

A McDonald's Family Challenges the Status Quo

Bearco Management's Innovative Spin on a Restaurant Standard

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STANDING AT THE LOCATION of his newest McDonald's restaurant, David Bear realized he was facing a considerable challenge. The cost of entry at this location, in an upscale commercial development in suburban Chicago, was 50% greater than the most expensive restaurant his company had built in the 1990s. McDonald's land acquisition, land improvement, and site development costs were significantly higher than anyone had anticipated. Consequently, the rent and royalty fees to McDonald's would be 50% higher. He needed to generate considerable revenue for this location to be financially viable. Sales at an average McDonald's restaurant in the U.S. had just surpassed two million dollars. He hoped to achieve similar sales within their first year.

To achieve his lofty goal, David knew he couldn't build an ordinary restaurant—one with the instantly recognizable red mansard roof, white exterior, and colorful, brightly lit interior. An ordinary restaurant wouldn't pay the rent. To generate the volume of sales he needed, he'd have to attract the dinner crowd and tourists. Doing so would require a very different store. Something upscale. Something sensational. Something very un-McDonald's. His plan, dubbed "Café M," would require careful planning and negotiation—especially with those who ensured the consistent look of McDonald's restaurants everywhere.

The Evolution of McDonald's

In 1937, Dick and "Mac" McDonald opened their first McDonald's drive-in just east of Pasadena, Calif. Their initial success motivated them to relocate and open a larger drive-in in San Bernardino, Calif., in 1940. The restaurant featured a 25-item menu including beef and pork sandwiches and ribs. Eight years later, de-

Background information on the McDonald's system, here and on following pages, is based on information found in John F. Love, *McDonald's: Behind the Arches* (New York: Bantam, 1995 (revised ed.)); Ray Kroc and Robert Anderson, *Grinding It Out: The Making of McDonald's* (Chicago: Regnery, 1977); the Wikipedia entry on McDonald's, online at <http://en.wikipedia.org/wiki/McDonald%27s>; and the McDonald's corporate website at <http://www.mcdonalds.com/corp/about.html>.

spite the restaurant's remarkable success, the McDonald brothers concluded that drive-ins had some serious economic flaws. Studying sales receipts, the brothers discovered that 80% of their business was generated by hamburgers. This realization prompted the McDonalds to refocus and make speed their top priority.

They repositioned the restaurant as self-service, reconfigured restaurant equipment and operations, and reduced the menu from twenty-five items to nine, with a 15-cent hamburger as the core product. In December 1948, they reopened with the "Speedee Service System." Their assembly-line efficiency and their ability to prepare food in advance allowed the McDonalds to fill orders with remarkable speed. The restaurant was an indisputable success.

In 1953, the brothers started franchising their "Speedee Service System" to others. The following year, a milkshake mixer salesman named Ray Kroc visited the McDonald brothers' restaurant and saw tremendous potential. Ray quickly negotiated a contract with the McDonalds, giving him exclusive rights to franchise the McDonald's System nationwide. By 1961, the McDonald brothers decided to exit the business and sold their remaining interests to Kroc's McDonald's Corporation.

In the early days of McDonald's Corporation, Kroc noticed that his most successful franchisees were not wealthy businesspeople. They were working couples who had invested most or all of their savings to open a McDonald's restaurant. Given their level of financial investment, these franchise owners were extremely motivated to devote the time and effort necessary to make their restaurant a success. Furthermore, these owners had no restaurant experience and minimal business experience so they welcomed the strong support and structured processes provided by the Corporation. Kroc's philosophy was to treat franchisees like equal partners, providing them with the freedom to create and contribute ideas that he believed would benefit the system while rejecting deviation from the norm when he thought it would hurt the system.

McDonald's Plan to Win

After decades of unbridled success, McDonald's reported its first quarterly loss as a public company in early 2003. Resolute to regain its profitability and worldwide image, the company sprung into action. The outcome of their efforts was the "Plan to Win" Initiative. The goal of the "Plan" was to boost the bottom line by rebuilding, relocating, or refreshing approximately 7,000 U.S. restaurants with updated design. Their intention was to attract women and baby boomers, as well as their core patrons—children and young men. New design elements included enhanced seating and décor, contemporary artwork, modern lighting and fixtures, wood and metal seating, updated restrooms, and double drive-thru lanes.

