CASE STUDY

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MCDONALD'S CORPORATION

David Upton

Whether in Moscow or Massachusetts, the same experience would greet a customer in any of the 12,611 McDonald's quick-service restaurants worldwide. McDonald's had distinguished itself in the quick-service industry through its remarkable consistency across all units. To competitors and customers alike, the Golden Arches – the corporate emblem that adorned every restaurant – symbolised pleasant, fast service and tasty, inexpensive food.

In the United States alone, McDonald's served over 20 million customers every day.[1] Although such a number testified to the restaurant chain's success, it also suggested a troubling question for management. With McDonald's already serving so many customers, how could it possibly attract more business? External pressures reinforced the dilemma. Demographic trends were reshaping American eating habits while competitors were attacking the quick-service giant from all sides. From chains specialising in speed and service, to those offering wider variety and those that featured deeply discounted menus, McDonald's faced competitors poised to challenge the industry leader on all fronts. McDonald's had built its success on a legendary operating system that amazed competitors and the financial community by generating an average annual return on equity of 25.2 per cent from 1965 through 1991, and an average annual earnings growth of 24.1 per cent. However, sales per unit had slowed between 1990 and 1991, causing management to wonder whether the company's operating system, so vital in guaranteeing uniform quality and service at every McDonald's outlet, was suited to the new circumstances the company faced.

Top managers faced a vexing challenge: To what extent should McDonald's change its operations strategy to accommodate the growing need for flexibility and variety in products. Was it merely tweaking, or a dramatic change, that would support the company's volume growth objectives?

The Speedee Service System

Dick and Mac McDonald opened their first drive-in restaurant in 1941, relying on carhops – waiters who went from car to car – to take orders from patrons parked in the restaurant's large lot. In 1948, the brothers abandoned their popular format and introduced self-service windows, 15-cent hamburgers, french fries and milk shakes. They standardised their preparation methods (in what they termed the 'Speedee

Service System') with exact product specifications and customised equipment. Every hamburger, for example, was prepared with ketchup, mustard, onions and two pickles; the ketchup was applied through a pump dispenser that required just one squirt for the required amount. Ray Kroc, who held the national marketing rights to the multimixers used in the restaurants to make milk shakes, met the McDonald brothers in 1954. He was so impressed by their restaurant and its potential that he became a national franchise agent for the brothers, and founded the McDonald's chain. Like the McDonald brothers' first restaurant in San Bernardino, California, the McDonald's chain featured a limited menu, low prices and fast service. From the moment in 1955 when he opened his first McDonald's, in Des Plaines, Illinois, Kroc made the operating system his passion and his company's anchor. Whereas many competitors could prepare products that were similar to McDonald's, most focused on recruiting franchisees, which they promptly ignored, and on identifying the lowest-cost suppliers. Kroc, on the other hand, sought (1) to make sure McDonald's products were of consistently high quality, (2) to establish a unique operating system, and (3) to build a special set of relationships between the McDonald's corporation, its suppliers, and its franchisees (see Exhibit 1).

Getting it right – again and again

McDonald's designed its operating system to ensure consistency and uniformity across all outlets. Operating procedures guaranteed customers the same quality of food and service visit after visit, store after store. Every hamburger, for example, was dressed in exactly the same way: mustard first, then ketchup, onions, and two pickles. One competitor marvelled at McDonald's record of consistency: 'I've been to McDonald's in Tokyo, Vienna, and Australia, and I get a great sense of having the same product from each one of their locations. Most people haven't been able to bring the discipline needed in fast food to get that type of consistency.'

McDonald's operating system concentrated on four areas: improving the product; developing outstanding supplier relationships; improving equipment; and training and monitoring franchisees. In its quest for improvement, McDonald's revolutionised the entire supply chain, introducing innovations in the way farmers grew potatoes and ranchers raised beef, altering processing methods for both potatoes and meat, and inventing efficient cooking equipment tailored to the restaurant's needs. Most revolutionary, perhaps, was McDonald's attention to detail. Never before had a restaurant cared about its suppliers' product beyond the price, let alone the suppliers' methods of operation.

