CASE STUDY

12

McDONALD'S: HALF A CENTURY OF GROWTH

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It's loved and it's hated. It is a shining example of how good value food can be brought to a mass market. It is a symbol of everything that is wrong with 'industrialised', capitalist, bland, high-calorie and environmentally unfriendly commercialism. It is the best-known and most-loved fast food brand in the world with more than 32,000 restaurants in 117 countries, providing jobs for 1.7 million staff and feeding 60 million customers per day. It is part of the homogenisation of individual national cultures, filling the world with bland, identical, 'cookie cutter', Americanised and soulless operations that dehumanise its staff by forcing them to follow ridged and over-defined procedures. But whether you see it as friend, foe or a bit of both, McDonald's has revolutionised the food industry, affecting the lives of both the people who produce food and the people who eat it. It has also had its ups (mainly) and downs (occasionally). Yet, even in the toughest times it has always displayed remarkable resilience. Even after the economic turbulence of 2008, McDonald's reported an exceptional year of growth in 2009, posting sales increases and higher market share around the world – it was the sixth consecutive year of positive sales in every geographic region of their business.

Starting small

Central to the development of McDonald's is Ray Kroc, who by 1954 and at the age of 52 had been variously a piano player, a paper cup salesman and a multi-mixer salesman. He was surprised by a big order for eight multi-mixers from a restaurant in San Bernardino, California. When he visited the customer he found a small but successful restaurant run by two brothers Dick and Mac McDonald. They had opened their 'Bar-B-Que' restaurant 14 years earlier, adopting the usual format at that time; customers would drive-in, choose from a large menu and be served by a 'car hop'. However, by the time Ray Kroc visited the brothers' operation it had changed to a self-service drive-in format, with a limited menu of nine items. He was amazed by the effectiveness of their operation. Focusing on a limited menu including burgers, fries and beverages, had allowed them to analyse every step of the process of producing and serving their food. Ray Kroc was so overwhelmed by what he saw that he persuaded the brothers to adopt his vision of creating McDonald's restaurants all over the US, the first of which opened in Des Plaines, Illinois in June 1955. However, later, Kroc and the McDonald brothers quarrelled, and Kroc bought the brothers out. Now with exclusive rights to the McDonald's name, the restaurants spread, and in five years there were 200 restaurants through the US. After ten years the company went public; the share price doubling in the first month. But through this, and later, expansion, Kroc insisted on maintaining the same principles that he had seen in the original operation. '*If I had a brick for every* *time I've repeated the phrase Quality, Service, Cleanliness and Value, I think I'd probably be able to bridge the Atlantic Ocean with them*' (Ray Kroc).

Priority to the process

Ray Kroc had been attracted by the cleanliness, simplicity, efficiency and profitability of the McDonald brothers' operation. They had stripped fast food delivery down to its essence and eliminated needless effort to make a swift assembly line for a meal at reasonable prices. Kroc wanted to build a process that would become famous for food of consistently high quality, using uniform methods of preparation. His burgers, buns, fries and beverages should taste the same in Alaska as in Alabama. The answer was the 'Speedee Service System'; a standardised process that prescribed exact preparation methods, specially designed equipment and strict product specifications. The emphasis on process standardisation meant that customers could be assured of identical levels of food and service quality every time they visited any store, anywhere. Operating procedures were specified in minute detail. In its first operations manual, which by 1991 had reached 750 pages, it prescribed specific cooking instructions such as temperatures, cooking times and portions to be followed rigorously. Similarly, operating procedures were defined to ensure the required customer experience, for example, no food items were to be held more than 10 minutes in the transfer bin between being cooked and being served. Technology was also automated. Specially designed equipment helped to guarantee consistency using 'fool-proof' devices. For example, the ketchup was dispensed through a metered pump. Specially designed 'clam shell' grills cooked both sides of each meat patty simultaneously for a preset time. And when it became clear that the metal tongs used by staff to fill French-fry containers were awkward to use efficiently, McDonald's engineers devised a simple V-shaped aluminium scoop that made the job faster and easier, as well as presenting the fries in a more attractive alignment with their container.