As part of their "Plan to Win," McDonald's developed interior zoning standards which served as an operations and interior design guide to franchisees.

The red zone, which included the kitchen, counter service area, and building exterior colors and signs, was off limits to modifications. Exterior landscaping, restrooms, and office space, contained in the yellow zone, were modifiable, with certain restrictions. The green zone, which addressed dining room décor, furniture, and lighting, could be designed as franchisees saw fit. Because many new McDonald's restaurant opportunities are presented in a "pitch session" just nine to twelve months from the scheduled opening, by the time an owner/operator is selected for the store, the compressed timeline usually compels the franchisee to select one of a number of predefined color-themed décor and furniture combination packages offered by the Corporation.

McDonald's is able to fully prototype and test programs like "Plan to Win" at its Core Innovation Center in Romeoville, Ill. At the facility, three full-size kitchens can be reconfigured to simulate any McDonald's restaurant in the world, allowing staff members to explore the efficacy of new technologies and operations protocols. By fully exploring ideas in a risk-free, cost-effective environment, McDonald's can make sure everything works before introducing products, services, and procedures to franchisees for adoption. This "top-down" approach to innovation is especially important since McDonald's has nearly 32,000 locations in 119 countries and territories worldwide, serving more than 50 million customers each day—any problems in an untested new program would be greatly magnified if implemented on such a scale. The Innovation Center's diligent approach seems to be working—according to the company's 2005 annual report, revenues are up to \$20 billion, further solidifying the company's position as the world's largest chain of fast-food restaurants.

The Birth of Bearco Management

Marcelle and Jerry Bear had all the makings of a prototypically successful husband-and-wife McDonald's franchisee: they were hardworking, creative, and opportunistic. Marcelle, a French emigrant, began working as a typist at McDonald's Corporation when the company had only four other employees. Her husband, Jerry, ran his own furniture design business. Because of her strong work ethic, Marcelle quickly moved up the ranks to become secretary to Fred Turner, later the Corporation's CEO.

While visiting Marcelle at work one day, Jerry realized that there was far more money to be made in fifteen-cent hamburgers than in sofas. He suggested that she investigate acquiring a franchise. The request was granted, and in 1967, the two became equal partners in their first McDonald's franchise, with Marcelle becoming the first female operator in McDonald's system.

Given the opportunity to select from various locations around the country, the couple chose to stay close to home in Elgin, Ill. While considering a pre-existing McDonald's for their first store, Jerry noticed that the nearby grassland had been

staked for suburban development, as far as the eye could see. He and Marcelle committed to the store location that same day.

During those early months, sales were so low at the Larkin Avenue restaurant that Jerry was forced to sell his furniture business and work with Marcelle full time. Gradually, though, they built a reputation in the community for quality, service, and value. Jerry and Marcelle saw profits rise at the Larkin store, and soon applied to open additional franchises. The Bears became attentive managers, and astute observers of customer behavior, making continual adjustments to the smallest details to improve customer experience. Once, observing how a new manager's dour mood was putting a damper on counter staff interactions with restaurant patrons, Jerry whispered a corny joke to one member of the team. "I knew she'd pass it right along," he gleefully remembered. Soon, not only were the counter staff smiling, but so were customers in line and in the dining area, and he pointed out to the manager how the simple use of humor could transform the "feel" of the entire restaurant. Mastery of such nuances helped Jerry and Marcelle build a thriving family of McDonald's outlets.

Today, thirty-nine years later, the Bears operate nine franchises in the Chicago-land area through their company, Bearco Management. The organization has since grown from a two-person team to a small office of administrators, with Jerry serving as President and Chief Executive, Marcelle addressing administrative duties, and their son David serving as Vice President and Chief Operations Officer. Both David and their other son Marc also serve as owner-operators of their own restaurants.

