

What is
McDonald's
doing to
expand its
leadership and
increase
profits in the
next century?

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In August 1998, Jack Greenberg became president and chief executive officer of McDonald's Corporation, overseeing the operations of the Company, which span 115 countries. Jack, who previously was McDonald's chief financial officer and later chairman and CEO of McDonald's USA, has earned a reputation as an executive with a passion for excellence. After making his mark on McDonald's U.S. operations, where he implemented many strategic changes, he is leading the Company into the 21st century. Jack sat down recently to talk about his plans and ideas for McDonald's and why he believes the best is yet to come.

As CEO in charge of an expanding global business, what is your vision for McDonald's?

Our vision is to be the *best* quick-service restaurant experience in the world in the eyes of our customers. The only way we can truly measure our success is in terms of customer satisfaction and customer loyalty. Was it fast? Was it friendly? Was it hassle-free? Was it convenient? Did the food taste good? Would you drive by three competitors just to go to McDonald's? This business begins and ends with satisfying customers' needs, and we must satisfy them better than anybody else. This is how we'll grow sales, profits and returns for the McDonald's System. More and more, we've got to become a destination, rather than just a convenient place to stop. To do that, we need to give our customers a differentiating experience.

What are the first steps in making that happen?

Behavior, leadership and focus. I really do believe in leading by example, and that leaders who value teamwork and encourage an open dialogue among team members, get the best thinking from their people and ultimately



Jack Greenberg is leading McDonald's toward its vision to be the world's best quick-service restaurant experience.

get better results. Of course, it's also critical to have talented, highly qualified individuals on the team in order to maintain the all-important focus on the real business issues and opportunities.

Who are your key team members?

On the line-management side, there are Jim Cantalupo, Alan Feldman and Jim Skinner. Jim Cantalupo is chairman and CEO of our

international business. He is also vice chairman of the Corporation. Alan is president of our U.S. business, and Jim Skinner is president of European operations. Each of these individuals offers the team remarkable operations experience and insight.

On the staff side, Claire Babrowski, executive vice president for restaurant systems, leads our efforts on innovation and best-practice transfer, while Mike Conley, our chief financial officer, keeps the team focused on the financial realities of running a global business. Jeff Kindler, our chief legal officer and head of corporate relations, brings fresh new thinking to our Company, resulting in a sharper strategic focus.

Pat Flynn, Ray Mines and Stan Stein, executive vice presidents for corporate development and business research, franchise relations and human resources, respectively, are also valued team members. Pat challenges us to look at our business and opportunities in new and different ways. Ray brings sensitivity to the highly diverse needs of our owner/operators, along with a reminder of how essential franchising is to McDonald's. Stan leads our effort on the all-important issues involving our employees around the world.

I believe this diverse and highly qualified team provides literally a "world" of wisdom and leadership resulting in smart decision making.

What is management focusing on to give customers a differentiating experience?

Our people and our ability to innovate. Our people are our most important priority. We need to focus on our restaurant staffs in terms of the quality of people we hire, how we train them, how we keep them and how we improve their job satisfaction. We must inspire and motivate them so they can deliver the best possible service to our customers. The same things apply all the way through the corporate ranks. Job satisfaction, professional development and the quality of what we all do each and every day affects our restaurants and our customers.

We also need to continue to innovate to grow our business. That's part of leadership. If you go back to our roots in 1955, we innovated restaurant operations, essentially redefining the preparation and delivery of a meal. Then we enclosed the dining rooms. We added Playlands. We added drive-thrus. Those were facilities innovations. We added breakfast, McNuggets and salads. Those were food innovations. We were the first restaurant ever to advertise on national television. We had the first national advertising cooperative. Ronald McDonald. Happy Meals. Extra Value Meals. Those were part of marketing innovation.

Over the years, all these innovations have had an impact on the growth of our business and on our restaurant sales.

Will innovation include testing more product ideas?

Absolutely. By creating innovative and great-tasting products at a great value, we create a loyal customer following. Not everything you come up with is automatically going to be accepted. But as far as I'm concerned, no product is a "failure." The only failures in this business are not to test an idea in the first place, to be afraid to test it or to take too long to figure out whether something works.

