Ray Kroc, McDonald's

Any color you like, as long as it's brown

Ray Kroc was a born salesman who believed strongly in persistence and determination, but it was not until the age of fifty-two that he finally got the break he needed.

Born in Chicago in 1902, he left school at fifteen to sell coffee beans door to door, and then signed up to drive an ambulance in World War I, though the Armistice was signed before his unit left America. He worked as a jazz pianist in the Prohibition era, then as a real estate salesman in Florida, selling land that was technically underwater, and as a salesman of paper cups. Life was a struggle for young Kroc. Then he got a job selling multimixer milk shake machines. It was a hard slog and not particularly lucrative, but it brought him in 1954 to the drive-in hamburger stand in San Bernardino, California, run by Richard and Maurice McDonald, who were bringing in some $350,000 a year. Kroc watched in awe as they mixed up forty shakes at a time for a stream of customers, but was particularly taken by the uniformly golden French fries, which, he later wrote, "would become almost sacrosanct to me, [their] preparation a ritual to be followed religiously."

Instinctively grasping the potential of the operation, which included a menu with just nine items, run with what the McDonald brothers called the "Speedee Service System," Kroc badgered the brothers until they agreed to let him franchise the operation. On April 15, 1955, Kroc had opened his own version of McDonald's, in Des Plaines, outside Chicago. By May 1959, Kroc had one hundred stores but was making relatively little money himself because of the original agreement with the McDonald brothers. In 1961, he convinced them to sell the business outright for $2.7 million—an enormous sum then, which Kroc had to get a crippling loan for. He got his payback in 1965 when the company floated and he was worth some $36 million. Kroc's restaurant chain went on to expand across the globe, having sold 35 billion hamburgers by 1980, and having 31,000 stores worldwide by 2005.

Kroc, who died in 1984, had two insights early on that were to prove the foundation of his fortune. The first was financial: the company leased or bought the land underneath many of the franchise's restaurants, then rented it back to them for a profit. According to analysts, the company owns 75 percent of the restaurant buildings and 40 percent of the land they stand on, making it as much a real estate developer as a hamburger peddler. Kroc's second flash of inspiration was children: in particular, Ronald McDonald, the clown created to attract children to the restaurants. In 1986, the company claimed 96 percent of children could recognize Ronald McDonald. McDonald's introduced the Happy Meal—a meal with a free toy—in 1979, further encouraging children to visit the restaurants. Today it even has a presence on the popular children's website Neopets, where children can visit a virtual McDonald's store. (McDonald's has also given away millions of plush Neopet toys with happy meals in a particularly successful cross-promotion.)

McDonald's prospered for almost five decades by doggedly following Kroc's obsession with uniformity. Like a Henry Ford of the food industry, Kroc applied the principles of the production line to his restaurants, giving customers fast, cheap, reliable food. Any color you like, as long as it's brown (or something like that). So what if the menu never changed? People liked it. It was straightforward, not like in those swanky restaurants where the waiters made you feel dumb. Kids liked it. It was cheap: this was a restaurant where ordinary families could dine out regularly. And it was reassuring—food that was exactly the same from one day to the next, wherever you ate it, ordered, paid for, and consumed it, with none of the fuss associated with normal restaurants. The restaurants' top-selling items are still the Big Mac, introduced in 1968, and the Quarter Pounder, first sold in 1971.

Kroc turned the preparation of food from something carried out by trained chefs into something that happened largely in factories. Fries arrived at the stores precut and deep-frozen, buns were precut, and frozen burgers were delivered ready to slap onto the hot plates. Instead of cooking individual burgers on demand, store managers estimated ahead of time how many would be ordered and had the sandwiches assembled and sitting under heat lamps before the customer had even handed over the money.

These systems, dictated in each store's company manual since Kroc first put it together in 1958, also allowed McDonald's to hire staff that might otherwise be considered too young or inexperienced to work in a kitchen or service industry. With a few hours of careful training, a teenager paid the minimum wage can make a Big Mac identical to one made by a manager of thirty years standing. It was estimated in 1992 that 7 percent of the American population had their first jobs at McDonald's.

McDonald's is a mix of company-run (9,000) and franchise stores. Franchise owners agree to operate under rigorous conditions that ensure they put the bulk of their efforts into running the one or two stores they are allotted. McDonald's dictates where they buy their ingredients, how they cook them, how they are advertised, and what they charge for them. The result is a company-controlled store that runs with the energy of a small business.