Innovation, Bearco-Style

According to David Bear, "We had an opportunity to work closely with Ray Kroc, and we have a good understanding of what Ray's vision for the business was—which may not be the same as it is today. The system has given a tremendous benefit to our family ... but we also have strong passion and entrepreneurial spirit ... we have always been very visionary. 'Here's what the system says, but can we do it better?'"

From the very beginning, the Bears have pushed customer perceptions of McDonald's, and to this day, Jerry embraces Ray's philosophy of learning through trial-and-error. "I'm a firm believer in trying. That's how you learn ... by trying things," Jerry Bear proclaimed. "There's no such thing as failure."

In contrast to the "top-down" innovation model used by McDonald's Corporation, the Bears practice a "bottom-up" approach to innovation. Rather than waiting for thoroughly-tested concepts to flow down from corporate headquarters or the Core Innovation Center, they rapidly prototype and test new ideas in their restaurants. If the test results are positive, they implement the idea more broadly

wherever it makes sense. Some of their best ideas even trickle “up” to the entire system.

Back in 1988, Jerry Bear noticed that the drive-thru line at his Larkin Avenue McDonald's was spilling out onto the street and blocking traffic. Since speed is the number one priority for drive-thrus, he and Marcelle quickly prototyped a double drive-thru, using the multi-lane system at bank drive-thrus for reference. Instead of waiting in a single line, customers were encouraged to drive up to one of two different speakers and place their order. After finishing, they merged back into a single file line to pay and pick up their food.

Despite the clear benefits provided by this modification, corporate McDonald's was not impressed. The prototype was perceived as a blatant deviation from standard policy, and the Corporation was concerned about the potential for automobile collisions where the lanes converged. They told the Bears that the double drive-thru had to go.

Fortunately for McDonald's Corporation, Jerry believed strongly in the idea's merit and was adamantly opposed to removing it. Having used his money to improve the experience of his customers, he didn't feel there was a logical reason to eliminate it. After years of negotiating with headquarters, McDonald's changed its mind, letting Jerry keep the drive-thru. Eventually, double drive-thrus were recommended to national franchisees as part of McDonald's “Plan to Win.”

Franchisees with this kind of entrepreneurial spirit and passion are naturally motivated to be proactive. They don't typically have the time or the patience to wait for approval from headquarters. “We don't ask for permission,” Jerry states matter-of-factly. “We just do it, and then ask for forgiveness.”

While the Bears' approach to McDonald's franchising may seem visionary, they have their own self-set innovation boundaries. “There are certain things you can't do. There have to be restrictions,” asserts David. “At the end of the day, people come to McDonald's for burgers and fries—and if you don't have those product offerings, they'll be upset.” They see no reason to disrespect McDonald's standards, and they have no ambitions to venture out into the world of independent restaurant management. “We are a proud McDonald's franchise owner.”

Overcoming Café M Challenges

To ensure the success of his yet-to-be-built Café M restaurant, David Bear had to navigate several uncontrollable, corporate-imposed constraints. His first challenge was to overcome its seemingly unenviable site location. Since McDonald's Corporation scientifically selects restaurant sites based on satellite imagery, demographics, and sales data, the Bears had no input into their new location. As

luck would have it, the new Café M site was less than a mile from one of their other restaurant locations.

David also had to consider the higher initial startup and ongoing fees he would be paying the McDonald's Corporation. The standard franchise agreement called for Bearco to reimburse McDonald's for site preparation, as well as paying for a franchise license (renewable after twenty years). Because the Corporation retains title to the land on which nearly all franchise stores sit, the owner/operator also pays rent, as well as a share of the store's revenues. This arrangement—which was unusual for franchise restaurants when Ray Kroc developed the McDonald's system in the late 1950s—has ensured a healthy alignment of the interests of both the owner/operator and the Corporation. Both benefit when a store prospers, so both work hard at improving sales. The higher value of the land on which Café M would be built left David facing 50% higher costs than at other Bearco McDonald's locations.

