

Lessons from McDonalds the ultimate fast-food company

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The Company

- Revenue higher than Starbucks, KFC, Pizza hut and Taco Bell combined! (\$24.1B)
- % of sales growth in US fast food , fast casual industry from 2008-2010: 90%
- Same store sales climbed each month in the last seven years!
- Average per store sales \$2.4m (\$1.6m in 2004)
- Return on stock in seven years: 250% (16% for S&P)

The Company contd.

- Employees: 1.7 m
- Restaurants: 33000
- Net income: \$4.9B
- 64 million people in 118 countries eat in a McDonald's every day!
- During 2008 when the stock market lost a third of its value — its worst performance since the Great Depression- McDonald's shares gained 6%-only two company stocks had price rise- the other was Wal-Mart!

The man

- Jim skinner- 66
- Never graduated from college
- Father bricklayer
- Publicity shy
- First job McDonald's Davenport ,at age 16
- Was in Navy
- No tolerance for bureaucratic talk
- Insightful
- Mantra-Satisfy customers even at the expense of own ideas and preferences
- Spends time with crew at restaurants

The man contd.

- Continues to eat at McDonald's
- A no-nonsense man
- When Finance complicates things he tells them:
 - “ I want to remind you that it's a lot harder to make money than it is to count it!
- “Surrounds himself with people smarter than he is”
 - At Analyst meetings he regularly defers to his no.2 Don Thompson
- One analyst called him: “a regular guy who came up through the ranks and understands what moves the business.”

Empathy

- Skinner built a widespread sense of empathy:
 - inside McDonald's and
 - for the company's customers.

Skinner speak

- We are not recession proof
- We are recession resistant!

The secret?

- McDonald's has been an execution wonder
 - UBS analyst David Palmer

The rules they play by

- James R. Cantalupo wrote:
- The internal playbook
- The McDonald's "Plan to Win,"
- Just a single sheet of paper —
 - a text that is treated as sacred inside the company.
- All rules revolving around the "five P's":
people, products, place, price and promotion.

Their secret sauce? Consistency

- They are consistent in everything –branding, color, food, greetings, uniforms ..
- Big Mac is exactly same any where in the world
- Same variety of potato is used all over the world for fries
- A huge operations manual which makes this possible
- If frying burger is for 37 secs, it is 37 secs everywhere whether New York or Shanghai
- They have Fail safes- bells go off if the fries are kept in oil too long-stop watches and timing systems everywhere
- Janitor checks if bathrooms are clean every half hour

The other lessons

- Skinner knows restaurant is the place where the cash register rings
 - HO can cook up ideas but what flies is what works in the kitchen
- Pursue 'platforms' to entice customer
 - McCafe is the biggest launch in 35 years- added \$125k in sales per store (machine that cranks out lattes and cappuccinos in 45 seconds at the push of a few buttons)
- Learn from around the world
 - McCafe and Chicken McBites are from Australia
- Stick to the knitting- Burgers
 - Skinner sold off all marginal brands like Chipotle
- If speed defines your operations do not compromise on it
 - Deli sandwich was a no because it took more than 60 seconds to make!

The other lessons contd.

- Training facility “Hamburger U”
- National hiring spree of 62000 workers
- All executives train at least two potential successors
 - Ready now- one who can do the job now
 - Ready future- a future replacement!
- In foreign markets, McDonald’s leadership given to native-born employees who have a better feel for local nuances/tastes.

The other lessons contd.

- The most important factor for success in retail is location, location, location.
 - Every McDonald branch is in a perfect place where most people are, like malls, near the churches, beside the school etc
- Attract the child
 - “A child who loves our TV commercial brings her grandparents to a McDonald’s and gives us two more customers” -Ray Kroc

How they attract crowds back?

- New menu items (can you believe oatmeal is on the cards!)
- Cheaper than competition
- Longer hours (34% restaurants open 24 hours a day)
- Sparkling new building
- Flat-screen televisions and video games for children
 - In fact anything to lure customers back!

What are the things McDonald's does for transformation?

- Test kitchens churn out winning recipes
- Suppliers lined up -who can handle BIG orders
- Train crews to prepare new items
- Marketers sell them
- Fend off food police
- New item has to pass tests of profitability and meet various business case requirements
 - New item to hit another price point on the menu and offer some news that makes customers go back into the restaurant

How the snack wrap came about?

- Chefs, food scientists, suppliers, members of menu management team and marketing agency figure out how to define the product and price it
- Menu development team does lot of work:
 - E.g. Tortillas
 - Right packaging
 - Right temperature
 - Right flexibility
- Passes muster with around 150 consumer focus groups
- Around 4 weeks operational test in selected restaurants
- Then launch!

The Ray Kroc motto is alive

- Quality,
- Service,
- Cleanliness and
- Value
- Leading to:
 - A clear vision: “our customers’ favorite place and way to eat”
- Translating to:
 - hot, high-quality food at a great value at the speed and convenience of McDonald’s! (Skinner)
 - Aren’t they the quintessential for any business?
 - True in 1955 , true now and true always!

Jim Cramer , market analyst

- **“McDonald's is the best-run major international company in the world.”**

Sources

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