Ray Kroc's system surpassed any reasonable expectations, delivering constant growth for half a century despite a product line and advertising campaign that had changed little since Ronald McDonald made his first appearance on American television in 1963. The one flaw in the system, as in any totalitarian order, was its lack of flexibility: it works fine if all you want is to sell the same burgers from Guam to Azerbaijan, but it stumbles when somebody asks for theirs without the pickle. And by the end of the twentieth century, it seemed as if the world was finally sick of pickles.

In November 2002, following profit falls, McDonald's announced it was shutting down 175 restaurants around the world, withdrawing completely from three countries in Latin America. It ended the year posting its first ever quarterly loss. Financial analysts pointed to several factors behind the slide including a slump in the world economy, fierce competition in the U.S. domestic market, and Mad Cow Disease in Europe. Eric Schlosser, author of the best-selling exposé *Fast Food Nation* and a long-time McDonald's critic, saw the announcement as a symptom of the company's obsession with expansion. "I see this as another case of imperial over-reach," he said. "They got too big too fast and, like the British empire, their huge increase in size abroad really cloaked fundamental weaknesses."

The official line from McDonald's was that the closures were nothing more than an adjustment; the company still planned to open far more restaurants than it had shuttered. But the brand, too, was under attack. When McDonald's sued two British activists, Dave Morris and Helen Steel, in 1990 for handing out a leaflet that criticized the company's operations, it hoped to teach them a swift, unpleasant lesson that would end in an apology from the trouble-makers. Instead, dozens of McDonald's employees, executives, and suppliers found themselves in the witness box giving excruciating evidence about their practices. The McLibel case, as it was called, was Britain's longest-ever court case, running for 313 days of evidence and submissions. It ended in an overall finding for the corporation, which won a damages claim and was initially awarded $100,000. But the judge, Justice Bell, found that some of the defendants' startling allegations were proven, namely that McDonald's did exploit children by targeting them in its advertising and was responsible for cruelty to the animals that were processed for its meals. Steel, a former gardener, and Morris, a single parent, claimed a moral victory, gained worldwide media exposure, and never paid McDonald's—which had spent millions on legal fees—a cent.

In France in 1999, farmer Jose Bove became a national hero when he trashed a half-built McDonald's restaurant in a protest against trade sanctions and the globalization of what he called "malbouffe" (bad food). Then an American filmmaker named Morgan Spurlock went on a McDonald's-only diet for a month and recorded the results, which included weight gain and ill health, for the documentary *Super Size Me*, which was a hit around the world.

Like a bull elephant that finally notices the spears sticking out of its back, McDonald's began to respond to the new world order. "The world has changed. Our customers have changed. We have to change too," declared chairman Jim Cantalupo in 2003, not long before he died unexpectedly at age sixty.

Following the lead of its competitor Subway, which had enormous success with a range of low-fat sandwiches, McDonald's is now rebranding itself as healthy, rolling out various low-fat alternatives, including (depending on where you live) yogurts, fresh fruit, light salads, and made-to-order sandwiches. Assisted by a worldwide ad campaign themed "I'm Lovin' It," mothers bringing their children in for Happy Meals, who once would have ordered just coffee, are now finding something "light" for themselves to eat—helping to lift the value of the average order. McDonald's has also moved into the made-to-order sandwich market to compete with Subway, and even ran a meal deal promoted by Oprah Winfrey's personal trainer that included a salad, a bottle of water, a book of walking tips, and a pedometer (which, sadly, wasn't yet available when poor Morgan Spurlock made his documentary).

It's not quite as simple as putting salads on the menu—do customers go to McDonald's for salads, or for a junk food fix? (The Big Mac—with thirty grams of fat—is still the best-selling item.) And new product lines, such as drive-though, made-to-order cappuccino and fresh sandwiches mean greater complexity and higher likelihood of system failures and food wastage. But McDonald's must have done something right: by the end of 2004 strong sales, with profits more than doubled since 2002, had vindicated the change in direction, and encouraged the company to experiment further.

After fifty years, it had finally shifted its focus away from the hamburger and the sky didn't fall down—quite the opposite—for McDonald's is not a hamburger company. It is a landowner, a real estate developer, a franchiser, a delivery system. It just happened to sell hamburgers because that, correctly, seemed to be the best bet in 1950s America. Its future rests on discovering what people want to eat in 2006 and beyond—it is now probably the world's biggest retailer of salads and yogurt. "Ray Kroc was once asked what sort of food McDonald's would make in the future," recalls McDonald's marketing executive Joe Talcott. "He replied, 'I don't know what we'll be selling, but we'll be selling more of it than anybody else.'"

NOTES

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