McDonald's was able to spend as much time and effort as it did in perfecting its operating system because it restricted its menu to 10 items. Most restaurants in the 1960s and 1970s offered a variety of menu items, which made specialisation and uniform standards rare and nearly impossible. Fred Turner, one of Kroc's original managers and later senior chairman of McDonald's, stressed the critical importance of menu size in attributing success of the company's operating system: 'It wasn't because we were smarter. The fact that we were selling just 10 items, had a facility that was small, and used a limited number of suppliers created an ideal environment for really digging in on everything.'

Turner developed the first operations manual in 1957 which, by 1991, reached 750 detailed pages. It described how operators should make milk shakes, grill hamburgers and fry potatoes. It delineated exact cooking times, proper temperature settings, and precise portions for all food items – even prescribing the quarter ounce of onions to be placed on every hamburger and the 32 slices to be obtained from every pound of cheese. French fries were to be $\frac{9}{32}$ of an inch, and to ensure quality and taste, no products were to be held more than 10 minutes in the transfer bin.

McDonald's patrolled suppliers and franchisees scrupulously. The meat in McDonald's hamburgers, for example, had particular specifications: 83 per cent lean chuck (shoulder) from grass-fed cattle and 17 per cent choice plates (lower rib cage) from grain-fed cattle. Fillers were unacceptable. Whereas other restaurants merely accepted what suppliers provided and complained only when meat was visually inferior, McDonald's routinely analysed its meat in laboratories.

In 1991, McDonald's spent $26.9 million on its field service operation to evaluate and assist each of its restaurants. Each of the company's 332 field service consultants visited over 20 restaurants in the United States several times every year, reviewing the restaurants' performance on more than 500 items ranging from rest-room cleanliness to food quality and customer service. Turner was the first corporate employee to visit and evaluate each restaurant and, as early as 1957, he summarised his evaluations by assigning a letter grade to a restaurant's performance in three categories: quality, service and cleanliness (QSC). For more than 30 years, therefore, McDonald's had prided itself on QSC and a fourth letter – V for value.[2]

McDonald's meticulous attention to detail and careful analysis of quality and procedures did not come from an unbending need for regimentation. Instead, McDonald's sought to study every component of its operation to learn what worked and what failed, to determine how best to offer consistently good service and food. Whereas other chains ignored both franchisees and suppliers, McDonald's sought to elicit commitment from them – commitment that required not only adherence but experimentation. Turner explained: *'We were continuously looking for a better way to do things, and then a revised better way to do things, and then a revised, revised better way.'*

Suppliers

A simple handshake secured every arrangement between McDonald's and a supplier, and it symbolised the way McDonald's revolutionised the entire relationship. Jim Williams, head of Golden State Foods, which supplied McDonald's with meat, contrasted the traditional supplier/restaurant relationship with the changes McDonald's introduced:

> *'Deals and kickbacks were a way of life. How long you let a guy stretch out his payments was more the determining factor of whether you got the business than the quality of the product you were selling. Kroc brought a supplier loyalty that the restaurant business had never seen. If you adhered to McDonald's specifications, and were basically competitive on price, you could depend on their order.'*

When McDonald's first approached the established food processing giants, such as Kraft, Heinz and Swift, the restaurant chain received a cold response. The established suppliers refused to accept McDonald's concepts and specifications and continued to concentrate solely on the retail market. Only small, fledgling suppliers were willing to gamble on McDonald's, and in turn, McDonald's created a whole new set of major institutional vendors. Each McDonald's restaurant ordered 1,800 pounds of hamburger meat per week and 3,000 pounds of potatoes. By meeting McDonald's strict standards and price requests, suppliers were guaranteed future volumes from a burgeoning restaurant chain. A supplier described the novel relationship that developed:

> *'Other chains would walk away from you for half a cent. McDonald's was more concerned with getting quality. They didn't chisel on price and were always concerned with suppliers making a fair profit. A lot of people look on a supplier as someone to walk on. But McDonald's always treated me with respect even when they became much bigger and didn't have to. That's the big difference, because if McDonald's said "Jump", an awful lot of people would be asking "How high?"'*

Suppliers grew alongside McDonald's and were thus carefully attuned to the company's needs. As one supplier commented, *'You've got to be deaf, dumb, and ignorant to lose McDonald's business once you have it'*.