Years ago, I remember bragging that it took seven years to develop Chicken McNuggets. That was our way of showing how seriously we took this business. Today, that would be a terrible mistake. The competitive set, the pace of change, the customers' demands—all mean that we can't spend seven years trying to figure out a product. A "fast-fail" policy is a good one for this business. We learn from mistakes and then move on to the next idea. And hopefully before too long, we'll have an exciting new product that will add to sales and profits.

What about innovation within the restaurants and the Made For You production system?

Made For You is a powerful concept that results in fresher, better-tasting food for our customers. Made For You combines advanced equipment, sophisticated computer technology and new operating procedures in the kitchen. Food is prepared to order for each customer. Somebody doesn't want pickles on a Big Mac or wants mustard on a grilled chicken sandwich? No problem. And since meals are prepared to order, food waste is reduced significantly. What's especially exciting is that this is far more than just an operating system. It provides a platform for food innovation because it makes it easier to serve a greater variety of products.

We have examples of restaurants in several U.S. markets that converted to Made For You during the test phase and are

Making A Difference

Innovation knows no boundaries, as demonstrated by owner/operator Ronald Monteiro.

When Ronald opened his first McDonald's in the Santos region of Brazil in 1992, he encountered children living in the doorway.

They came from broken homes and—despite their young ages—were drug users.

Instead of becoming discouraged, he became their friend. Two years later, Ronald founded Associação Comunidade de Mãos Dadas, an organization of community businesses and local government, whose mission is to help these children.

That same year, Ronald, the local government and McDonald's jointly opened the first of four homes in the Santos region to provide refuge for these

troubled children. These homes are staffed with teachers, doctors, dentists and others who care. They attempt to re-establish the children's family ties, provide an educational foundation and engage them in sports activities.

The results have been fabulous. Many kids who frequented the first home when it opened are now living with family members. Yet, they visit regularly for the support and encouragement that's waiting for them. More importantly, the children are off

the streets. Ever the innovator, Ronald encourages others to make a difference, too. Today, two of his fellow franchisees in Brazil are using his homes as a model to help kids in their own communities.

Muito obrigado, Ronald.



doing very well today. The managements of these restaurants are using the system properly. Their people practices are right. They're aggressive about price, and they've remodeled and redecorated their physical facilities, if needed.

The reality is no single thing will drive this business. But in combination, innovative ideas and good people practices are going to keep our business growing. So these are two areas on which we are intensifying our focus.

What opportunities does McDonald's have to share ideas among markets?

The opportunities are tremendous. For years, Jim Cantalupo and his team were successful in taking the formula that worked well in the U.S. and exporting it all over the world.

There also are opportunities to benefit from some tough lessons learned in the U.S. For example, we used to add 300 to 400 restaurants a year, every year, in the U.S. regardless of circumstances. It was a strategy that created a gap between us and the competition in terms of size. Looking back, we could have built even more U.S. restaurants at a time when our competition wasn't so great. So, a lot of those "other" restaurants could have been McDonald's. We've applied this lesson to our rapidly growing international business, especially in markets where the competition isn't strong. And our size and infrastructure enable us to offer quality and value that are increasingly difficult for competitors or potential competitors to match. This valuable lesson has helped strengthen our leadership position.

Now, McDonald's is tapping into the power of what I call a "global mindset." We're sharing ideas, best practices and human resources across borders more aggressively.

What makes McDonald's so special to people around the world?

I believe it is the power of Brand McDonald's. Why else were there 50,000 people trying to get into the new McDonald's in Belarus? Why was there a seven-mile drive-thru line in Kuwait when we opened?

We've done market research with our customers, and it's gratifying to see the enormous depth and breadth of the McDonald's brand. Customers say we have equities in products

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like the Big Mac, our World Famous Fries and the Egg McMuffin. Equities in our relationship with families and children with icons like Happy Meals, PlayPlaces, Ronald McDonald and Extra Value Meals. And equities in our community involvement, especially through Ronald McDonald Houses. Customers really relate to the overall McDonald's restaurant experience. All of this helps us develop brand-loyal cus-

tomers. Just watch the faces of children when they walk into McDonald's; that's the power of Brand McDonald's. We also asked customers about our competitors' brands, and their list was much shorter and lacked the same emotional connection.

