

McDonald's History

In the late 1940's, Dick and Mac McDonald were searching for a way to improve their little drive-in restaurant business in San Bernardino, California. Rather than tinker with the business, which was bringing in a very comfortable \$200,000¹ yearly, they invented an entirely new concept based upon speedy service, low prices, and big volume.

They did away with car-hops in favor of self-service at the counter. They ditched their 25-item barbecue menu in favor of a limited menu of just nine items: hamburger, cheeseburger, three soft-drink flavors, milk, coffee, potato chips, and pie, with french fries and milkshakes added soon after they resumed operations. They re-engineered their stainless steel kitchen for mass production and speed with assembly-line procedures. And they slashed the price of their hamburger from a competitive 30 cents to just 15 cents.

When the new McDonald's re-opened in December of 1948, business took a while to build. But it soon became apparent that they had captured the spirit of post-war America. By the mid-1950s, their little hamburger factory enjoyed annual revenues of \$350,000 – almost double the volume of their previous drive-in business at the same location. It was not unusual for 150 customers to crowd around the tiny hamburger stand during peak periods.

Word of their success spread quickly, and a cover article on their operations in American Restaurant Magazine in 1952 prompted as many as 300 inquiries a month from around the country. Their first franchisee was Neil Fox, and the brothers decided that his drive-in in Phoenix, Arizona would be the prototype for the chain they envisioned. The resulting red-and-white tile building with a slanting roof and the “Golden Arches” on the sides became the model for the first wave of McDonald's restaurants to hit the country, and an enduring symbol of the industry.

The McDonald brothers actually designed the assembly line kitchen – twice as large as their original – by drawing an exact chalk diagram on their tennis court. They were able to place the equipment most efficiently after studying their crew members as they walked through their food preparation steps. Occasional rain bursts washed out the chalk, prompting them to redraw and refine their design. But the brothers – successful beyond their dreams in San Bernardino – were barely tapping the franchising potential of the business concept they had pioneered.

For as little as a thousand dollars, franchisees would receive the McDonald's name, a basic description of their Speedy Service System, and the services of Art Bender, their original counterman at the new restaurant, for a week or two to get them started. But then, in 1954, a milkshake machine salesman named Ray Kroc saw the McDonald's operation first-hand. **The fast food industry was about to take off.**

¹ All dollar amounts in U.S. figures.

Hello Mr. Kroc

Ray Kroc was 52 years old – an age when many people begin thinking about retirement – when he founded the company that has become the McDonald's of today. But Kroc, who dropped out of high school at age 15 to drive a Red Cross ambulance in World War I, was a constant dreamer...a salesman who never stopped looking for the ultimate product to sell. He began by selling paper cups to sidewalk vendors in Chicago, took a fling at Florida real estate, and had ultimately built a good business as the exclusive distributor for "Multimixer" milkshake machines.

It was the sale of Multimixers, which first drew him to the McDonald brothers' hamburger stand in San Bernardino, California. After all, if he could discover the secret of how they sold 20,000 shakes each month, how many more milkshake machines could he sell? But when Kroc showed up at McDonald's one morning in 1954 and saw the rapidly moving line of customers buying bags of burgers and fries, he had but one thought: **"This will go anyplace. Anyplace!"**

After the McDonald brothers explained that they didn't have the personal desire to oversee the expansion of their concept across the nation, Ray Kroc became their exclusive franchising agent for the entire country. A great salesman had discovered his ultimate product. Kroc formed the new franchising company on March 2, 1955 under the name of McDonald's System, Inc.

On April 15, 1955 his prototype McDonald's restaurant began business in Des Plaines, Illinois, opened with the help of Art Bender, who had served the first McDonald brothers' hamburger and the first Ray Kroc McDonald's hamburger. Bender went on to open the first of Kroc's McDonald's franchises in Fresno, California, and ultimately retired owning seven restaurants.

Rather than tinker with a successful format, Kroc retained the McDonald's formula of a limited menu, quality food, an assembly-line production system, and fast, friendly service – adding to that his own demanding standards for cleanliness. Indeed, Quality, Service, Cleanliness, and Value – QSC & V – continues as McDonald's operating principle today.

But it was in the area of franchising where Kroc uniquely applied the lessons of his sales background to create a successful organization. In many ways, it was a matter of necessity.

Kroc's agreement with the McDonald brothers was to limit the franchise fee to \$950 per restaurant and charge a service fee of only 1.9 percent of restaurant sales – with 0.5 percent of that going back to the McDonald brothers. In addition, Kroc decided early on that the McDonald's system would not be in the business of selling franchise owners their equipment, their supplies, or their food. The company did, however, purchase or lease much of the real estate the restaurants were located on, a program that soon produced a valuable competitive asset in its own right.