Franchisees

McDonald's referred to its 3,500 US franchisees as its partners for good reason. By 1992, McDonald's generated 39 per cent of its revenues from franchise restaurants. When Ray Kroc first sold franchises, he made sure that his 'partners' would make money before the company did, and he insisted that corporate revenue come not from initial franchise fees but from success of the restaurants themselves. That philosophy continued to be at the centre of McDonald's franchise and operating practices.

Franchise owners did indeed see themselves as partners, developing such products as the Filet-O-fish sandwich and the Egg McMuffin in the 1960s and the McDLT in the 1980s. Franchisees also formed powerful regional cooperatives for both advertising and purchasing. Their regional advertising budgets enabled them to 'customise' local promotions while also supporting national programmes, and the buying cooperatives gave franchisees a channel for challenging suppliers to be innovative, even when those suppliers were meeting corporate requirements.

Together with corporate management and suppliers, franchisees infused McDonald's with an entrepreneurial spirit. All three partners balanced one another, just as the entrepreneurial inventiveness within each balanced their collective emphasis on disciplined standards of quality.

Cooking up products

Nothing exemplified the success of McDonald's operating system like the development of its food. From french fries to Chicken McNuggets, McDonald's had distinguished its menu offerings by drawing both on the rigorous operating system, with its focus on uniformity, and on the orchestra formed by corporate management, suppliers and franchisees.

In pursuit of the perfect fries

When McDonald's first began operating, french fried potatoes accounted for approximately 5 per cent of the entire US potato crop. By 1985, french fries accounted for more than 25 per cent of the US market. McDonald's had made french fries standard fare for an American meal, but more important for McDonald's, french fries became the restaurant chain's most distinctive item. Ray Kroc was well aware of the importance of the chain's fries:

'A competitor could buy the same kind of hamburger we did, and we wouldn't have anything extra to show. But the french fries gave us an identity and exclusiveness because you couldn't buy french fries anywhere to compete with ours. You could tell the results of tender loving care.'

McDonald's did indeed apply tender loving care in preparing its french fries. At first the company simply monitored the way french fries were cooked in its restaurants, trying to determine the exact temperature and settings that yielded the best french fries. They discovered, however, that temperature settings on the fryers had little connection to the temperature of the oil in the vat once cold potatoes were dropped in. By putting temperature sensors in the vat and on potato slices, McDonald's charted temperature readings during the cooking process. When a batch of cold, wet potatoes were thrown into a vat of melted shortening, the shortening's temperature dropped radically. Each batch of fries fell to a different temperature, but, McDonald's researchers discovered, the fries were always perfectly cooked when the oil temperature rose three degrees above the low temperature point. This discovery enabled the company to design a fryer that produced perfect french fried potatoes every order.

The initial research team eventually learned that potatoes also need to be cured for three weeks to produce perfect french fries: in that period of time the sugars within potatoes convert into starches. To prevent excessive browning and permit uniform crispness through the fry, McDonald's only accepted potatoes with a 21 per cent starch content. Members of the company's field operations staff visited produce suppliers with hydrometers, a floating instrument that measured the starch content of potatoes when immersed in a bucket of water.

As the number of McDonald's outlets grew to over four hundred in the early 1960s, the company's potato consumption surpassed six million pounds a year. That gave McDonald's and its suppliers sufficient purchasing power to influence growers of Idaho Russet potatoes to adhere to planting practices that yielded potatoes with high starch content. McDonald's also began looking for potato processors willing to invest in storage facilities with sophisticated temperature controls.

