

# THE HAMBURGER PHENOMENON

by

Henry J. Pabst\*

I represent Pabst Meat Supply, a family owned business in St. Paul, Minnesota. We are an exclusive supplier of frozen beef patties to McDonald's restaurants. We are one of five producers nationally. We service Iowa, Upper Michigan, Wisconsin, Minnesota and North and South Dakota.

My family has been in the meat business for four generations during which time we have evolved from a retail market to a Hotel, Restaurant and Institutional supplier to a manufacturer for one customer. This customer is a very large customer, and a customer who has been a leader in the hamburger industry.

I have been asked to talk to you about my concept, as well as McDonald Corporation's concept, of where we are and in what direction we are going in the area of meat processing.

I would like first to give you a brief history of what has taken place in the twenty-four years since Ray Kroc opened his first store in Des Plaines, Illinois.

Mr. Kroc is definitely a man of unlimited vision. Yet he probably had no idea that his visit to the McDonald brothers in San Bernardino, California would begin one of the most spectacular business successes of the twentieth century.

We have come a long way since Mr. Kroc's first "red and white tiled McDonald's restaurant" opened in Des Plaines, Illinois. In 1972 the 2000th restaurant opened in Des Plaines. In October of 1978 McDonald's opened its 5000th restaurant in Japan. McDonald's is now selling hamburgers in over 20 countries and expects to open stores in several more countries within this year. McDonald's in so doing has become the largest buyer of meat in the world.

## *McDonald's Based on Q, S, C and V*

McDonald's business is based on Q, S, C, and V: Quality, Service, Cleanliness and Value. It is the first phrase anyone even remotely involved with McDonald's hears. It is stressed to sixteen-year-old crew members in the Brookings store as well as to meat suppliers who process millions of pounds of meat each year for McDonald's. We combine these operational principles with a dedication to our business which is best expressed by Ray Kroc, who simply

says, "We take the hamburger business more seriously than anyone else." On February 23, 1978, McDonald's served its 25th billion hamburger.

That brings us to today. McDonald's has become synonymous with hamburgers. It is a large part of my life, and in a sense, a part of yours whether as a customer or as part of the beef industry.

Seventy-plus percent of McDonald's more than 5,000 restaurants are independently owned. Twenty-three regional office staffs and corporate and international headquarters in Oak Brook, Illinois, work with these owners to help insure their success and ours.

When McDonald's talks about quality, service, cleanliness and value they are not only talking about products—but people. McDonald's employs some three hundred thousand crew people. We are the largest employer of youth in the world and we are not only proud of it, but we believe it is a tremendous responsibility.

## *Hamburgers Are One Hundred Per Cent Pure Beef*

Now since you are all involved in the beef industry let us talk about McDonald's beef patties.

First of all, our beef patties are made of 100% pure beef, all domestic production—no additives and under strict quality control standards. Currently nine independent frozen meat plants are supplying McDonald's system domestically with approximately one and one-half million pounds of finished patties per day or 194 truckloads of product shipped to authorized distributors on a weekly basis. The meat plants producing frozen patties for McDonald's are exclusive production facilities producing product for no one else. We are regulated by the highest quality control standards and production techniques available in the frozen meat patty industry today.

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## AMERICAN MEAT SCIENCE ASSOCIATION

Only two allowable ingredients are used in the fabrication of McDonald's hamburger patties.

- (1) Full carcass processing beef.
- (2) Choice and Prime steer navels and flanks.

We absolutely do not use hearts, lungs or tripe, cheek or head meat, water or ice, suet, flavor boosters and preservatives, protein additives, fillers or cereals or imported beef, frozen or fresh.

We have recently expanded our formula to use choice boneless chucks and trimmed choice shank meat in order to take pressures off the market place. These additions in my opinion improve the quality of the product and enhance the taste. McDonald's constantly monitors its suppliers to insure that these high standards are met. If the standards are not met the supplier loses the account. If they cannot be met, the supplier never receives the account.

Approximately 98% of all McDonald's restaurants located in the United States use cryogenically frozen meat patties.

This allows for the tightest quality standards and consistency available in the marketplace today. As a supplier we are working constantly and continually to improve quality and manufacturing techniques of our meat products.

### *McDonald's Uses Only Domestic Beef*

In order to continue to grow, McDonald's must have reliable and adequate sources of good lean beef. We prefer to use domestic beef for several reasons. First, it allows us to promote the American economy in which we do business. Secondly, we can more effectively control the quality of domestic beef through the surveillance of processor quality control checks. Third, the American farmer and rancher can out produce any other farmer or rancher in the world.

