



## Lessons From History - McDonalds

The incredible story starts with Mac and Dick McDonald, two brothers, who started their burger business in 1940 with a fast-food stand which, probably due to the war, initially struggled but it was eight years before achieving success. But after the success of their stand the first thing they did was start a mechanical assembly line where each step of the burger creating process was performed perfectly but with minimum effort. Then they got rid of the indoor seating arrangement and started an outdoor service where the customers would order through a window and get their ordered items delivered through the window. This helped in keeping the costs low while maintaining the quality of the burgers. Both the brothers were after keeping the speed of delivery as fast as possible while keeping prices low, thus serving huge volumes of food each day.

In 1954, Ray Kroc passed in front of McDonald's in his car and saw a full parking lot with people coming out of it with an arm-full of food. He stopped there to see what was going on. Ray Kroc was a salesman by profession but was also a visionary, and as a salesman selling milkshake making machines he travelled the length of the country and visited restaurants of all types. When he came across the McDonald brothers outfit it was the first time he had ever seen such an idea where there was no seating place, prices of products were affordable and quality was great.

The first thing that came to his mind after seeing the success of this first McDonald's was franchisees of McDonald's all over the country. He presented this idea to the McDonald brothers, but they declined it politely by saying they were happy with the earnings of this one shop. Kroc did not give up and told them that he himself would open the stores, do all the hard work and McDonald brothers would collect all the royalty. This made them agree, and a contract was signed the same day.

Kroc had to start his very own McDonald's first where he could perfect all the dealing, cooking and other related procedures as per the original one. For this, he started a new store in Des Plaines, Illinois on 50-50 partnership with a friend. He made sure that the cost, mechanisms which were saving time in original McDonald's fashion, whether it was the layout of cooking items like griddles, fryers, vats, etc. He also had to ensure the quality of the food was also exactly the same. He did face some difficulty in keeping the taste the same, but it eventually paid off.

Although the new location did not do as well as the original McDonald's it still earned a fair income from its first day of opening which was April 15, 1955. This gave Kroc the confidence to continue, and within one year in 1955 there were eleven franchises operating in the country.

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Now that all the franchises were working and money was coming in the extra income had to be invested somewhere. This is where Harry Sonneborn, who was the company's financial manager, came up with the idea of buying the land on which their franchises worked. These purchased real estates were then to be leased to the franchise operators operating on the site. In 1956, the Franchise Realty Corporation was setup. With the increasing monthly rents, this business became one of the biggest profit generators for McDonald's.

In 1959, McDonald's was expanded to ten or more locations in addition to their franchises, and for this the loan was taken in exchange for 22.5% shares in the stock market. The loan was taken from three different insurance companies and was worth \$1.5 million. This loan was taken to provide a solid base for expansion of McDonald's after the forming of first McDonald's Operating Company store.

Kroc was still not satisfied about his first contract with the McDonald brothers even after the new income from McDonald's Operating Company and all the franchises. So, 1961, he asked the McDonald brothers to sell their name and company to him. The deal was done for \$2.7 million and it turned out to be one of the best investments Kroc did in his life.

In 1968, Kroc gave up his position as C.E.O. of McDonald's Operating Company but still kept playing an active role in the company. During the bad economy in 1970's, he persuaded the people who were leading the company to build more and more stores. He said that the best time to build is when the time is bad because it is when the things cost the least to build.

In 1984 at the time of Kroc's death, there were more than 8000 McDonald's in 32 countries. However, utilizing the same method, vision and objective of Kroc, McDonald's keeps on growing and its success is a dream of every business. Now McDonald's has over 35,000 restaurants or stores in about 119 countries.

#### **Let's discuss the points that lead to the success of McDonald's:**

- The first one is to maintain consistency. No matter which McDonald's you go all around the world you will see same methods, get the same service with the same quality. The franchises attend special programs to learn this vision of Kroc. This also increases the productivity.
- The second one is taking risks. The menu we see today in McDonald's is different than the original one. Over the years many items have been added. Some of them were huge success while some were failures like McPizza. But without taking risk nothing can change, and change is the only constant in business.
- The third is to adapt to the customer's taste or needs. McDonald's realizes the need for adapting as per requirements of customers. As in 1975 McDonald's which was located near a Military base in Arizona started the drive through where the soldiers could get meals without getting out of their car.

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Whereas recently McDonald's started offering healthy meals while taking down the Super-Size meal option.

- The fourth is to cross-sell items. This is an art and requires you to sell one item and promote others with it. McDonald's is pretty famous for this. For example, "would you like fries with drink or hamburger?"
- The fifth one is learning to work with people properly whether they are customers or employees. At McDonald's the managers make sure they help each employee succeed and if any worker is not happy with their current job they can be moved to another job they like. The workers are trained to guide people, address their concerns and apologize if anything went wrong.
- The sixth one is to discover talent and help them grow. McDonald's spots talented employees and allows them to make their way up. It reduces the need for hiring again and again and also gains them loyal employees which know McDonald's business structure very well.
- The seventh is establishing a strong brand presence. The emotional experience McDonald's takes almost every person back to their childhood. People know there are better products than McDonald's, but their bond with it is unbreakable. A strong brand presence makes your business more credible.

All the points that lead to the success of McDonald's are also the lessons the new businesses can learn from McDonald's. Very few businesses will be able to achieve the success McDonald's achieved, and their success can be attributed to the points discussed in this article. If we sum up the main points then the takeaways are:

- Procedures and processes developed should be strong, timesaving, efficient and remain consistent in terms of performance and quality. This will help in achieving the confidence of customers.
- If the foundation of the business are consistent methods then you will be able to adapt, innovate and improve products as per customer demand.
- Business will see up and down or failures, and the only thing that can get you through this phase is an established relationship with customers that will help the business in growing stronger in difficult times.
- Never ignore the needs of customers. Always keep yourself updated with what they want. The purpose of your business is to cater these needs.

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