In the early 1960s, Jack Simplot, a major potato grower who supplied 20 per cent of McDonald's potatoes, approached McDonald's with an idea for improving the chain's french fries. He agreed to spend $400,000 to put Idaho Russets in cold storage during the summer, when they typically were not available. During the summer months, McDonald's relied on California white potatoes, less suited to production of crisp french fries. Although his gamble failed, and all of the stored potatoes rotted, Simplot returned with another, bolder suggestion in 1965. He recommended that McDonald's consider converting from fresh to frozen potatoes. Reluctant though the company was to tamper with its renowned french fries, Ray Kroc recognised the distribution problems involved in supplying fresh potatoes to his growing chain. Simplot pitched his idea to Kroc on the basis not of price but of qualiy, as he later explained:

'They were having a hell of a time maintaining potato quality in their stores. The sugar content of the potatoes was constantly going up and down, and they would get fries with

every colour of the rainbow. I told him that frozen fries would allow him to better control the quality and consistency of McDonald's potato supply.'

McDonald's studied the freezing process carefully learning that the traditional process robbed structure and flavour from french fries. Ice crystals would form in the potato during freezing, rupturing the starch granules. McDonald's developed a process to dry french fries with air, run them through a quick frying cycle, then freeze them. This reduced the moisture in the frozen fry while preserving its crispness. Simplot volunteered to build the initial production line that implemented this process, and by 1992, his company supplied McDonald's with 1.8 billion pounds of french fries – close to 50 per cent of the chain's domestic potato business. Only a small, local supplier when he first approached McDonald's, Simplot's organisation grew to a $650 million frozen potato processing giant.

McDonald's even improved the way restaurant crews filled orders for french fries. Operators had complained that employee productivity suffered because the metal tongs traditionally used to fill french-fry bags proved clumsy. In response, a McDonald's engineer, Ralph Weimer, designed a V-shaped aluminum scoop with a funnel at the end that enabled operators to fill a french-fry bag in one motion and, in addition, align the fries in the same vertical direction within the bag.

Fast break from competitors: breakfast and the McMuffin

In June 1976, McDonald's franchisees introduced the chain's most significant new product: not just a new menu item but a new meal – breakfast. Most operators were sufficiently busy keeping their restaurants open between 11:00 a.m. and midnight, but a Pittsburgh franchisee looked at these hours as a limitation that offered an opportunity: *'We were paying rent, utilities, and insurance 24 hours a day, but we were only open for business for half that time. We had all those morning hours before 11:00 a.m. to do some business.'*

This franchisee began opening his restaurant at 7:00 a.m., serving coffee, doughnuts, sweet rolls, pancakes, and sausage. Without detracting from McDonald's existing menu, he generated entirely new business.

Other franchisees would agree to extend morning hours only if they happened upon a breakfast item that promised enormous sales growth. Herb Peterson, a franchise operator in Santa Barbara, California believed that to launch a new meal, McDonald's required a unique product that could be eaten like all other McDonald's foods – with the fingers. He turned to a classic egg dish – Eggs Benedict – for inspiration.

In 1971, he developed a sandwich and a special utensil that could, in classic McDonald's style, guarantee foolproof production of the sandwich. A cluster of six Teflon-coated rings could be used on a grill to give eggs the rounded shape of an English muffin while giving them the look and taste of poached eggs. When a slice of cheese and bacon were added, McDonald's had developed the cornerstone product of its breakfast menu: the Egg McMuffin.

McDonald's rolled out a complete breakfast menu in 1976, featuring the Egg McMuffin, hotcakes, scrambled eggs, sausage, and Canadian-style bacon. McDonald's had again distinguished itself from competitors, none of whom responded until the mid-1980s, by which time McDonald's held a virtual monopoly on breakfast, which accounted for 15 per cent of average restaurant sales.

McDonald's once again turned to suppliers for support in developing the Egg McMuffin; some were responsive while others lost a revolutionary opportunity. Pork processors, for example, worked with McDonald's to build equipment that could cut round slices of bacon instead of strips.