After considering the constraints more closely, David realized that this set of challenges was actually a golden opportunity. Bearco had always striven to distinguish itself from McDonald's, and this location would provide the perfect chance to try something new. In order to make a profit in this location, David recognized that he'd have to make the most of their operating hours by pursuing the dinner crowd. This strategy would require them to provide a more upscale dining experience, to compete with “fast casual” restaurants like Chili's and Panera Bread—one notch up the restaurant segmentation scale from “quick serve” outlets like McDonald's, Wendy's, and Burger King. “Unfortunately, when people think of McDonald's, they think of fast-food hamburgers and fried food ... and it's not an upscale perspective. A Panera or Chipotle is viewed as a little bit higher end. We wanted to get away from the [low end, fast food] stigma,” David explained.

When David proposed the idea for an upscale McDonald's to Jerry Bear, Jerry grasped the potential immediately. No stranger to trying new things, Jerry and David had taken liberties with their other stores, deviating from the standard McDonald's restaurant design with more elegant interior design, larger PlayPlace playgrounds, and the double-lane drive-thru. They both agreed that Café M would have to be truly different. “We had a vision of taking all the strengths of McDonald's, and all the history we had with McDonald's, and making it more relevant to the consumer.”

Preparing to tackle their most ambitious project to date, “we started off with how it looks. We wanted something that would make a huge impression as people were driving by.” With that notion in mind, Jerry and David flew to Las Vegas in search of inspiration for their new store.

Crafting the Café M Experience

“When they come to us, it’s because they’re looking for something different from the norm.” Frank Comacho, an interior designer with IDA, Inc. Las Vegas, has worked on numerous restaurants, ranging from high-end to fast casual, but his only foray into the quick serve industry has been for McDonald’s. A Bearco partner since the 1960s, Frank has designed four restaurants for them. He enjoys working with the Bears because they “let you do what you want to do, let you express yourself, and appreciate what you do. [They’re] about the best, as far as I’m concerned.” More importantly, Frank and the Bears share a strong commitment to fulfilling customer needs. “If you see a need, and you see that certain people are going in a certain direction, and the customers are going more in a different direction,” Frank explained, “you make suggestions that help them go more in the direction that the customers are going.”

The Bears had equally high praise for their designer. “He’s the best,” Jerry stated matter-of-factly. “He’s very creative.” Both David and Jerry value Frank’s ability to spot new design trends, adapt his conclusions to the surrounding area demographics, and incorporate design elements into the restaurants that create a memorable experience for customers. Frank himself stated that his ultimate goal was to bring consumers into the experience and make them “part of the show.” Although Jerry and David admit that “McDonald’s doesn’t always agree with Frank’s ideas,” they appreciate his willingness to push the limits. By continually challenging the boundaries set by McDonald’s, Frank inspires the Bears to consider ideas that might not have otherwise occurred to them. (He asked, for example, if it would be possible to put a window in the kitchen area, to show how clean and efficient the food preparation process is. The answer from the Corporation was “No,” by even raising the question prompted an interesting discussion about the need for transparency as a way of fostering trust in customers.) Understandably, the Bears approached Frank with a blank slate and gave him free reign over concept generation for the new Café M restaurant.

Ironically, Ray Kroc’s original McDonald’s hamburger stands featured large windows into the kitchen for precisely that purpose: to show that their hamburger was genuinely all-beef, with no fillers.

Inspired by Frank Gehry’s flowing, organic use of space and Las Vegas casino design, Frank’s final plan included an exposed ceiling, Italian cimenti exterior tile, marble countertops, and mahogany doors that opened out onto an outdoor dining patio. Gone were the acoustic tile ceiling, plastic surfaces and half-hearted picnic areas seen at typical McDonald’s—and each environment spiraled out of the other in a natural progression, divided by curving booths and diagonal tables. Instead of standard fluorescent lights, the store would use a sophisticated incandescent lighting system, which the restaurant manager could use to control illumination, creating different moods. While many quick serve restaurants offer cable news stations on televisions in their dining areas, Frank put a dramatic 84-inch glass video wall in the front dining area to play movies and television shows, attracting families with children. Meanwhile, curved booths, richly-hued velvet curtains, and high-top tables near the back of the restaurant would

create a more intimate dining experience. In Jerry's words, Frank's design was a "WOW!"