As a company McDonald's is very concerned about the future supply of lean beef. Dairy herds have diminished over the past several years and liquidation of cows has seen numbers available for slaughter drop from near 12 million head in 1975 to a projected less than 6 million in 1979-1980.

Sales of ground beef have risen rapidly in the seventies and are projected to be over 50 pounds per capita in 1979. This will put tremendous pressure on lean beef with the reduced number available for slaughter.

Let us look at some recent statements and facts submitted by William Helming, President, Livestock Business Advisory Services Inc. I quote:

"The number of U.S. cows and heifers that have calved is expected to total 47.3 million on January 1, 1979, and 46.8 Million head on January 1, 1980. This will be the lowest cow population since the early 1960's and it will result in the next cattle cycle upturn lasting longer than the eight-year norm.

"Smaller calf crops in 1979 and 1980 and an increasing holdback of heifers for breeding purposes will cause the commercial cattle slaughter to continue to decline for at least the next two years.

"Fed cattle slaughter will become an increasingly larger portion of the slaughter mix during the next three years, rising back to the 77%-78% area, which was last seen in 1972-1973. Large grain supplies and an optimistic tone among cattle feeders and cattlemen generally will result in feeding animals that would formerly have been part of the non-fed and heifer slaughter and calf slaughter.

"The commercial cow kill is expected to decline to the 6.0 million head level by 1980, and possibly lower in 1981. Commercial cow slaughter was 10,619,000, 9,864,000 and 8,500,000 head respectively in 1976, 1977, and 1978.

"Commercial beef production is pegged at 23,950 million pounds for 1978, down 4% from 1977. Projections for 1979 and 1980 are 22,800 and 21,900 million pounds respectively. This relates to a per capita beef consumption figure of 120-121 pounds in 1978, 113-115 and 107-110 pounds in 1979 and 1980 respectively.

*We hope to change this trend by selling hamburgers.*

"Rising beef prices and constricting beef supplies will cause consumers to switch their purchases from the more expensive to the less expensive cuts of beef, and from beef to poultry, pork and eggs. Retail prices of hamburger and cheaper cuts of beef will experience more inflation in 1979 than prices of the more expensive cuts. Beleaguered shoppers will buy meat during the next three years on somewhat less of a taste preference basis and somewhat more of a cost-per-edible-pound basis. For instance, they will be quicker to compare the true cost of buying hamburger with a 25% cooking shrink with chicken, which is about 55% edible meat. Government intervention will, of course, be a major threat and potential limiting factor to increasing beef prices during the 1979-1982 period and beyond."

### *Eating Away From Home A Growing Habit*

Eating away from the home is a growing habit. Americans spend over 90 billion dollars a year at it.

## AMERICAN MEAT SCIENCE ASSOCIATION

Approximately 45% of all beef produced is eaten in restaurants, school cafeterias and other institutions. Now we have the picture.

Where do we go from here?

I feel the beef feeding business will follow two roads in the future.

First, I believe the need will continue for high quality beef for supermarkets and white tablecloth restaurants.

Secondly, lean beef for low cost steak houses and fast service restaurants specializing in hamburger sales will be a high demand product of the future.

### *Lean Beef Can Be Fed Economically*

I am optimistic about lean beef being fed economically in feed lots. As a supplier, we, along with several other McDonald's suppliers, have begun participation in a program which is testing this theory. Calves which normally go to slaughter can be converted into beef suitable for ground beef. As cow prices continue to rise, feeding becomes more and more feasible and necessary.

The Cattle Development Company in Amarillo, Texas is currently working toward these ends.

New feeding programs which utilize heretofore discarded roughage will help consummate these desires. It is estimated that nearly ten billion tons of waste such as straw, sawdust, etc., can be made into protein producing feed at a nominal cost. Currently, this is being done in Scandanavia for about \$36.00 per ton.

In our lifetime we have witnessed man in space, and the splitting of the atom. As man rises to the challenge of feeding a hungry world we hope to witness further miracles yet in our time.

It is McDonald's goal to continue to use domestically produced beef. Imported beef is limited and not as uniform as domestic. World use of beef will shrink imports in this country. We want to promote U.S. industry. We want to work with you to help fill the need in the marketplace profitably for all of us and continue to provide the consumer with a quality product at a good value.

Thank you for your attention and the opportunity to discuss McDonald's and the meat industry as it pertains to McDonald's past, present and future.