Chicken comes to the golden arches

In the late 1970s, McDonald's official chef, Rene Arend, tried to develop an onion product – deep-fried chunks of onion – but the variation in onion supplies made it difficult to control quality. Instead, CEO Fred Turner suggested that Arend substitute bite-sized chunks of deep-fried chicken.

McDonald's immediately turned to two suppliers to help develop the product in record time. Gorton, the original supplier of fish for McDonald's Filet-O-Fish sandwich, was selected to solve the breading and battering challenge as it had done previously with fish. McDonald's handed the most difficult challenge to Keystone, one of McDonald's meat suppliers: find an efficient way to cut chicken into bite-sized, boneless chunks. Arend, meanwhile, developed four sauces to accompany the nuggets. The collaborative effort between McDonald's and its suppliers produced breakthroughs that made the new product, Chicken McNuggets, not only possible but unique: a modified hamburger-patty machine that cut boneless chicken into nuggets, for example, and a special batter that gave the nuggets the taste and appearance of being freshly battered.

By March 1980, just five months after beginning work on McNuggets, McDonald's was testing them in a Knoxville restaurant. Within three years of introducing Chicken McNuggets throughout its chain, McDonald's was deriving 7.5 per cent of domestic sales from its newest product. The giant of the hamburger business had suddenly become the second-largest chicken retailer in the food-service industry, positioned behind Kentucky Fried Chicken. Keystone's efforts on behalf of McDonald's again provided proof of the success bred by loyalty: by 1992, Keystone had 65 per cent of McDonald's chicken business, transforming the meat supplier into a major chicken producer as well.

Competitors and growth

McDonald's had built the most successful quick-service franchise in the world, maintaining phenomenal growth for over 35 years. Distinguishing itself from other chains by adhering tenaciously to an operating system focused on uniformity, it worked with its franchisees and suppliers as partners to improve the operating system and introduce new products. But as management reviewed McDonald's performance in recent years, many wondered if the company's traditional strategy still suited the dramatic changes it now seemed to face.

McDonald's share of the US quick-service market had dropped from 18.7 per cent in 1985 to 16.6 per cent in 1991, even though the company gained sales from a bigger quick-service 'pie'. Despite this, between 1988 and 1990, sales per US outlet dropped an average of 3.7 per cent in real dollars. After years of double-digit income growth, McDonald's 1991 net US income grew just 7.2 per cent to $860 million. It was estimated that by 1995, profit from overseas outlets would surpass profit from US outlets. Overseas business, in fact, showed the greatest growth in recent years, with operating income rising from $290 million in 1987 to $678 million in 1991.

Although international expansion clearly offered McDonald's its most fertile frontier, McDonald's had to concentrate on US operations. There were 2,500 franchisees in the United States, over 8,814 restaurants (1,416 company-operated), and 25 per cent of company revenues came from franchise fees based on a percentage of sales. US business accounted for 60 per cent of profits, and it simply had to be bolstered.

Moreover, McDonald's had to consider demographic trends. Hamburger consumption had dropped from 19 per cent of all restaurant orders in 1982 to 17 per cent of all orders in 1990 (hamburger consumption at McDonald's had nevertheless increased over the same time period). Increasingly, though, consumers were becoming more conscious of nutrition and dietary options without compromising taste. The change in dietary preference was, however, certainly not universal, and there was a strong constituency of customers who continued to enjoy McDonald's traditional fare.

The quick-service industry had grown at an average annual rate of 8.7 per cent in the 1980s but was projected only to keep pace with inflation during the 1990s. Perhaps most confusing in its implications, the number of meals eaten off the premises of quick-service restaurants had increased from 23 per cent per cent in 1982 to 62 per cent in 1990. McDonald's responded with double drive-through windows to keep pace with changing consumer preference, as well as new venues for its restaurants, such as schools, sporting arenas, museums, airports, and hospitals. It also developed new smaller restaurants, less expensive than its traditional designs, which could service customers profitably in 'seam' areas between existing McDonald's restaurants.

