

	GRINDING IT OUT, The making of McDonald's by Ray Kroc with Robert Anderson
1. The Situation & The Challenge	Mc Donald's was founded long before 1954 by the brothers Mac and Dick McDonald. However, American businessman of Czech origin, Ray Kroc was 52 years old when in 1954 he met the McDonald brothers; thereafter, concept of fast food would never be the same anymore, with the franchise concept, keeping it KISS simple, and product and process innovation as the main drivers. It wasn't always easy to find investors, land marks and enthusiastic people who would run a franchise. Ray Kroc had to grind it out, and did it!
2. Key Factors	<ol style="list-style-type: none"> 1. The franchise concept: Kroc charged a franchise fee of \$950 that cover expenses in finding a suitable location and a landlord to build the specifications, for that Kroc get 1.9% of the gross sales from the franchise and each license was run for twenty years. The growth of Mc Donald's was when it started with the evolution as a company whose business was developing restaurants and selling franchise to operate them. Building a restaurant system that would be known for food of consistent high quality and uniform methods of preparation. 2. The food: Key element of the success was that the system of Mc Donald's was simple and effective and that simplicity of the procedure allowed Mc Donald's to concentrate on quality in every step of preparing the food. Mc Donald's innovate the food like the hamburger; different grinding methods, freezing techniques and surface conformations in order to arrive at the juiciest and most flavourful piece of meat. It is only to make the job easier to do quickly and well, all the other considerations were secondary. There is a complete test kitchen and experimental lab, where all the products are tested. 3. The supply chain: Mc Donald's sells only nine items, and they were only buying thirty-five or forty items with which to make the nine. Most of the time they worked with local suppliers exclusively and they grow with the Mc Donald's and are still suppliers of Mc Donald's. Mc Donald's only set the standards for quality and recommended methods for packaging, but the operators it selves did the purchasing from the suppliers. 4. Consistency of quality: Quality, Service, Clean lines and Value should be part of the day to day routine. Every crew member must be drilled in the Mc Donald's method of providing service. By a continuing program of educating and assisting operators and a constant review of their performance and also a fulltime R&D program. This is more valuable to potential operator than just franchise a name, were Kroc believed in. 5. Invest: To spend money to make money to establishing company stores. In 1959 they lend \$ 1.5 million, with giving up any part of the stock in the company. This loan was the lift-off of Mc Donald's rocket like growth. 6. Local advertising campaigns: this was a direct benefit generated advertising dollars. Later they introduced the clown Ronald Mc Donald during the Thanksgiving parade in New York, and sponsoring the super bowl. 7. View on competitors: Kroc's vision about that was: that you have to stress your own strengths, emphasize quality, service, clean lines and value and competition will wear itself out trying to keep up.
3. The Success	Nowadays Mc Donald's is the leading retailer in food supply chain and biggest franchise brand in the world. McDonald's has always been very consistent in his concept, developed and innovate the food and the supply chain and still do. Kroc stayed true and believe that the basis of McDonald's success is serving a low priced, value-oriented product fast and efficiently in clean and pleasant surroundings.