Running a corporation with such a broad reach, how do you keep in touch with so many markets?

I surround myself with really talented people and let them do their jobs. Our senior management is out and about all of the time, talking to owner/operators, restaurant managers and customers—getting a sense of what's going on in the field. We run a highly decentralized operation, both in the U.S. and internationally.

It's not practical for any single person to run this business. This is all about teamwork. But it's also important that people at all levels, including me, are held accountable for their decisions, actions and results. Our mission is to make sure we're running this business in the best interest of all our investors.

By investors, do you mean just shareholders?

Our shareholders are a very critical constituency, and I have special obligations to them. But they are not our only investors. Our investors include our owner/operators, who invest capital, time and energy. They also need to benefit. Many of our employees are shareholders; they are also investing their time, energy and futures with the Company. Even our suppliers are among our investors because they are investing time and capital to do business with McDonald's.

Why are franchisees so important to McDonald's?

Our franchisees, or owner/operators as we often call them, are the closest to our customers. They own and operate about 80 percent of our restaurant businesses. It's important that we are aligned, and I think we're more aligned today than at any time in recent memory.

Sharing McDonald's Vision

Jim Cantalupo, left, and Alan Feldman share their views on McDonald's International and U.S. businesses today and the prospects for the future.



"McDonald's people, with their shared vision of excellence, will lead the Company into the next century," noted Jack Greenberg.

Jim Cantalupo, vice chairman, McDonald's Corporation and chairman and chief executive officer—McDonald's International, and Alan Feldman, president—McDonald's USA, share this vision. They, too, are dedicated to making McDonald's the best quick-service restaurant experience in the world. These men and their teams make many of the decisions that impact McDonald's business and, ultimately, us as customers.

Jim's enthusiasm for the business is contagious. He emphasizes that, "We've extended McDonald's international presence to encompass more than 12,000 restaurants in 114 countries by providing customers with great quality, service, cleanliness and value. I've seen our international operating income increase more than eightfold during my watch, and I expect international to become an increasingly larger contributor to profits.

"We've been able to extend our leadership position due to the efforts of our many talented people around the world—from restaurant and office staffs to the men and women who are the managing directors of McDonald's businesses in their countries.

"Serving as a strategic link between each country's management and the home office are key members of my management team: Win Christiansen, Ron

Cohen, Tim Fenton, Andreas Hacker, Robbin Hedges, Paul Preston, Peter Ritchie, Bill Rose, Ed Sanchez, Jim Skinner and Marvin Whaley. Each is responsible for a distinct area of the world, such as Latin America, Central Europe and Greater China, providing strategic direction and a channel for ongoing feedback.

"Together, they oversee the opening of more than 1,500 McDonald's annually. And we expect to do that for a long time because of the demand for our products around the world.

"Granted, there will be economic setbacks and external challenges, but our diverse revenue and operating income mix allows us to weather regional economic issues better than most and emerge even stronger. In addition, our global infrastructure provides a competitive advantage that is invaluable and extremely difficult to replicate.

"Our international business overcame some tough challenges in 1998 and reported strong results once again. McDonald's is the value leader in virtually every market, and customer demand for the McDonald's experience remains strong. We will continue

to focus on value and profitable expansion to help us widen the gap against the competition. Long term, we have enormous opportunity to build our already substantial sales, profits and returns in the international marketplace. And that's exactly what we plan to do."

Alan and his management team have begun to reinvigorate the U.S. business and are committed to build on that momentum. His

excitement for and confidence in the business are evident. He readily points out, "The System is already beginning to see the tangible results of focusing on our strategies of delivering operational excellence, providing customers with the best value in the quick-service restaurant business and fostering a motivating environment for our owner/operators and employees. In 1998, we increased restaurant sales, profits, returns and owner/operator cash flow in the U.S. We also increased our market share in the growing hamburger segment of the quick-service restaurant industry to the highest level it's been in this decade.

"I attribute a lot of our success in 1998 to our owner/operators and restaurant staffs across

the country and to the leadership provided by our five U.S. division presidents: John Charlesworth, Kevin Dunn, Henry Gonzalez, Debra Koenig and Mike Roberts. Each of these individuals is responsible, and accountable, for roughly \$3.6 billion of System sales annually, making decisions regarding marketing, franchising, site development and restaurant operations in their respective divisions.