New competition

The once simple quick-service market had been complicated by the entry of specialist competitors who had emulated McDonald's strategy to capture their own segment of the market. Michael Quinlan, chairman of McDonald's, acknowledged just how fierce the competition had become. *'Our competition is much tougher, no question about it. And not just in numbers but in quality.'* McDonald's most menacing competition no longer came from Burger King, Wendy's, or Kentucky Fried Chicken – the traditional rivals.

Chili's and Olive Garden catered to customers searching for full-service and greater variety. Both were family-style restaurants where patrons sat down to be served. Menus offered a wide variety of foods, yet prices remained competitive with those at McDonald's (see Exhibit 2 for McDonald's menu). Casual dining restaurants were likely to grow in the 1990s as their most frequent patrons – people between the ages of 40 and 60 – increased in number by about 20 million.

Two hamburger chains, Sonic and Rally's, offered drive-through service only and specialised in delivering burgers fast. For four years Sonic sales per restaurant grew an average of 11.3 per cent per annum, and in 1991 alone, sales per unit increased 13 per cent. There were 1,150 Sonic units and 327 Rally's.[3] Taco Bell featured Mexican food and a menu with 26 items under one dollar. Along with Kentucky Fried Chicken and Pizza Hut, Taco Bell was owned by PepsiCo and had seen the greatest increase in sales of any quick-service chain in the late 1980s. By learning from McDonald's, Taco Bell shifted food preparation to outside suppliers, reduced kitchen space in its outlets, and used a cost-based strategy to compete – prices were always kept low. Between 1988 and 1991, Taco Bell served 60 per cent more customers and sales rocketed 63 per cent.

Early responses from McDonald's

McDonald's drew on its traditional strengths to respond to competitors' challenges and customers' new habits. Careful product development, closely gauged to customer tastes, again formed the focus of attention as McDonald's turned to suppliers and franchisees for assistance. To address concerns about nutrition, McDonald's had introduced salads, chicken and muffins. In conjunction with Keystone and Auburn University, it developed the first ever 91 per cent fat-free burger, McLean Deluxe. Keystone also convinced McDonald's to experiment with chicken fajitas, which proved an instant success in initial tests. The chicken arrived precooked and seasoned, so it only required heating and did not slow operations. The fajitas sold well in market tests and were soon scheduled for national introduction.

Just as McDonald's had spent five years perfecting its breakfast menu for national rollout, the company spent seven years developing a pizza suitable for its restaurants. Meticulous product development included design of advanced technology, as it had when McDonald's engineers introduced a special french-fry scoop and a grill that prepared hamburgers in half the time by cooking them on both sides simultaneously. Now McDonald's engineers had invented a pizza oven that could cook McDonald's pizza in under five minutes. In addition, McDonald's was developing new staging equipment – high-tech temperature and moisture controlled cabinets – that would allow parts of a product to be prepared ahead of time without detracting from food quality. Toasted buns, for example, could be stored in these containers without becoming dried out.

In early 1991, McDonald's returned to a value menu, cutting prices an average 20 per cent. Cheeseburgers sold for only 69 cents, and McDonald's Happy Meals™ – complete children's meals (sandwich, fries, drink and toy in a colourful box) – for just $1.99. As a result, sales of hamburgers increased by 30 per cent and customer counts rose. Revenues and profits, however, increased less dramatically.

These initial moves suggested a fundamental tension between McDonald's expanded efforts to provide greater value, on the one hand, and enhanced variety, on the other. As Fred Turner noted, *'We're a penny-profit business'*, and with a value menu, volume was critical. That made the chain's hallmark of speed more vital than ever, yet a wider variety of menu offerings posed the risk of slowing each unit's service. Variety and value had to be carefully balanced. Management's challenge was to sustain McDonald's painstaking attention to products and service in achieving that balance.

