
DOING IT

Starbucks
Nike
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Coca-Cola
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FREE

CHANGE
THE WORLD

FLOCKING TO THE FUTURE

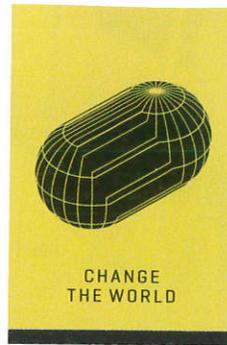
A cage-free chicken house at Herbruck's Poultry Ranch, which will soon be providing McDonald's with eggs from unconfined birds.



BIRD

To win back customers, McDonald's is changing how it raises its poultry. Will offering cage-free eggs and antibiotic-free chickens revive the fast-food giant?

BY
**BETH
KOWITT**



STEVE EASTERBROOK doesn't seem like the sloganeering type. He's cool, a rational technocrat rather than a fiery head coach. Yet Easterbrook has two slogans he regularly employs. The phrases—"Act first, talk later" and "Progress over perfection"—hint that

beneath his reserved exterior he's aiming for real change.

Easterbrook, 49, has been McDonald's CEO since March 2015, and he has clearly delivered on the first of his maxims. In a year and a half at the helm he has begun paring costs and decided to move McDonald's headquarters from the suburbs back to Chicago. More important, in the U.S. market he launched McDonald's successful All Day Breakfast, removed high-fructose corn syrup from the company's buns, ended the use of key antibiotics in the company's chickens, and embarked on a 10-year plan to liberate the birds that lay its eggs from the cages in which they have long been confined. The latter two changes are potentially transformative not only for McDonald's—where chickens and eggs now account for 50% of the items on the menu—but for the entire American food industry.

It's perhaps a surprise that it has fallen to an Englishman—educated at Watford Grammar School for Boys and St. Chad's College at Durham University, where he played cricket—to

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CAGE-FREE ON TWO CONTINENTS

Easterbrook spent nearly two decades at McDonald's U.K. unit, which successfully transitioned more than a decade ago to raising free-range hens.

"TIME IS YOUR ENEMY, BECAUSE IF YOU'RE IN TURN-AROUND, BY NATURE YOU'RE BEHIND," SAYS EASTERBROOK.

"WE'RE NOT RECKLESS. BUT I ENCOURAGE US TO FIND WAYS TO TAKE BARRIERS OUT OF THE WAY RATHER THAN PUT THEM IN THE WAY."

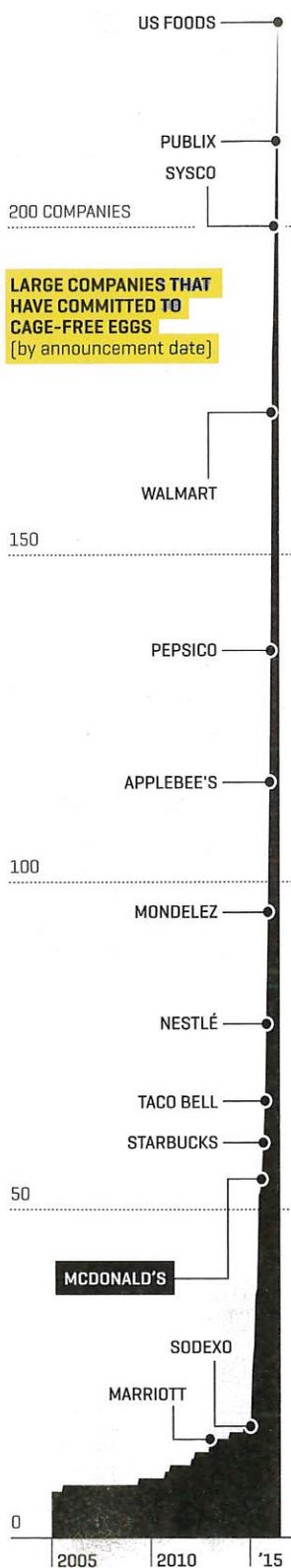
revive this most American of institutions. Sitting in a conference room at McDonald's Oak Brook, Ill., headquarters and wearing a pink dress shirt tucked neatly into blue jeans, Easterbrook is the picture of British diffidence, quick to deflect attention from himself.

