

case 1-429-163  
February 21, 2011

## McDonald's: Profile on Its Rise, Descent, and Return

*The arches are nicked a little bit, and some of that comes with the turf of being No. 1. Would you rather be No. 2?*

— Jim Cantalupo, CEO, in January 2003<sup>1</sup>

McDonald's was highly successful for over 40 years until it lost its way in the late 1990s. Profits dropped, the stock price followed, and customer satisfaction was clearly not what it could be. A new CEO took the reins in 2002 and, within two years and in a less than hospitable business environment, the company's profitability was moving up, its future prospects looked bright, and its stock price was moving in the right direction. What happened? Why? And can the lessons that McDonald's learned be applied to other companies in different circumstances?

### McDonald's Rise

Ray Kroc was selling multimixers to restaurants in California in 1954 when he received a huge order from a restaurant run by the McDonald brothers in San Bernardino, California.<sup>2</sup> It had opened in 1948 as a self-service restaurant with nine items on the menu, though the signature item was the hamburger.<sup>3</sup> Kroc visited the small restaurant and was so impressed with its operations that he joined the business with in 1955. He appreciated the company's limited menu that enabled a detailed focus on the quality of the food, its preparation, and the restaurant. He ended up buying the business from the brothers in 1961.<sup>4</sup>

The entrepreneur in Kroc produced a vision of McDonald's restaurants all over the United States, with franchisees running most of them. He devised the company operating system that "insisted franchisees follow the core McDonald's principles of quality, service, cleanliness, and value."<sup>5</sup> ("QSC&V" is still an important acronym and idea in McDonald's training and culture.)<sup>6</sup> These principles rippled throughout the fast-food industry because of McDonald's size, and they ended up driving innovation and standards in the supplier industry as well. Part of this drive for quality and innovation became Hamburger University, though it started as a simple training program in the basement of a new restaurant in Elk Grove Village, Illinois.<sup>7</sup>

McDonald's was very successful from the beginning. It sold its 100 millionth hamburger in 1958, opened its 500th restaurant in 1963, went public in 1965, and opened its first international restaurants in 1967, in Canada and Puerto Rico. Related financial results are shown in **Table 1**.

*Published by WDI Publishing, a division of the William Davidson Institute (WDI) at the University of Michigan.*

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