Describing their attempt to sell the design to McDonald's, David recounted, "We did a full-color rendering, with color swatches, and took it to McDonald's, and said, "Here's our vision," and we were able to get about 80% of it." Even that 80% required two years of negotiating, first with the regional manager who then had to convince Corporation managers of the design's merit. "It took us nearly three years from conception to construction." By virtue of their long relationship with McDonald's, the Bears were spared the wrangling and uncertainty of a "pitch session" and could take sufficient time to develop a thorough plan. Finally, it was time to build.

Raising the Curtain on Café M

"Where's your steak and wine?" customers frequently asked, a question that couldn't have made David Bear more proud. "Obviously, we don't have that stuff, but the restaurant is conducive to it."

Opened in early 2005, the exterior of Café M invited exploration, with its outdoor patio and oversized arches incorporated into the sides of the building. Upon entering, visitors were welcomed by trendy background music, a warm, contemporary interior, and kitchen employees wearing chef coats and hats. After customers placed their orders and were seated, wait staff wearing long black aprons and gold ties brought meals to customers' tables and took orders for coffee and dessert.

Although the decision to provide wait staff reduced service speed somewhat, David contended that raising the level of customer experience was more important. And during the first four months of operation, people responded with enthusiasm. The Bears knew this because they maintained close contact with their customers and listened for feedback. "You listen to what [customers] tell you, and then you listen to what they don't tell you," explains David Bear. "If you do something and you expect it to be good, but you don't hear anything about it ... then you know that you're not hitting the mark."

To enhance the customer experience and to reinforce David's desire for this restaurant to become a gathering place, he provided free weekend entertainment including live music performances and Classic Car Cruise-ins, in conjunction with Double K productions.

In early 2006, after only one year, the Bears chose to discontinue table service due to a lack of customer feedback. According to David, after the novelty wore off, customers weren't talking about table service anymore. At that point, the Bears realized that the impact of table service was no longer appreciated, and

they couldn't justify the additional operational costs incurred with hiring and training appropriate employees. In the end, table service just wasn't "McDonald's."

Focusing on the long term, David expects the Café M restaurant to generate between three and four million dollars in revenue per year. Once that happens, he will feel comfortable concluding that the restaurant is "financially successful." According to David, "The future is bright. We have to be patient."

Ultimately, he suggests, the entire system benefits when Bearco experiments. "There's a benefit to having someone out there willing to push the envelope and see what happens." Without operators like the Bears, McDonald's might miss opportunities that only those at ground level could identify.

Questions for Discussion

- ☛ Will Café M be successful?
- ☛ Does this new store help or hurt McDonald's brand?
- ☛ Do the innovations explored by franchisees like the Bears jeopardize McDonald's brand?
- ☛ How does a company find the right balance between top-down and bottom-up innovation?

Appendix A

Nationally Adopted Franchisee & Regional Innovations

Many of the products and features people commonly associate with McDonald's today did not originate in the McDonald's Corporate offices, but rather were developed by local franchisees or regional leaders, in response to specific customers needs they saw. Here are some examples.

Ronald McDonald, 1959

Washington, D.C. operators John Gibson and Oscar Goldstein (Gee Gee Distributing Corporation) sponsored a children's show on WRC-TV called Bozo the Clown, in an effort to attract children and families to their McDonald's stores. Bozo was played by Willard Scott on the TV show, and after the show was cancelled in 1962, Scott continued as the new mascot "Ronald McDonald" in a series of TV commercials. The character eventually spread to the rest of the country in an advertising campaign with a revised costume, and was no longer played by Scott. Later, an entire cast of McDonaldland characters was developed.

Filet-O-Fish, 1963

Restaurant operators in Roman Catholic neighborhoods of Cincinnati, Ohio, noticed their hamburger sales falling significantly during Lent, when many of their customers avoided eating meat on Fridays. Although Ray Kroc had long vowed that McDonald's would never sell sandwiches other than hamburgers, following the successful local introduction of a fish sandwich, McDonald's Corporation perfected the recipe and released it nationally the following year.