"I am also proud of the strong support demonstrated by our U.S. franchisees for our Made For You food preparation system. Their commitment reinforces the

effectiveness of this system, which provides customers with fresher food, reduces restaurant operating costs and strategically supports

our efforts to optimize food taste and accommodate more menu variety.

"Looking forward, we will relentlessly pursue customer satisfaction, as satisfied customers are the force that will continue to drive increases in sales and profits."

Jack—not shy about his admiration for his colleagues—was quick to add, "Jim has done an extraordinary job of building the international business over the last 11 years. And Alan's impact on the business, as an architect and agent for change, has earned him the respect and admiration of owner/operators and employees alike. We are lucky to have their skill sets; the results have been fabulous."

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"...satisfied customers are the force that will continue to drive increases in sales and profits."
Alan Feldman

I truly believe that our owner/operators around the world represent a real competitive advantage. Because our success is dependent on their success, we work together to make McDonald's succeed. Their input is integral to maintaining our leadership position. When you think of it that way, it's easy to understand why we are so committed to franchising as a way of doing business.

Will McDonald's ever diversify beyond the "Golden Arches?"

Ninety-nine percent of our efforts must be to grow the business called McDonald's. That's our first priority, our second priority and our third priority. But we are good at a great many things. I think that, over time, we owe it to our shareholders, our owner/operators, our employees and our suppliers to see how we can take advantage of our skills and competencies. In my mind, this is not diversification. This is a natural expansion.

We know how to run a multi-unit restaurant business at a high-quality standard. We know how to train people, how to buy real estate and construct buildings, and how to market products. And together with our suppliers, we have a unique global supply infrastructure. If we can find a way to leverage this for the long run, then we must try.

But as I already said, our first, second and third priorities are the Golden Arches.

Describe your management style? Who influenced you?

My management style is rooted in my strong belief that leaders cast a long shadow in how they behave with individuals day to day. This has been my own experience. It's not just how you act when you're giving a speech in front of a thousand people; it's how you act in a meeting with three or four people. I believe how leaders deal with the people they touch has an enormous impact on how organizations ultimately behave.

I think all of us are the result of so many different experiences and influences. For instance, I remember one of my college professors saying one day that having "connections" wasn't the only way to get ahead. Rather, he said, "Somebody has to do the work in a quality way."

Then there was the late Gerry Newman, who was McDonald's chief accounting officer for many years. Gerry taught me the value of listening and that our relationship with

our owner/operators was both important and sensitive. He was a special mentor for me. There's also Fred Turner, our senior chairman. Fred pioneered this business along with our founder Ray Kroc. They taught me to value creativity and innovation. And our chairman Mike Quinlan's mantra to "never be satisfied" serves as a constant reminder that while we should take time to enjoy our successes, we must always try to do even better in the future.

What key goals have you set for yourself as CEO?

I would love to see McDonald's ranked even higher on the list of the most admired companies in the world. A company that provides the highest customer satisfaction, opportunities for all the people who work here—and great returns for both our owner/operators and our shareholders.

Treating People Right

People development has been given a heightened emphasis at McDonald's, starting with restaurant staffs. Clearly, customer satisfaction starts with employee satisfaction. So, it's important that people around the world working at McDonald's are treated right and are given the training and the opportunity to succeed.

Cathie Habiger, an owner/operator with four McDonald's in the Kansas City region, has embraced this philosophy, creating a win-win-win situation for her employees, her customers and her business.

Faced with high employee turnover, Cathie identified opportunities for positive change. She introduced special training to enhance the people, business and management skills of her part-time managers. This generated greater self-confidence

among them and more enthusiasm among full-time managers for special training for themselves. Also, with part-time managers better able to effectively run restaurants, her full-time managers can focus on crew training and providing the extra attention their crews sometimes need.

Cathie also is helping her managers and crews to become business partners through monetary incentives tied to her organization's performance. And she

is attracting higher quality high-school students as crew by providing financial awards for good grades.

Her efforts have been rewarded. She has reduced employee turnover and improved profitability. Cathie also has better trained and motivated employees at all levels satisfying her customers.