Yet he conveys the urgency of his mission at a company whose revenues, profits, and same-store sales were all slumping when he took over. "Time is your enemy," Easterbrook says, "because if you're in turnaround, by nature you're behind." The CEO doesn't speak the language of Silicon Valley—he doesn't aspire to "fail fast"—but there's a similar emphasis. He's attempting to infuse risk taking into an organization with long-established, sometimes calcified, ways of doing things. "We're not reckless," Easterbrook says. "But I encourage us to find ways to take barriers out of the way rather than put them in the way."

There were plenty of barriers to the company's All Day Breakfast—and even more to switching to cage-free eggs. McDonald's was already buying 2 billion eggs a year, and it would have to increase that, just as a wave of avian flu had killed 11% of the egg-laying chickens in the country.

Easterbrook had good reasons to delay—but he had even more reasons to plow ahead. McDonald's risked losing its customers in the long run. The era of mass-produced and





SOURCE: THE HUMANE SOCIETY OF THE U.S.

processed food that it helped create and came to embody was falling out of favor fast, especially with coveted millennial consumers. “There used to be a day when industrial food was viewed as safe and therefore better,” says RBC Capital Markets analyst David Palmer. “The pendulum has swung pretty hard over to the other direction.”

And so McDonald’s is swinging in that direction. The Golden Arches are touting purity and provenance rather than solely relying on product launches—Shamrock shakes! the McRib!—to generate buzz as the company did in the past. The new approach allows McDonald’s to tap into the nation’s health zeitgeist in a way that it never has before. When “healthy” was popularly defined as “low in fat or calories,” McDonald’s tended to flail. The McLean burger bombed, and salads never made up more than 10% of sales.

Today the equation has changed. “Wellness has moved from calories, carbs, and salt,” says Darren Tristano of industry tracker Technomic, “to ‘Where did the food come from?’ The terms that are important now are ‘antibiotic- and hormone-free,’ ‘natural,’ and ‘organic.’”

McDonald’s cage-free commitment set off a stampede throughout the food industry. Nearly 200 companies have followed suit (see chart). “When they move, the industry moves,” says Paul Shapiro, vice president of farm animal protection for the Humane Society of the United States. “They have tremendous ability to do both harm and good.” For years Shapiro lobbied McDonald’s to abandon chicken cages. He was always told the same thing: There isn’t nearly enough supply in the market to meet its demand.

Now McDonald’s isn’t waiting for the supply—it’s creating it. But the seemingly simple change to cage-free eggs involves complex and expensive logistics, as we’ll see, and there’s a long, long way to go: Right now only 13 million of the company’s 2 billion U.S. eggs are cage-free. Still, to Easterbrook, it’s a key piece of his turnaround plan. “When we can bring aspirational experiences to the majority of our customers at affordable prices,” he says, “good things start to happen.”

The launch of All Day Breakfast lifted McDonald’s out of its deep rut. It has now had four straight quarters of increasing sales in restaurants open for more than a year. But the revival is far from assured. The company’s results fell below analyst expectations in its most recent quarter. And it will be hard to keep the momentum going, especially because the one-year anniversary of All Day Breakfast this fall means McDonald’s will be trying to surpass better results. If it can do that, and if it eventually manages to serve 2 billion cage-free eggs in the process, it may just change the way America farms and the way it eats yet again.

YOU MIGHT THINK that raising hens without cages is an obvious improvement over keeping them in tiny cells—how could freedom be anything but good?—but the issue is considerably more complicated. Indeed, if McDonald’s had followed its own research, its fowl might well be looking at a future of continued confinement.