	<p>GRINDING IT OUT, The making of McDonald's by Ray Kroc with Robert Anderson</p>
<p>1. The Situation</p>	<p>McDonald's is the leading retailer in food supply chain and biggest franchise brand in the world. In this book, Ray Kroc takes us upon his journey through his life and how McDonald's became the biggest franchise brand in the world. The company was founded long before 1954 in San Bernardino sixty miles east of Los Angeles by the brothers Mac and Dick McDonald.</p> <p>However, American businessman of Czech origin, Ray Kroc was 52 years old when in 1954 he met the McDonald brothers; thereafter, concept of fast food would never be the same anymore, with the franchise concept, keeping it KISS simple, and product and process innovation as the main drivers. It wasn't always easy to find investors, land marks and enthusiastic people who would run a franchise. Ray Kroc had to grind it out, and did it!</p>
<p>2. The Challenge</p>	<p>Kroc's mission was to make a franchise concept of the hamburger restaurant of the McDonald's brothers. Kroc started a revolution by restaurants when he introduced the franchise concept. It wasn't always easy to find investors, land marks and enthusiastic people who would run a franchise and Kroc's has to grinding it out.</p>
<p>3. The Approach</p>	<p>The first Mc Donald's in San Bernardino</p> <p>When Kroc the Mc Donald's restaurant in 1954 for the first time visit he saw a typical, ordinary looking drive-in, people wear all white shirts, trousers and white paper hats. Suppliers bring sacks of potatoes, cartons of meat, cases of milk and soft drinks and boxes of buns, he was impressed of the tempo of work of all these people. The visitors told him that is was the best hamburger for fifteen cents, you don't have to wait and mess around tipping waitress. The system was simple and effective, they sold just hamburgers and cheeseburgers; tenth of a pound meat, all fried the same way just for fifteen cents. The building was red and white with touches of yellow, later with golden arches with neon tubes lighting the undersign. The simplicity of the procedure allowed the Mc Donald's to concentrate on quality in every step.</p> <p>The franchise concept</p> <p>There were ten other drive-ins licensed by the Mc Donald's brothers, but Kroc was only interested in the right to franchise copies of their operations everywhere else in the US. So they went into an agreement, but Kroc could not deviate from the Mc Donald's plans in his units unless changes were spelled out in writing signed by both brothers and to Kroc by registered mail. This construction created a lot of problems for Kroc, for example there was no appropriate property in Chicago so Kroc called with the Mc Donald brothers and they said: "well buy a good property", but they wouldn't confirm it on paper.</p> <p>Furthermore, the agreement gave Kroc 1.9% of the gross sales from the franchise, because it sounds a lot less than 2%. The brothers get 0.5 % of the 1.9%. Kroc had to charge a franchise fee of \$950 for each license, that was to cover expenses in finding a suitable location and a landlord who would be willing to build to the specifications. Each license was run for twenty years. The contract Kroc has with the brothers has a duration of nine years, which later amended to ninety-nine years.</p> <p>Kroc didn't copy the Mc Donald's plan, because he saw it as a salesman, a complete package and thinking about a prospective multimixers sales than hamburgers. The first store in Chicago was opened on 15 April 1955, and was 'a hell of an ordeal', but the experience was to prove invaluable in opening other stores and it was an experimental model. Although it made after a year money. Things has to change and rebuild from a Californian life style to a Chicago life style, for example the ventilation of the building open vs. fresh and/or heated air. The first franchise license were sold in Fresno, Los Angeles, and Reseda, California, but it was in the beginning painfully slow growing.</p>

The food

Key element of the success of the Mc Donald brothers was the French fries process. The potatoes were carefully peeled, leaving a tiny proportion of skin on and were cut into long sections and dumped into large skins of cold water and stir them, then they went into wire baskets, stacked in production-line fashion next to deep fry vats, fried in oil and only the fried in the same oil. It was so simple that anyone can do it, if he followed those individual steps, but that was just one of the many mistakes. This process flops the first time. Kroc followed the steps but the fries taste like mush, nothing like the fries in California, even Kroc did the same steps. The Mc Donald brothers had, without knowing, a natural curing process in their open bins, which allowed the desert breeze to blow over the potatoes. So Kroc devised a curing system, and they fry the potatoes twice. It were the best French fries in town, even better than the original.

The same applies for the hamburger and the paper for packaging. One of the motto's of Kroc was that: "you must perfect every fundamental of your business if you expect it to perform it well", the emphasis on detail. The hamburger is a piece of meat with character, because it is all beef. The fat content of the patty is a prescribed 19 % and is rigidly controlled, with a weight of ten ounce. There is a lot of technical history of the hamburger; different grinding methods, freezing techniques and surface conformations in order to arrive at the juiciest and most flavourful piece of meat. It is only to make the job easier to do quickly and well, all the other considerations of cost cutting, inventory control were important, but they were secondary to the critical detail of what happened there at the smoking griddle. The hamburger was sold for fifteen cents and a cheeseburger for eighteen cents. After twelve years, in 1967 the price of the hamburger raises from fifteen cents to eighteen cents, and the cheeseburger from eighteen cents to twenty cents. Which is a twenty percent increase and it took almost a year for customers count to recover.