So it was in Kroc's best interest to do everything possible to assure that his franchise owners could build their sales. If they failed, he would fail with them, and vice versa. Kroc used his persuasive salesman's skills to convince his first franchisees to sign on.... to line up prospective suppliers...to inspire the company's first team of managers...and to convince lenders to finance his young company. Kroc so firmly believed in his dream that he didn't take a dollar in salary from the company until 1961. The formula worked.

At the end of 1956, McDonald's 14 restaurants reported sales of \$1.2 million and had served some 50 million hamburgers. In just four years, there were 228 restaurants reporting \$37.6 million in sales, and the company had sold its 400 millionth hamburger mid-way through 1960.

But to enjoy further growth, Kroc knew he had to buy out the McDonald brothers in order to loosen the restrictive agreement, which he had been operating under. For all the restaurants' success, Kroc's company had netted a meager \$77,000 profit in 1960 and was carrying \$5.7 million in long-term debt.

The brothers asked for a flat \$2.7 million in cash – \$700,000, of which they would pay in taxes, leaving \$1 million for each of them. A fair price at that time, thought the McDonald's, for inventing the fast food industry.

Kroc managed to obtain a loan in 1961 – based on the company's real estate values – and though it ultimately cost him \$14 million to repay it, he bought the ability to control his growing system.

That same year, he opened Hamburger University in the basement of a restaurant in Elk Grove Village, Illinois, a training facility for new franchisees and store managers which has grown to be a worldwide institution utilizing sophisticated training techniques and high-level management courses.

McDonald's Growth in the United States

McDonald's growth in the United States soon became a series of milestones in sales, numbers of restaurants, numbers of hamburgers served, and in establishing standards of quality, service, cleanliness and value (QSC&V) previously unknown in the growing fast food restaurant industry. **By 1963, we were selling one million hamburgers a day**, and Ray Kroc served hamburger number one billion to Art Linkletter on Linkletter's national television show.

The first national meeting of McDonald's franchise owners was held in Hollywood, Florida in 1965, celebrating the chain's 10th anniversary with the theme, "The Sky's the Limit." It was also in 1965 that McDonald's became a public company, selling its shares over the counter for \$22.50 each – a price that sky-rocketed to \$49 within a few weeks.

Ray Kroc's years without a salary had paid off – the initial stock he sold was worth \$3 million and the rest of his holdings were now worth \$32 million. Even June Marino, a long-time associate who had been Kroc's secretary back in the Multimixer days, shared in the rewards –selling \$300,000 worth of stock and holding an additional \$5 million.

One year later, on July 5, 1966, McDonald's was listed on the New York Stock Exchange, quite an accomplishment then for a chain of hamburger restaurants. In 1967, the price of a McDonald's hamburger rose from 15 to 18 cents – the first increase since the McDonald brothers introduced the 15-cent price two decades earlier. And in the following year, restaurant number 1,000 opened in Des Plaines, Illinois, not far from Kroc's original restaurant.

By 1970, McDonald's reported \$587 million in sales from almost 1,600 restaurants in all 50 states of the U.S. and four other countries. In the same year, a restaurant in Bloomington, Minnesota became the first to reach \$1 million in annual sales and another in Waikiki, Hawaii was the first to serve breakfast. The following year, the first McDonald's Playland opened in Chula Vista, California.

McDonald's broke the billion dollar sales mark in 1972 and the stock split for the fifth time, making 100 shares of the original 1965 stock equal to 1,836 shares.

In 1975, the first drive-thru operation was established in Sierra Vista, Arizona – an innovation that today accounts for about half of all McDonald's restaurant sales in the U.S. and Canada. The company enjoyed sales of \$2.5 billion that year, with 3,076 restaurants in 20 countries. The following year, hamburger number 20 billion was sold.

In 1977, Ray Kroc was named Senior Chairman of McDonald's, and Fred Turner, who was the grill man at Kroc's first restaurant, was named Chairman of the Board. That year, more than 1,000 restaurants exceeded \$1 million in sales, and 11 topped \$2 million.

By our silver anniversary in 1980, the 6,263 restaurants in 27 countries rang up sales of \$6.2 billion and passed the 35 billion hamburger milestone. On January 14, 1984, Ray Kroc died – having accomplished his dreams for McDonald's...and then some. That same year, his "little company" broke the \$10 billion sales barrier, served its 50 billionth hamburger, and operated 8,300 restaurants in 36 countries. A new McDonald's restaurant opened somewhere in the world every 17 hours, and the average restaurant enjoyed an annual sales volume of \$1,264,000.

By 1990, our sales had grown to \$18.7 billion, passing the milestone of 80 billion hamburgers sold. McDonald's 11,800 restaurants were in 54 countries. And top leadership changed for just the third time in our history in 1990 – with Fred Turner becoming senior chairman and passing the baton to Mike Quinlan, who had begun working for McDonald's in 1963 as a part-time mail clerk. In 1999, Jack M. Greenberg took over the top job, which was passed to Jim Cantalupo, former Vice Chairman and President, when Greenberg retired in December of 2002.