Flexibility and growth

McDonald's had achieved success by focusing on a simple formula: limited menu, low prices, and fast service. The golden arches symbolised a uniform product – primarily burgers, fries and shakes – delivered in a consistent manner. Whereas uniformity and consistency had formed McDonald's focal point for 35 years, the company's new advertising slogan seemed to suggest a subtle yet significant shift: 'What You Want Is What You Get at McDonald's Today'. Catering to customers had always been the company's focal point, but to meet changing and divergent customer needs, McDonald's was exploring many different options, and management thought a basic question had to be answered. Would the chain's new concern with flexibility in meeting customers' changing needs require a fundamental change in McDonald's bedrock strategy? Or was this just a new, albeit incredibly complicated, situation once again adaptable to the company's traditional approach?

Early responses to new customer desires and intensifying competition represented just a piece of the company's maelstrom of creative activity. Further efforts were in progress as well. For example, McDonald's had developed a number of new building prototypes, from drive-through-only models to compete with Rally's and Sonic, to small cafes suitable for small towns. Menu diversification offered the greatest area of experimentation. A wide range of items was being tested, including lasagne, carrot sticks, corn on the cob, fruit cups, and oven-baked chicken. McDonald's was also looking for new ways to address nutritional concerns revolving around calcium deficiency and sodium and fat reduction.

McDonald's changes to date had not threatened its traditional operating system, but increased variation throughout the chain – whether in menu offerings, building plans, or eating experience – would pose formidable challenges to McDonald's in maintaining its remarkable quality control and speed of service. The operating system had been constructed to ensure uniformity, quality, and speed at all McDonald's restaurants. If the chain intended to offer a wider variety of foods, such as spaghetti and meatballs or baked chicken, it could disrupt an operating system built around a limited menu.

McDonald's traditional rival, Burger King, afforded an example of the dangers contained in variety. Burger King flame-broil – *if* the flame-broiled Burger King burgers were cooked correctly. But flame-broiled hamburgers were inconsistent in quality and Burger King was not able to implement an operating system that could sustain consistency across all units.

Increasing variety posed another potential dilemma for McDonald's. As the chain responded to pricing challenges from competitors like Taco Bell, higher volume became imperative. To generate higher volume at each restaurant, speed became even more important, and speed could not be risked on a cornucopia of new products. Although the new menu items McDonald's had thus far tested, such as chicken fajitas, had not clogged operations and were well-received by franchisees, McDonald's had to guarantee similar smoothness with some of the more exotic products under consideration, whether chicken, spaghetti or corn on the cob.

The sheer number of additional products could also detract from the speed of service. McDonald's perfected its operating procedures and equipment in part to accommodate its workforce, whose annual turnover rate was greater than 100 per cent (nevertheless, the lowest in the industry). While McDonald's commitment to training continued to set the industry standard, no McDonald's outlet could afford to engage in complicated preparation processes for new products that might work at cross-purposes with speed of service.

If those challenges did not prove sufficiently daunting to the quick-service giant, it also had to consider restaurant image if it hoped to expand its business through enhanced variety. McDonald's had built its image as the place for hamburgers and quick service – not for other food and not for casual dining. If people sought Mexican food, they would go to Taco Bell. If people wanted pizza, they would go to Pizza Hut. If they wanted to sit down to a leisurely, reasonably priced meal, Olive Garden, Chili's, Perkin's, TGI Friday's, and Friendly's all came to mind before McDonald's. Not only did McDonald's have to extend its own image, it also had to confront the established reputations of competitors.

These challenges appeared especially troubling because dinner presented perhaps the final frontier of potential growth. Only 20 per cent of McDonald's sales came from dinner, and to entice customers to visit the golden arches for dinner required a new menu – as it had for breakfast – and even a different ambiance. To defend against competitors, McDonald's could not introduce dinner items one by one. Competitors could tout their specialties and thus respond easily. McDonald's, therefore, had to present an entire dinner menu at once, and the earliest possible date for such a rollout appeared to be the spring of 1993.

Dinner differed in other ways too. Lunch and breakfast customers were most concerned with speed and convenience, but dinner was more of an event, and customers expected full meals and more complete service. Tablecloths and table service, for example, did not seem out of the question. With 62 per cent of 1990 quick-service sales coming from off-premises eating, compared to just 23 per cent in 1982, the trends for lunch and breakfast seemed to be headed in the opposite direction.