In 2009, McDonald’s and agricultural giant Cargill, which obtains and manages the egg supply for the fast-food chain, became founding members of the Coalition for Sustainable Egg Supply. The coalition studied the differences among three henhouse systems. We humans might view the distinctions as akin to different classes in an airplane. First, there were the cramped traditional enclosures. They house six hens per cage, leaving each bird with 80 square inches of floor space, less than the dimensions of a standard sheet of paper. The second option is what egg folks call the “enriched colony” cage. Think of it as the “economy plus” section, or perhaps even business class. Enriched enclosures grant hens 116 square inches, leaving enough room for a perch, a nesting area, and a scratch pad. Finally, there is first class, or what’s known as the aviary, or cage-free, approach. Here the hens are allotted 144 square inches each and can roam anywhere they want inside a

complex decked out with perches, nest areas, and litter areas.

But freedom, for chickens, isn't all it's cracked up to be. Cage-free hens suffered twice the fatality rate of caged and enriched birds, according to the study. Some pecked each other to death. The air in cage-free units had higher levels of particles, ammonia, and toxic components of bacteria—all of which are worse for the human beings who work there. Free birds also required more feed. On the positive side, they had stronger bones, and they did the things that hens like to do: perch, nest, and “bathe” themselves in dust. But crucially—for a farm, anyway—the egg-per-uncaged-hen average lagged because of the elevated mortality and the birds' tendency to lay eggs on the floor. Hens from enriched cages produced the most.

When the study came out, animal welfare groups claimed it was flawed. After all, it was funded by the industry, which has an interest in keeping hens in cages. But to the authors (from three universities and the USDA's Agricultural Research Service), the study considered the system as a whole—worker health, cost, efficiency, food affordability and safety, and environmental impact—not just animal welfare, which has been the focus of most activist groups. “What is truly sustainable may not look aesthetically like what

everyone wants,” says Janice Swanson, a professor of animal behavior and welfare at Michigan State University, who was one of the scientific directors of the study.

In the end, science wasn't the deciding factor. The study intentionally excluded one component—consumer sentiment—and that turned out to be the most important of all. The phrase “enriched cage” means nothing to the average person. So if McDonald's had shifted to that option, it wouldn't get any credit from consumers. “Science was telling us enriched, but when talking with the consumer, they had no clue what enriched was,” says Hugues Labrecque, who runs the egg business that serves McDonald's at Cargill. Once that became clear, cage-free became the inevitable consensus.

As the coalition study showed, even the definition of “humane” is not clear-cut. Is it more humane for a bird to live in a cage or to experience liberty and die prematurely? And what is most humane is not always what is most productive—an especially relevant question as agriculture tries to feed a few more billion people by the middle of the century.

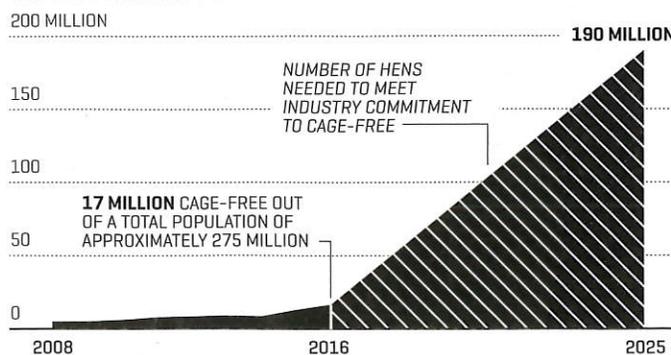
Of course, McDonald's built its empire on a system of relentless efficiency. But “in the pursuit of efficiency we introduced a lot of animal welfare problems,” says David Fraser, a professor of animal welfare at the University of British Columbia. Today some of those practices are “looked at with a kind of horror.” Consumers may not quite articulate it, but they seem to yearn for a return to animal husbandry rather than animal science.

“It's a major shift of farming,” says Cargill's Labrecque—and an even more radical shift for McDonald's. A company that always viewed efficiency as its alpha and omega is putting that second to the well-being of a hen. For McDonald's now, the chicken comes before the egg.