As testimony to our consistent performance over the years, McDonald's was the only company in the Standard & Poor's 500 to have publicly reported 100 consecutive quarters of year-to-year combined increases in revenues, income, and earnings per share since 1965. Not surprisingly, Better Investing magazine ranked McDonald's as the most popular and widely held common stock by individuals and investment clubs. And Life magazine names Kroc as one of the 100 Most Important Americans of the 20th Century.

Ray Kroc's dreams for McDonald's growth throughout the United States had been more than satisfied...but that's only the beginning of the story. McDonald's took the world by storm as well.

International Expansion

While McDonald's was astounding the experts with the rapid growth of its hamburger chain in the United States, our company had another big surprise brewing – international expansion.

We opened our first restaurant outside the U.S. in Canada on June 1, 1967 in Richmond B.C., and the race was on. Canada today has more than 1,300 restaurants.

After a few false starts in the Caribbean and the Netherlands – where we tried a more hands-off style and attempted to compromise our menu for local tastes – we realized that what had worked so well in the U.S. could travel virtually anywhere. A strong local partner, fully trained and totally involved in the business...the traditional McDonald's menu...and our detailed operating procedures for QSC&V were the formula for success.

One of the most dramatic examples came in Japan, where Den Fujita, who owned an import company specializing in handbags, shoes, and apparel, became McDonald's joint venture partner in 1971. Fujita opened his first restaurant on July 20, 1971 in a tiny 500-square-foot restaurant in a prime location in Tokyo's Ginza shopping district – a site that only allowed 39 hours for construction that normally took three months. On its first day, the restaurant rang up \$3,000 in sales, and Fujita has never looked back. At the end of 1993, McDonald's was Japan's most successful restaurant chain, with some 1,400 restaurants – and nearly double the annual sales of the next competitor.

We also opened our first restaurants in Germany and Australia in 1971. Today, Germany has more than 1,200 restaurants and Australia has some 700 McDonald's locations. And after entering France and England in the early 1970s, McDonald's today runs some 980 restaurants in France and more than 1,200 restaurants in the United Kingdom.

These six countries – Canada, Japan, Germany, Australia, France and England – are known as McDonald’s “Big Six” because combined, they provide about 80 percent of international operating income. McDonald’s international operations are playing an increasingly important role in our company’s results. In 1995, for example, 7,030 restaurants in 89 countries produced sales of \$14 billion.

Some of McDonald’s international openings have been so dramatic that they have become headline news in the media around the world. On January 31, 1990, for example, more than 30,000 people lined up on a cold winter day in Moscow to visit the new, 23,680-square foot McDonald’s – the most people ever served by a single restaurant to that date. That restaurant opening culminated years of negotiations which had begun during the Montreal Olympics in 1976 and represented the largest joint venture agreement between the Soviet Union and a food company.

The Russian crew was soon serving between 40,000 and 50,000 customers each day – a total of 15 million people in its first full year. To meet the unrelenting demand, we built a \$45 million food processing facility near Moscow, one of the most modern food processing facilities in Europe.

McDonald’s opening in Beijing, China, on April 23, 1992 shattered the Moscow opening day record, attracting some 40,000 Chinese customers to the 28,000-square-foot restaurant, which had 29 cash register stations to handle the flow. Located in the city’s busiest shopping district, the restaurant has some 800,000 pedestrians passing by daily. The joint venture partnership between McDonald’s and the General Corporation of Beijing Agriculture, Industry, and Commerce had been working for five years to establish the network of local farmers, manufacturers, and other suppliers to support the restaurant.

Not to be outdone, two new restaurants opened in Poland in 1992 and each surpassed the Moscow and Beijing records for opening day transactions, with the Warsaw restaurant amassing 13,304 transactions in June 1992, a record which was broken six months later in Katowice, 200 miles south of Warsaw in Poland’s coal country.

Other former Iron Curtain countries where McDonald’s has proven tremendously popular include the Czech Republic, East Germany, Hungary, and Slovenia.

We also broke ground in another new part of the world when we entered the Middle East with a new restaurant, which opened in Tel Aviv, Israel in October of 1993. New restaurants were added in Saudi Arabia, Oman, Kuwait, Egypt, Bahrain, United Arab Emirates, and Qatar, reflecting our extensive and long-term commitment to the region.

Out of respect for local cultures, McDonald's restaurants in Arab countries maintain "Halal" menus, which signify compliance with Islamic laws for food preparation, especially beef. In addition, restaurants in Saudi Arabia do not display statues or posters of Ronald McDonald, since the Islamic faith prohibits the display of "idols." And the first kosher McDonald's opened in early 1995 in a suburb of Jerusalem. It does not serve dairy products, and is closed on Saturdays, the Jewish Sabbath.

The growth of McDonald's to date – domestically and internationally – has proven the validity of the first thought through Ray Kroc's mind when he initially saw McDonald's in operation: "This will go anyplace."