Even Kroc and his Mc Donald's team innovate the food. Like the French fries to frozen fries, because the fresh potatoes and peeling process give some problems in the stores. The Filet o Fish sandwich in Cincinnati, Ohio , with a large catholic population, was a huge success. The Hulaburger; two slices of cheese with a slice of grilled pineapple on a toasted bun, it was a giant flop, because there was no burger on it. Other like the Big Mac, Hot apple pie and the Egg Mc Muffin were also a success. Most of those ideas came from operators themselves, and sometimes from outside the Mc Donald's company, for example a bigger portion of French fries suggested by the director of Disney World. There is a complete test kitchen and experimental lab, where all the products are tested.

The supply chain

Mc Donald's sells only nine items, and they were only buying thirty-five or forty items with which to make the nine. It was concentrated, bulk packaging was one way for suppliers, another was making it possible for him to deliver more items per stop as a one stop service.

In January 1957 Mc Donald's make significant changes in the way things were supplied to the stores and how they were packaged. For example the buns, the supplier need to find grace in texture and softly cured silhouette of the bun. First they cluster the buns, attached to each other in clusters of four to six and they were only partially sliced, it was much easier and faster if they had individual buns and sliced all the way through. Supplying buns to Mc Donald's was the break of a life time for a organization. That was for all suppliers. For example in California they worked with suppliers exclusively and they grow with the Mc Donald's and are still suppliers of Mc Donald's. Mc Donald's only set the standards for quality and recommended methods for packaging, but the operators it selves did the purchasing from the suppliers.

The people

In the beginning when Kroc worked in the paper cup industry he hired June Martino as a bookkeeper, she worked hard and loved Mc Donald's. She was, in less than twenty years, one of the top women executives in the country, secretary and treasurer at Mc Donald's. She was important in all the discussions between Ray Kroc and Harry Sonneborn and had

a perfect feeling for hiring people and difficult situations. Harry Sonneborn was hired to help Kroc and the help him with the growth of Mc Donald's. They were breaking new ground and make a lot of fundamental decisions for years. He was leading in the funding of the loan for the growth of Mc Donald's. Harry Sonneborn was president of the company and retired very well. Fred Turner was also a person who started from the beginning. He came in January 1957 part of the company, a year when they opened twenty-five new Mc Donald's. Fred Turner helped new operators to open their stores to deal with the local suppliers of meat, buns and condiments and this exposure combined with his experience at the griddle and helped Mc Donald's to make significant changes in the supply chain of Mc Donald's.

In the sixties they hired a lot of new people; Kroc and his team sold them a dream and paid them as little as possible, Kroc doesn't feel bad about that, because he wasn't making much by himself, and those who stayed are now very well off. Most of them are now officers of Mc Donald's or wealthy operators. There was an event on which they said that Kroc has made millionaires of more men than any other person in history. Kroc's vision was that he give a lot of men the opportunity to become millionaires they did it themselves, Kroc only provided the means. It takes guts and staying power to make it with one of our restaurants, nut they doesn't require any unusual attitude or intellect, just common sense, dedication to principles and love of hard work can do it. Even Kroc was never been to proud to grab a mop and clean up the restrooms, early in the morning. Kroc strives to perfection in his stores, so he write the rules.

The expanding of Mc Donald's

The move that made Mc Donald's growth possible was when it started with the evolution as a company whose business was developing restaurants and selling franchise to operate them. Building a restaurant system that would be knows for food of consistently high quality and uniform methods of preparation. That would require a continuing program of educating and assisting operators and a constant review of their performance and also a fulltime R&D program. This is more valuable to potential operator than just franchise a name, as Kroc said.

The insistence on quality has to be emphasized in every procedure and every crew member must be drilled in the Mc Donald's method of providing service. These basic elements will insure success for a store, unless its location is unspeakable bad. QSCV: Quality, Service, Clean lines and Value should be part of the day to day routine.