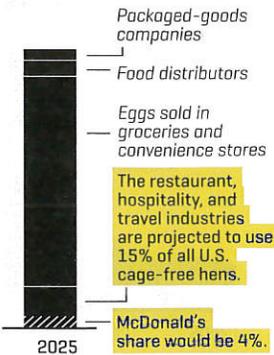


EGGS ON THE GRID
After being laid, they're moved by conveyor belt to a transfer point, pictured here, from which they go to the packaging plant. There eggs are cleaned and then either packed to be delivered whole or broken to be shipped in liquid form.

U.S. CAGE-FREE HEN POPULATION SOURCE: USDA



END USERS







GREG HERBRUCK was an egg farmer for a long time before he glanced inside his dad's 1940s Michigan State textbooks, which have titles like *Diseases and Parasites of Poultry* and *Practical Poultry Management* (fourth edition). But since he started raising cage-free hens, he consults the venerable tomes for guidance on managing problems that cages had mostly eradicated. For example, indoor pens shielded hens from soilborne diseases, such as blackhead, a liver malady caused by parasites. "We had to relearn all of the stuff my grandpa and dad forgot," says Herbruck, a third-generation egg farmer.

He and two of his brothers run Herbruck's Poultry Ranch, in Saranac, Mich., outside Grand Rapids. The family started working with McDonald's (through Cargill) in the 1990s and is now one of its key suppliers. Herbruck's Ranch sends a third of the output from its 8.5 million hens to the fast-food company.

NOT CHICKENING OUT
Greg Herbruck is a third-generation egg farmer who two decades ago concluded that raising hens without cages was the future. His company hasn't built a chicken cage since 2005.

The Herbrucks saw cage-free as the future in the 1990s and haven't built a cage since 2005. "We are kind of rebels," he says. Today 50% of their flock lives in relative freedom (vs. 10% for the industry as a whole). Because its cage-free supply was already committed to other customers, Herbruck doesn't expect to begin providing cage-free eggs to McDonald's until next year.

The transition to fully cage-free production will be lengthy. Henhouses have an average life span of 30 years, and Herbruck estimates he is going to have to remodel 26 of his facilities and rebuild another five to provide the fast-food chain with the cage-free supply it needs.

A chipper 58-year-old, Herbruck takes me around his henhouses on two recent days. We both don protective Tyvek coveralls and start with a visit to one of the caged operations. Inside it feels like the epitome of what once would have been called scientific production. It's quiet and controlled. The hens are penned in tightly, which means eggs drop directly and silently onto belts, never touched again by the bird, and are then conveyed to a packaging plant.

The 95,000 hens in here lay about 85,000 eggs per day (Herbruck says older hens effectively take the weekend off), and each bunks up with five others in a 24-by-19-inch cage. It's so clean that you would feel comfortable cracking an egg and making an omelet right here. The air smells surprisingly fresh, with less than one part ammonia per million.

We have to wait a day before entering the cage-free henhouse. Herbruck doesn't want us tracking bacteria in from another environment, the sort of thing that spreads disease. When we do step into the cage-free facility, I discover a raucously different universe, one in which I'm glad to be protected by my Tyvek coverall.

Here the chickens dominate. Hens jump back and forth between the structures right by our heads. The weaker ones hang out at the front, while the boss birds sit one level up so they can see everything. Manure drops from the upper levels, and a few eggs going by on the belt are soiled (they'll be cleaned later). When I depart, my shoes are covered in dried manure, and some has fallen into the back of my coverall and made its way down my shirt.

The henhouse's interior mostly replicates the caged operation, but there are no doors. The space per bird is almost double. At an average 3¾ pounds, the hens here are heavier



than their penned counterparts; they eat more because they move around anywhere. “That’s the difference with cage-free,” Herbruck says. “You don’t just dictate terms to the chicken.”