For Kroc, the operating process was both his passion and the company's central philosophy. It was also the foundation of learning and improvement. The company's almost compulsive focus on process detail was not an end in itself. Rather it was to learn what contributed to consistent high-quality service in practice and what did not. Learning was always seen as important by McDonald's. In 1961, it founded 'Hamburger University', initially in the basement of a restaurant in Elk Grove Village, Illinois. It had a research and development laboratory to develop new cooking, freezing, storing and serving methods. Also franchisees and operators were trained in the analytical techniques necessary to run a successful McDonald's. It awarded degrees in 'Hamburgerology'. But learning was not just for headquarters. The company also formed a 'field service' unit to appraise and help its restaurants by sending field service consultants to review their performance on a number of 'dimensions' including cleanliness, queuing, food quality and customer service. As Ray Kroc, said, '*We take the hamburger business more seriously than anyone else. What sets McDonald's apart is the passion that we and our suppliers share around producing and delivering the highest-quality beef patties. Rigorous food safety and quality standards and practices are in place and executed at the highest levels every day.*'

No story illustrates the company's philosophy of learning and improvement better than its adoption of frozen fries. French fried potatoes had always been important for McDonald's. Initially, the company tried observing the temperature levels and cooking methods that produced the best fries. The problem was that the temperature during the cooking process was very much influenced by the temperature of the potatoes when they were placed into the cooking vat. So, unless the temperature of the potatoes before they were cooked was also controlled (not very practical) it was difficult to specify the exact time and temperature that would produce perfect fries. But McDonald's researchers have perseverance. They discovered that, irrespective of the temperature of the raw potatoes, fries were always at their best when the oil temperature in the cooking vat increased by three degrees above the low temperature point after they were put in the vat. So by monitoring the temperature of the vat, perfect fries could be produced every time. But that was not the end of the story. The ideal potato for fries was the Idaho Russet, which was seasonal and not available in the summer months, when an alternative (inferior) potato was used. One grower, who, at the time, supplied a fifth of McDonald's potatoes, suggested that he could put Idaho Russets into cold storage for supplying during the summer period. Notwithstanding investment in cold storage facilities, all the stored potatoes rotted. Not to be beaten, he offered another suggestion. Why don't McDonald's consider switching to frozen potatoes? This was no trivial decision and the company was initially cautious about meddling with such an important menu item. However, there were other advantages in using frozen potatoes. Supplying fresh potatoes in perfect condition to McDonald's rapidly expanding chain was increasingly difficult. Frozen potatoes could actually increase the quality of the company's fries if a method of satisfactorily cooking them could be found. Once again McDonald's developers came to the rescue. They developed a method of air drying the raw fries, quick frying, and then freezing them. The supplier, who was a relatively small and local supplier when he first suggested storing Idaho Russets, grew its business to supply around half of McDonald's US business.

Throughout their rapid expansion, a significant danger facing McDonald's was losing control of their operating system. They avoided this, partly by always focusing on four areas – improving the product, establishing strong supplier relationships, creating (largely customised) equipment and developing franchise holders. But also it was their strict control of the menu which provided a platform of stability. Although their competitors offered a relatively wide variety of menu items, McDonald's limited theirs to ten items. This allowed uniform standards to be established, which in turn encouraged specialisation. As one of McDonald's senior managers at the time stressed, *'It wasn't because we were smarter. The fact that we were selling just ten items [and,] had a facility that was small, and used a limited number of suppliers created an ideal environment.'* Capacity growth (through additional stores) was also managed carefully. Well-utilised stores were important to franchise holders, so franchise opportunities were located only where they would not seriously undercut existing stores. Ray Kroc used the company plane to spot from the air the best locations and road junctions for new restaurant branches.

