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### LEADERS & SUCCESS

#### **Ray Kroc, The Big Mac Of Fast-Food Innovation Sizzle: Tireless retooling built the McDonald's empire**

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Ray Kroc steered McDonald's to the top of fast food. His winning recipe? He was flexible, nurtured franchisee relationships and reacted to [business](#) challenges with an open mind.

"Just as Henry Ford's idea was brought to reality through hard work, perseverance, just plain doggedness and above all faith, so McDonald's astounding success was achieved through those same qualities," Kroc wrote in a 1969 company newsletter. "We can never rest on our laurels. We must always keep our ideal dream before us and work with faith so that we can accomplish ever more than we have."

Despite initial low profit, Kroc (1902-84) used an entrepreneurial spirit to grow McDonald's, revolutionizing the fast-food industry through a standardized approach to restaurant franchises and an openness to new ideas.

Today, McDonald's (NYSE:MCD) is still cooking. 2014 sales hit \$27 billion, a 29% rise since 2006. Its stock has climbed 640% in the past 12 years.

Kroc drove himself from the start. A high school dropout in Oak Park, Ill., he lied about his age in 1917 to sign up as an ambulance driver for the Red Cross as World War I raged in Europe.

The war ended before his training did. So he steered to various jobs: piano player, paper cup salesman, milkshake machine salesman.

Life Begins At 50

Kroc was in his 50s during his milkshake mixer career, but he was just getting started.

The big turn came in 1954, when a large order for Prince Castle Multimixers, which could mix five milkshakes at once, came from a San Bernardino, Calif., restaurant owned by brothers Dick and Mac McDonald.

Kroc flew to California to meet the brothers and was amazed by their booming operation, which focused on a few key items — burgers, fries and drinks.

The duo's emphasis on quality set them apart from competitors.

Kroc was hooked. He shared with the brothers his vision of opening McDonald's restaurants all over the country. Then he cut a deal with the duo and started McDonald's Corp. in 1955.

Now head of the operation, Kroc laid out the strategy: From its headquarters in Oak Brook, Ill., the company would sell franchises to individual restaurant owners for the low price of \$950 and in exchange receive 1.4% of all sales. Also in the mix, the McDonald brothers would receive 0.5%.

In 1961, Kroc purchased the exclusive rights to the McDonald's name and bought out the duo for \$2.7 million.

Now running the operation, he initiated an enterprise that grew from that one restaurant into more than 7,700 at his death in 1984.

Today, McDonald's is the world's leading global food-service retailer, with over 36,000 locations in over 100 countries.

Paul Facella, a longtime consultant at McDonald's and the author of "Everything I Learned About Business I Learned At McDonald's," notes that Kroc had a slogan that epitomized his unique relationship with the franchisees: "You make the first buck, I'll make the second buck."

When Kroc first opened for business in 1955, contenders in the fast-food arena were A&W, Dairy Queen, Tastee-Freez and Big Boy.

"Kroc took great pains to differentiate McDonald's from these players. ... The crucial difference between Kroc and his rivals was one of world view. He saw franchisees as business partners, not mere customers," wrote Daniel Gross in "Forbes Greatest Business Stories of all Time." "In his travels selling the multimixer, he had observed the way franchisers milked franchisees for profits without concern for their long-term viability. Kroc vowed not to fall into that lucrative, but ultimately unproductive, trap," wrote Gross.

Facella added: "Kroc understood the franchisees were a long-term relationship. He wanted to make sure the franchisees were successful, because the success of the franchise would ultimately make the company successful. In the beginning years, if a franchise was struggling, if he had to help, he would work with it. He realized it was to the company's advantage as opposed to saying, 'Hey you missed your franchisee payment.'"

Ultimately, Kroc left his competition in the dust as he expanded his operation while focusing on quality every step of the way.

#### Three Legs, Sturdy Company

Kroc promoted a philosophy of a three-legged stool in which one leg was McDonald's, the second the franchisees and the third McDonald's suppliers and vendors.

"He understood the need for all three to be strong. That principle was a hallmark of Ray Kroc," Facella told IBD.

Mike Bullington, corporate archivist at McDonald's, said that Kroc stressed that the firm "would only be as successful as its franchisees."

Being flexible was crucial in propelling Kroc toward mammoth success. In the early years, even though the number of restaurants expanded fast, company earnings were minimal due to the original deal of low franchising fees.

"Through 1960, when the chain's restaurants raked up \$75 million in sales, McDonald's earnings were a mere \$159,000," wrote Gross.

Shifting gears, Kroc began to focus on real estate as a potential profit center, with the idea that McDonald's could make money by leasing or buying restaurant sites.

From that concept came Franchise Realty Corp., which bought or leased properties that it would then sublease to franchisees at a 20%, and later 40%, markup.

"Franchisees would then pay McDonald's either a minimum rate or a percentage of sales, whichever was greater," wrote Gross. "As sales and prices inevitably rose over the years, the company would collect more and more rent as its costs remained virtually constant."

#### Quality First

McDonald's progress came with Kroc's commitment to quality, no matter how large the operation became, said **Usha Haley**, a West Virginia University professor of [management](#). "He reduced making a good burger to a common denominator that could be replicated everywhere," **Haley** said. "Everything was put into an equation, including how many ounces goes into a burger."

Kroc pointed to QSCV, which stood for quality, service, cleanliness, value. "This was the basic DNA building block of McDonald's," said **Haley**. "He tried to make the product of a burger into a production line, but still had quality, service and cleanliness."

Barb Schmidt, who observed that Kroc approach while she ran six McDonald's restaurants in Florida, before selling them in 1996, said: "He was so passionate about serving the customers the highest quality food in a

reasonable amount of time at an affordable price. He wanted every customer to have the same experience each and every time they came to McDonald's. He always took great pride in the service, cleanliness and friendliness of his company. I believe that is what led to the extraordinary success of McDonald's — his consistent attitude of greatness."

Kroc instituted strict quality control and guidelines for franchisees. He also gave the restaurants a certain amount of autonomy, with the idea of lifting their entrepreneurial spirit. "He was open to listening to franchisees' ideas," said **Haley**.

Some of those concepts involved new products. "Franchises came up with Filet-O-Fish, the Big Mac and Egg McMuffin," said **Haley**.

Kroc liked such results rather than being hung up on resumes.

"Ray never graduated from high school," said Facella. "McDonald's was about meritocracy. It didn't matter if you went to college; it was about if you could make things happen. If you were very good at what you do, you could move up."

On top of all that was Kroc's humanity, said Schmidt: "What I remember most about this amazing man was his ability to give you his full attention when he spoke with you. I felt like I was the only person in the room."

When Facella was a midlevel manager in New York City during his 34-year career at McDonald's, he met Kroc for the first time: "He popped out of his limo and walks up to me: 'Hi Paul, how are you today?' I said, 'It is nice to meet you, Mr. Kroc,' and he looked at me and said, 'I'm Ray. Don't call me Mr. Kroc.'"

From there, the two got into an old-style limousine with a flip seat. "Naturally, I sat in the flip seat," recalled Facella. "But Ray said, 'Paul, you are my guest; you sit in the comfortable seat.' There was humility about the man. He just cared about treating people right and making them feel good, which is part of his legacy. He is someone who is truly in the top five people I will ever meet in my life."

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