It took the Herbrucks 18 years and multiple trips to Germany, one of the countries leading the cage-free movement, to get their operation to where it is today. Farmers need to simulate spring to get hens to lay indoors (whether in cages or not). That requires 15 hours of light a day. In an early iteration of the cage-free structure, the hens would peck at lightbulbs to the point that the bulbs would come unscrewed and roll onto the egg belt. The solution: metal screens. Herbruck also began using red plastic curtains, rather than hard-sided boxes, to cordon off nesting areas because too many chickens would pile into a single box and accidentally smother one another.

Much of the henhouse’s design focuses on keeping the residents from defecating where they shouldn’t. Perches are positioned in such a way that the birds can’t foul their own feed. Herbruck replaced wide, flat perches with round ones so the chickens can’t walk on them. “If they walk on it, they poop on it, and they get dirty feet,” Herbruck explains. “You have to keep their feet clean.”

Herbruck has been trying to chip away at the problems highlighted by the Coalition for Sustainable Egg Supply study. He has installed flooring between the henhouse’s three levels, in part so the birds don’t break bones when they try, and inevitably fail, to fly. Ramps at 45-degree angles let them move between the levels, and the floors are heated to keep manure dry. Hens don’t always cooperate by using the nesting areas, so about 300 eggs a day out of 125,000 in here are laid on the floor. Employees walk around at night, picking up chickens that have settled on the floor and depositing them in the bunklike structures to help train them to lay their eggs in the right place.

Herbruck’s biggest problem among his uncaged flock is still premature mortality: 5% to 7%, vs. 3% to 4% for the caged (both of which are well below the nearly 12% that researchers recorded in the cage-free coalition study). In the long run he thinks he can lower the rate of early death even further. “We have to,” Herbruck says. “You can’t have the living system causing mortality. You have to manage it better.”

One of the less apparent challenges to cage-free eggs is genetics. The old approach has been in place for so many generations that breeders have selected birds for traits that perform well in caged environments. That means, among other things, an emphasis on white hens. They require less

feed than brown ones. But Herbruck says white hens have type A personalities, which make them more skittish in environments where there’s more freedom to interact with other birds. Brown hens are more relaxed but produce brown eggs, which are more likely to have a discolored speck in the yolk. Customers such as McDonald’s prefer white eggs for their consistency. So farmers and scientists have begun a breeding process to try to bring the chill personality of the brown hens to their white counterparts. That could take a few years.

Producing cage-free eggs means higher labor costs. Employees have to “serve the bird”—Herbruck’s motto—by helping weaker ones at the bottom of the pecking order. They get picked on by the boss birds or bullied, either of which can cause them to stop producing. Struggling birds suffering from everything from bone injuries to bacterial infections are rounded up by workers and put in recovery pens to recuperate.

Herbruck likes seeing his hens active, preening and doing their thing. But he says there are more sick birds because it’s a dirtier environment and the stressors can make them more susceptible to disease. I ask him if this life is better for the chickens. “You know, it’s interesting for the birds,” he says. “I wouldn’t say better. They can make decisions, if that’s important.”

T HREE DAYS into Easterbrook’s tenure as CEO of McDonald’s, the company announced that it would stop using what the industry calls “antibiotics important to human medicine” in its chicken production. (It still regularly uses one antibiotic that is not given to people.) It was a strong signal about the direction the new chief wanted to take. “I would argue that actually to lead with your food is a confidence statement, a statement of intent,” he says.

The antibiotics decision, as well as the cage-free move, had been in the works before Easterbrook took the top job. Mike Andres, the president of McDonald’s U.S. business, had been advocating the changes strongly. Not only did he find an ally in Easterbrook, but the new CEO pushed for quick action, rather than waiting for the plan to be perfected.

Under Easterbrook, McDonald’s has become more open to talking about where it’s going rather than waiting to announce it has reached an end point. “We would always in the past say we can’t talk about it until it’s 100% finished and buttoned up,” says Francesca DeBiase, McDonald’s chief supply chain and sustainability officer, “or we’re going to get some backlash about it.” As the CEO says, “The role I’ve tried to play is to give our team the confidence to put their foot on the accelerator.”