Furthermore, they checked the stores personally which results in a checklist of how the operations were doing. That list evolved into the format for their field consultations, which is nowadays a vital part of system-wide quality assurance. And they developed a program for new operators about how to run a store, the process of the food and the supply chain, which resulted in the Hamburger University.

To establishing company stores of course would require a truly massive infusion of capital. To spend money to make money. So in 1959 they find three insurance companies who lend them \$ 1.5 million, with giving up any part of the stock in the company. It turned out to be the best deal those three insurance companies ever made. They sold their stock a few years later for between \$ 7 and \$ 10 million. That was one hell of a return of investment, however if they'd waited until 1973 to sell, they could have gotten over five hundred million dollars. This loan was the lift-off of Mc Donald's rocket like growth.

Mc Donald's was not obliged to renew licenses. At the expiration of the licenses the company could wind up operating all the stores, because there was a duration of twenty years leases of the property where the mortgages were paid off in ten years. Kroc will never agree with that part of the agreement, his view that Mc Donald's is in the hamburger business instead of a real estate business. Because the slogan for Mc Donald's operators is: "in business for yourself, but not by yourself", which is one of the secrets of the success.

	<p>To grow in California they started a local advertising campaign which worked for that locations. In 1957 they hired a small public relations firm who advertising and tv-commercials created, this was a direct benefit generated advertising dollars. Later they introduced the clown Ronald Mc Donald during the Thanksgiving parade in New York, and sponsoring the super bowl. And later became a symbol for the Ronald Mc Donald's funds.</p> <p>Of course there where competitors and former employees who also started a hamburger drive-in restaurant. Kroc's vision about that was: that you have to stress your own strengths, emphasize quality, service, clean lines and value and competition will wear itself out trying to keep up. The operators have to beat competitors only doing by offering a better fifteen-cent hamburger being better merchandisers, by providing faster service and a cleaner place.</p> <p>Merging and transactions</p> <p>The execution of the Mc Donald's brothers was around 1961 and the construction was quite progressive in those years in the United States. The brothers were asking 2.7 million for all the rights, the name, the San Bernardino store and everything else. The insurance companies couldn't borrow more, but they find a man from New York of the Ford Foundation. So in return of 2.7 million in cash, Kroc and his team have to pay 0.5% of the gross sales of all Mc Donald's stores in three periods, progress it would take until 1991 to pay it all off, but that was based on the 1961 volume. Kroc and his team managed to pay off in six years completed in 1972. Total cost of the transaction was fourteen million dollar, but that was peanuts in the years that follows.</p> <p>In 1963 Mc Donald's was going public. With the reason to raise capital for the company and give some funds for themselves, because Kroc and Harry didn't taking anything out. It was a big success, the prices were \$ 22,50 a share and shot up to \$ 30 before trading ended the first day and climbed the first month to \$50 at the New York stock exchange.</p>
<p>4. The Succes</p>	<p>McDonald's has been very consistent in his concept, developed and innovate the food and the supply chain and still do. Kroc stayed true and believe that the basis of McDonald's success is serving a low priced, value-oriented product fast and efficiently in clean and pleasant surroundings.</p> <p>McDonald's had 4.177 stores in the United States and 21 other countries at the end of 1976, a year in which McDonalds broke through several boundaries to new levels of business activity and profitability. In 1976 the total system-wide sales exceeded USD 3 billion, the revenue of McDonald's Corporation exceeded USD 1 Billion which takes 22 years to reach this milestone.</p> <p>Today McDonald's served 69 million people around the world every day.</p> <p>There are 1.8 million employees working in 30 countries, in 34.000 restaurants since 1955, since 2002 raised USD 170 million charity by the Ronald McDonalds fund.</p> <p>McDonald's operate restaurants in 118 countries and the first international restaurants opened in Canada and Puerto Rico in 1967.</p> <p>McDonalds has a total balance of USD 34.480 billion and a revenue of USD 27.567 billion.</p>