

McDonald's: The Origin of a Fast Food Empire

<https://www.youtube.com/watch?v=aIgmMXZ7008>

McDonald's is a real estate business.

That might sound surprising: after all, who hasn't at least once in their lifetime indulged in the glorious experience that is a Happy Meal?

You might know McDonald's as that fast food chain that sells hamburgers and fries, but trust me, it goes way deeper than that.

That's why, this week on Behind the Business, we'll be looking at the world's second-largest restaurant chain, McDonald's.

Few things sound as Irish as the name McDonald.

It's an interesting name: the 'mac' part means son, while Donald comes from a Gaelic name that means 'Ruler of the World'.

Very ominous, right?

The two 'world-rulers' that we're interested in are Richard and Maurice McDonald, two brothers from New Hampshire.

In the 1920s they moved to California, where they started a movie theater and a hot dog stand, but they eventually went bust when the Great Depression came around.

Their first big success came in 1940, when they opened a barbecue joint in San Bernardino.

Now at the time, virtually all restaurants were mom-and-pop establishments, with their own unique taste and cooking methods.

Drive-ins with roller skating waitresses were all the rage back then, but they weren't particularly efficient.

You had to wait half an hour to get your order, and half of the time they got it wrong.

The McDonald's barbecue was no different, and although it did turn a profit, the brothers knew they could do better.

They realized that most of their income was coming from just three products: hamburgers, french fries, and coke, and after running the place for 8 years, the brothers decided to make a radical makeover.

They dropped most of their menu to focus on their best sellers, and then they redesigned the entire kitchen around that.

The cooking process started to look like an assembly line, which allowed the brothers to fill customer orders in as little as 30 seconds.

They abandoned the drive-in concept in favor of a walk-up counter, and they stopped using cutlery and dishes entirely, replacing them with disposable paper packaging.

In an instant, their restaurant became a sensation, drawing in attention from across the country.

One of the people they attracted was this guy, Ray Kroc.

He was a natural-born hustler, who at the age of 15 had lied his way into serving as a Red Cross ambulance driver during WW1.

Interestingly enough, he served alongside Walt Disney in France, but they didn't really keep in touch after the war.

Like most people from the postwar years Ray had worked dozens of jobs: jazz pianist, radio DJ, paper cup salesman, you name it.

In the early 1950s he was traveling cross-country trying to sell expensive milkshake machines, but he wasn't really doing a good job at it.

One day in 1954, however, he got an order for 8 of them, and it was from none other than the McDonald brothers.

When Ray made his way to San Bernardino, he fell in love with their restaurant and immediately offered to franchise it.

By that point, the McDonald brothers had already opened over 20 franchise locations, but none of them were doing as well as the original restaurant: the lack of oversight made maintaining quality impossible.

The brothers decided to give Ray a shot, and boy did he deliver.

He handpicked only the best franchisees and ran his operations like an army drill.

In the span of just 6 years, Ray built 100 McDonald's restaurants, while the McDonald brothers were basically managing their own joint.

Ray eventually grew tired of them: they'd reap 0.5% of all sales for doing nothing while roadblocking Ray's suggestions for improving the franchise.

To cut them out, Ray figured out a brilliant strategy.

He'd buy the land all future restaurants would be built upon, and then he'd lease it to his franchisees.

This way, Ray got to keep almost all of the profits from the business, while leaving the McDonald brothers empty handed.

Of course, the brothers weren't very happy at that, but there wasn't anything they could do, and in 1961 they finally agreed to sell their franchise to Ray for \$2.7 million.

With the brothers out of the way, Ray stepped on the accelerator, implementing all the changes he had wanted, like redoing the logo and creating a mascot.

He also expanded the menu, adding the Filet-O-Fish in 1965 and the Big Mac in 1968.

That same year Ray celebrated opening store #1000, and adopted the modern iteration of the golden arches logo.

Throughout the next decades McDonald's would keep expanding, and not just in the US.

They pioneered breakfast fast food with the introduction of the Egg McMuffin in 1972.

They also added stuff like Chicken McNuggets and the Happy Meal, which would eventually make them the world's largest toy distributor.

By 1988 they had 10,000 restaurants, and although Ray was no longer alive, the company kept on growing without him.

Thanks to their iconic Hamburger University, the McDonald's franchise had some of the best-trained managers in the fast food industry.

This allowed them stay one step ahead of competitors like Burger King and Wendy's.

Since then, McDonald's have continued expanding their menu into what we know today.

In 2006 the franchise underwent its first major redesign since the 1970s, adopting the so-called "Forever Young" design, which features dining zones with comfortable sofas and armchairs.

Interestingly enough, today McDonald's isn't the world's largest restaurant chain: That title goes to Subway, who have almost 45 thousand locations compared to 37 thousand for McDonald's.

The company itself owns only 15% of them, the rest being franchised out.

The restaurants ran by the company account for 2/3rds of its revenue, but that's not the whole story.

In reality, it costs way more to run your own restaurant than it does to sit back and collect rent.

In 2014, for example, company-operated stores generated \$18.2 billion, but McDonald's got to keep only 2.9 billion.

In comparison, out of the \$9.2 billion coming in from franchisees, the company kept 7.6, a stunning 80%.

So, even though McDonald's seems to be flipping burgers, in reality they're playing Monopoly instead.

Thanks for watching and a big thank you to all of you out there who are supporting us on Patreon!

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Once again, thanks a lot for watching, and as always: stay smart.