Easterbrook’s experience working for McDonald’s in the U.K. is a big part of what taught him that change is possible. He joined the company there in 1993 from what was then Price Waterhouse, where he was an accountant, and by 2006 he was running the ailing unit. Easterbrook gained renown

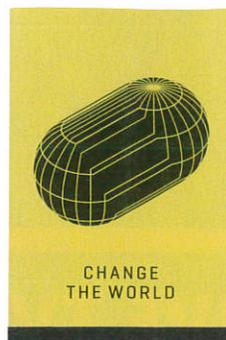
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within McDonald's for debating *Fast Food Nation* author Eric Schlosser on the BBC, emblematic of his willingness to push back against critics. Ultimately Easterbrook was credited with turning around the U.K. operation. "He's essentially doing some of these similar things to upgrade the quality and perception of the food," says Bernstein analyst Sara Senatore. "We've seen him replicate a lot of that in the U.S."

Easterbrook continued upward at McDonald's, being promoted to become president of McDonald's Europe in 2010. He left in 2011 to become CEO of U.K. chain PizzaExpress and then Wagamama, a British chain of ramen noodle bars. But two years later the board brought him back to McDonald's as global chief brand officer. When his predecessor, Don Thompson, stepped aside amid the company's struggles in 2015, Easterbrook got the job.

Easterbrook's move to the U.S. followed the advent of the clamoring for pure food, which gained momentum in Europe before America. McDonald's in the U.K., for example, has long used only eggs from free-range chickens and serves organic milk. But the movement in the U.S. is taking on a pace that many had never expected. "It stunned me two years ago how we leaped over enriched to cage-free," says Craig Morris, deputy administrator of the USDA Agricultural Marketing Service's livestock, poultry, and seed program. "It all goes back to consumer expectations of how food is produced."

Still, the switch to cage-free comes with a substantial financial burden: Constructing a cage-free henhouse costs two to three times as much as a caged



version, according to estimates by United Egg Producers. All told, the transition could cost about \$7 billion, calculates the USDA's Morris. That's a significant sum by any standard, and certainly so for the egg sellers, given that it equals the entire industry's annual retail sales.

McDonald's is working with its producers to make the switch and says it will absorb some of the cost. Executives have said the company won't raise its prices, which means the investment could eat into McDonald's margins. (Other egg buyers have given no hint that they'll subsidize the transition to cage-free. "I don't think people realize how messy it's going to be," says Peter Forsman, another egg supplier to McDonald's.)

Cage-free is by no means the final goal—at least for animal rights activists. "We ultimately would like to see laying hens in more pasture-based systems," says Rachel Dreskin, the head of the U.S. food business for Compassion in World Farming. That makes egg producers wary, especially those who invested big in enriched systems only to find they will be irrelevant in a decade. "Hopefully we can settle for a while on cage-free," says Herbruck. "I'll strongly fight soil-based as a general rule. It's a risk to the birds and the eggs." There's a reason they were brought inside into cages to begin with, he says.

Over at McDonald's, some groups are already agitating for the company to implement a pig and cattle antibiotic policy similar to its approach with poultry, and to apply those policies globally rather than just in the U.S. Ridding its other livestock of antibiotics is much more difficult than it is with poultry. McDonald's has a dedicated supply of chickens and can essentially dictate how they're treated at every stage. By contrast, the beef and pork supply chain is much harder to control because it involves way more providers and intermediaries. And they're bigger animals that live longer lives, increasing the likelihood they might need antibiotics.

"There will always be people who want more," says Easterbrook. "We want more. We've got to do so in a way that the business is responsible and still maintains our appeal and our affordability for the majority of people. That is ultimately what we stand for."

Bernstein's Senatore puts it another way: "When McDonald's gets too far ahead of consumers they get in trouble. They want to move with them." Progress seems at hand under Easterbrook. Somebody else can worry about perfection. ■