While these competitive pressures mounted, a new challenge had been growing: protecting the environment. While many companies had seen the outbreak of environmentalism in the late 1980s as a threat – McDonald's saw an opportunity: the chance of knitting a responsible environmental policy into its evolving operations strategy.

Management considered all of these challenges and knew McDonald's would like to maintain the same core menu, operating systems, and decor. The chain nonetheless would have to allow greater latitude across units and provide a broader variety of products and experiences for the customer. But would there still be such a thing as a standard McDonald's?

Notes on the case

1 With 250 million people living in the United States, McDonald's was serving roughly 8 per cent of the US population daily.
2 Franchisees could not be graded on value because it violated antitrust regulations, which prohibited rigid pricing and required independent business owners be given the latitude to set prices on their own.
3 Therrien (1991) 'The Upstarts Teaching McDonald's A Thing or Two' *Business Week*, 21 October, p. 122.

Exhibit 1 McDonald's original menu

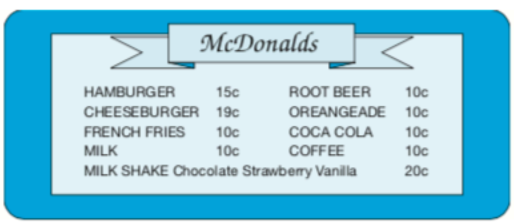

Exhibit 2 **McDonald's menu, 1992**

APPROVED NATIONAL MENU ITEMS – Listed on Menu Boards – (Effective 6/1/92)

Regular Menu Items

1. Hamburger	19. Medium Fries
2. Cheeseburger	20. Large Fries
3. Quarter Pounder with Cheese	21. Lowfat Milk Shakes
4. Big Mac	22. 1% Milk
5. McLean Deluxe (and cheese option) (8, 12, 16 oz.)	23. Drink – Child Size (12 oz.)
6. McChicken Sandwich	24. Drink – Small (16 oz.)
7. McNuggets – 6 Piece	25. Drink – Medium (21.9 oz.)
8. McNuggets – 9 Piece	26. Drink – Large (32 oz.)
9. McNuggets – 20 Piece	27. Orange Juice
10. Happy Meal – Hamburger	28. Coffee (8, 12, 16 oz.)
11. Happy Meal – Cheeseburger	29. Decaffeinated Coffee Fresh Bewed
12. Happy Meal – 4 pc. McNuggets	30. Hot Tea
13. Filet	31. Iced Tea (12, 16, 21.9, 32 oz.)
14. Chunky Chicken Salad	32. Apple Pie
15. Chef Salad	33. Chocolate Chip Cookie
16. Garden Salad	34. McDonaldland Cookies
17. Side Salad	35. Sundaes
18. Small Fries	36. Cones

Breakfast Menu Items

1. Egg McMuffin
2. Sausage McMuffin w/Egg
3. Big Breakfast
4. Hotcakes and Sausage
5. Sausage Biscuit
6. Sausage/Egg Biscuit
7. Bacon/Egg/Cheese Biscuit
8. Breakfast Burrito
9. Hash Browns
10. Apple Bran Muffin (fat free)
11. Cereal (Wheaties & Cheerios)

APPROVED NATIONAL 'VALUE MENU COMBOS' – Listed on Menu Board – (Effective 6/1/92)

Regular Menu	*Breakfast*
1. Big Mac, Lg. Fry, Med. Drink	1. Egg McMuffin, any size drink
2. 2 Cheeseburgers, Lg. Fry, Med. Drink	2. Bacon Egg & Cheese Biscuit, any size drink
3. Quarter Pounder w/Cheese, Lg. Fry, Med. Drink	3. Sausage McMuffin w/Egg, any size drink
[a]4. McChicken, Lg. Fry, Medium Drink	[a]4. Sausage Biscuit w/Egg, any size drink

[a]The #4 position can be used as a flexible option with provided options being McLean Deluxe, 2 Chicken Fajitas, Filet-O-Fish, or Hotcakes during Breakfast.
Source: company document.