Securing supply

McDonald's says that it has been the strength of the alignment between the company, its franchisees and its suppliers (collectively referred to as the System) that has been the explanation for its success. Expanding the McDonald's chain, especially in the early years meant persuading both franchisees and suppliers to buy into the company's vision, 'Working', as Ray Kroc put it, not for McDonald's, but for themselves, together with McDonald's.' He promoted the slogan, 'In business for yourself, but not by yourself.' But when they started, suppliers proved problematic. McDonald's approached the major food suppliers, such as Kraft and Heinz, but without much success. Large and established suppliers were reluctant to conform to McDonald's requirements, preferring to focus on retail sales. It was the relatively small companies who were willing to risk supplying what seemed then to be a risky venture. Yet, as McDonald's grew, so did its suppliers. Also, McDonald's relationship with its suppliers was seen as less adversarial than with some other customers. One supplier is quoted as saying; *'Other chains would walk away from you for half a cent. McDonald's was more concerned with getting quality. McDonald's always treated me with respect even when they became much bigger and didn't have to.'* Furthermore, suppliers were always seen as a source of innovation. For example, one of McDonald's meat suppliers, Keystone Foods, developed a novel quick-freezing process that captured the fresh taste and texture of beef patties. This meant that every patty could retain its consistent quality until it hit the grill. Keystone shared its technology with other McDonald's meat suppliers for McDonald's, and today the process is an industry standard. Yet, although innovative and close, supplier relationships are also rigorously controlled. Unlike some competitors who simply accepted what suppliers provided, complaining only when supplies were not up to standard, McDonald's routinely analysed its supplier's products.

Fostering franchisees

McDonald's revenues consist of sales by company operated restaurants and fees from restaurants operated by franchisees. McDonald's view themselves primarily as a franchisor and believe franchising is ... 'important to delivering great, locally-relevant customer experiences and driving profitability'. However, they also believe that directly operating restaurants is essential to providing the company with real operations experience. In 2009, of the 32,478 restaurants in 117 countries, 26,216 were operated by franchisees and 6,262 were operated by the company. Where McDonald's was different to other franchise operations was in their relationships. Some restaurant chains concentrated on recruiting franchisees that may then be ignored. McDonald's, on the other hand, expected its franchisees to contribute their experiences for the benefit of all. Ray Kroc's original concept was that franchisees would make money before the company did. So he made sure that the revenues that went to McDonald's came from the success of the restaurants themselves rather than from initial franchise fees.

Initiating innovation

Ideas for new menu items have often come from franchisees. For example, Lou Groen, a Cincinnati franchise holder had noticed that in Lent (a 40-day period when some Christians give up eating red meat on Fridays and instead eat only fish or no meat at all) some customers avoided the traditional hamburger. He went to Ray Kroc, with his idea for a 'Filet-o-Fish'; a steamed bun with a shot of tartar sauce, a fish fillet, and cheese on the bottom bun. But Kroc wanted to push his own meatless sandwich, called the hula burger; a cold bun with a piece of pineapple and cheese. Groen and Kroc competed on a Lenten Friday to see whose sandwich would sell more. Kroc's hula burger failed, selling only six sandwiches all day, while Groen sold 350 Filet-o-Fish. Similarly, the Egg McMuffin was introduced by franchisee Herb Peterson, who wanted to attract customers into his McDonald's stores all through the day, not just at lunch and dinner. He came up with idea for the signature McDonald's breakfast item because he was reputedly 'very partial to eggs Benedict and wanted to create something similar'.

Other innovations came from the company itself. By the beginning of the 1980s, poultry was becoming more fashionable to eat and sales of beef were sagging. Fred Turner, then the Chairman of McDonald's, had an idea for a new meal; a chicken finger-food without bones, about the size of a thumb. After six months of research, the food technicians and scientists managed to reconstitute shreds of white chicken meat into small portions which could be breaded, fried, frozen and then reheated. Test-marketing the new product was positive, and in 1983 they were launched under the name Chicken McNuggets. These were so successful that within a month McDonald's became the second largest purchaser of chicken in the USA. By 1992, Americans were eating more chicken than beef.

Other innovations came as a reaction to market conditions. Criticised by nutritionists who worried about calorie-rich burgers and shareholders who were alarmed by flattening sales, McDonald's launched its biggest menu revolution in 30 years in 2003 when it entered the prepared salad market. They offered a choice of dressings for their grilled chicken salad with Caesar dressing (and croutons) or the lighter option of a drizzle of balsamic dressing. Likewise, recent moves towards coffee sales were prompted by the ever-growing trend set by big coffee shops like Starbucks. McCafé, a coffee-house-style food and drink chain, owned by McDonald's, had expanded to about 1,300 stores worldwide by 2011.

Problematic periods

The period from the early 1990s to the mid-2000s was difficult for parts of the McDonald's Empire. Although growth in many parts of the world continued, in some developed markets, the company's hitherto rapid growth stalled. Partly this was due to changes in food fashion, nutritional concerns and demographic changes. Partly it was because competitors were learning to either emulate McDonald's operating system, or focus on one aspect of the traditional 'quick service' offering, such as speed of service, range of menu items, (perceived) quality of food or price. Burger King, promoted itself on its 'flame-grilled' quality. Wendy's offered a fuller service level. Taco Bell undercut McDonald's prices with their 'value pricing' promotions. Drive-through specialists such as Sonic speeded up service times. But it was not only competitors that were a threat to McDonald's growth. So called 'fast food' was developing a poor reputation in some quarters, and as its iconic brand, McDonald's was taking much of the heat. Similarly, the company became a lightning rod for other questionable aspects of modern life that it was held to promote, from cultural imperialism, low-skilled jobs, abuse of animals, the use of hormone-enhanced beef, to an attack on traditional (French) values (in France). A French farmer called Jose Bové (who was briefly imprisoned) got other farmers to drive their tractors through, and wreck, a half-built McDonald's. When he was tried, 40,000 people rallied outside the courthouse.

The Chief Executive of McDonald's in the UK, Jill McDonald, said that some past difficulties were self-induced. They included a refusal to face criticisms and a reluctance to acknowledge the need for change. '*I think by the end of 1990s we were just not as close to the customer as we needed to be, we were given a hard time in the press and we lost our confidence. We needed to reconnect, and make changes that would disrupt people's view of McDonald's.*'

Investing in its people also needed to be re-emphasised. '*We invest about £35m a year in training people. We have become much more of an educator than an employer of people.*' Nor does she accept the idea of 'McJobs' (meaning boring, poorly paid, often temporary jobs with few prospects). '*That whole McJob thing makes me so angry. It's snobbish. We are the biggest employer of young people in Britain. Many join us without qualifications. They want a better life, and getting qualifications is something they genuinely value.*'

Surviving strategies

Yet, in spite of its difficult period, the company has not only survived, but through the late 2000s has thrived. In 2009 McDonald's results showed that in the US, sales and market share both grew for the seventh consecutive year with new products such as McCafé premium coffees, the premium Angus Third Pounder, smoothies and frappes, together with more convenient locations, extended hours, efficient drive-thru service and value-oriented promotions. In the UK, changes to the stores' décor and adapting menus have also helped stimulate growth. Jill McDonald's views are not untypical of other regions, '*We have probably changed more in the past four years than the past 30: more chicken, 100 per cent breast meat, snack wraps, more coffee – lattes and cappuccinos, ethically sourced, not at rip-off prices. That really connected with customers. We sold 100m cups last year.*'

Senior managers put their recent growth down to the decision in 2003 to reinvent McDonald's by becoming 'better, not just bigger' and implementing its 'Plan to Win'. This focused on 'restaurant execution', with the goal of ... 'improving the overall experience for our customers'. It provided a common framework for their global business, yet allowed for local adaptation. Multiple improvement initiatives were based on its 'five key drivers of exceptional customer experiences' (People, Products, Place, Price and Promotion). But what of McDonald's famous standardisation? During its early growth no franchise holder could deviate from the 700+ page McDonald's operations manual known as 'the Bible'. Now things are different, at least partly because different regions have developed their own products. In India, the 'Maharaja Mac' is made of mutton, and the vegetarian options contain no meat or eggs. Similarly, McDonald's in Pakistan offers three spicy 'McMaza meals'. Even in the USA things have changed. In at least one location in Indiana, there's now a McDonald's with a full service 'Diner' inside, where waitresses serve 100 combinations of food, on china; a far cry from Ray Kroc's vision of stripping out choice to save time and money.'