The Big Mac, 1968

A McDonald's franchisee in Uniontown, Pa., introduced this double-decker hamburger, which was later picked up nationwide and became a huge success, partly due to heavy advertising. (It is essentially a copy of a double hamburger first sold by a competing chain, Bob's Big Boy.)

Shamrock Shake, 1970s

Invented by a franchisee in Connecticut, as a special promotion for St. Patrick's Day

Scratch-off Game Card Promotions, 1970s

Invented by the Los Angeles franchisee advertising cooperative in partnership with Simon Marketing.

First Drive-Thru, 1975

Most standalone McDonald's restaurants offer both counter and drive-thru service, with indoor and sometimes outdoor seating. Larry Ingram, a regional manager based in Dallas, created the first drive-thru window in 1975 at a store in Oklahoma City. Customers from the nearby Tinker Air Force Base had recently been forbidden to leave their cars off base if they were not in uniform, and this innovation allowed them to buy their food at McDonald's. With a 28% increase in sales in the first year, this store was the first of eventually 90% of free-standing McDonald's locations in the U.S. to have a drive-thru window. Drive-thru service now accounts for more than 50% of sales.

Happy Meal, 1979

Regional advertising manager Dick Brams and the Kansas City-area franchisee advertising cooperative developed a clever package featuring a circus train design, and containing a hamburger, French fries and a soft drink. The idea was successful, and similar Happy Meal packages are sold nationally.

McSnack, 1982

A smaller McDonald's restaurant with a limited menu that fit into a small space in a shopping mall was the innovation of regional manager Jim Klinefelter in Minneapolis.

Appendix B Timeline of McDonald's and Bearco History



Ray and Maurice "Mac" McDonald open a hamburger restaurant in San Bernardino, Calif.	.....	1940	.....
Ray Kroc opens his first McDonald's franchise in Des Plaines, Ill.; founds McDonald's Corporation in Oak Brook.	.....	1955	.....
Hamburger University opens in Oak Brook to train employees	.....	1961	.....
Ronald McDonald's first appearance on television, played by Willard Scott	.....	1963	.....
McDonald's Corporation goes public	.....	1965	.....
McDonald's launches first international restaurants in Canada and Puerto Rico	.....	1967	.....	Jerry and Marcelle Bear purchase first McDonalds (national store #888) on Larkin Ave in South Elgin, Ill.
Ronald McDonald House established in conjunction with the Philadelphia Eagles, to provide a "home away from home" for severely ill kids undergoing outpatient treatment	.....	1974	.....
	.....	1978	.....	Bears open the Streamwood "Bear Mar" restaurant, whose basement becomes Bearco Management's home office until 2001
Founder Ray Kroc dies at 82	.....	1984	.....
	.....	1985	.....	The Bears invent the double Drive-Thru, and open what becomes McDonald's "30th Anniversary Restaurant" in Evanston, Ill.
	.....	1989	.....	Marc Bear joins family business
	.....	1990	.....	David Bear officially joins the family business upon graduating from Northwestern University in Economics
McDonald's gains exclusive rights to use Disney characters in its world-wide promotions for 10 years	.....	1996	.....
	.....	2001	.....	Bears purchase old Banc One building for Bearco's offices in South Elgin
CEO Jim Cantalupo initiates the "Plan to Win" to turn around McDonald's sales, sagging since 2001	.....	2003	.....
	.....	2005	.....	Café M, with unique interior design and table service, opens on Redington Drive in South Elgin

Appendix C

Photos of Café M, Randall Rd., South Elgin, Ill.



The architecture of Café M (above) is a stark departure from the familiar mansard roof McDonald's (below). In the early 1970s, as part of a plan to transform the chain of drive-up hamburger stands to sit-down restaurants, Ray Kroc asked his architect specifically for something that would be architecturally dramatic—and his new store design was widely praised for adding positively to the suburban environment. Today, it seems familiar but not eye-catching.





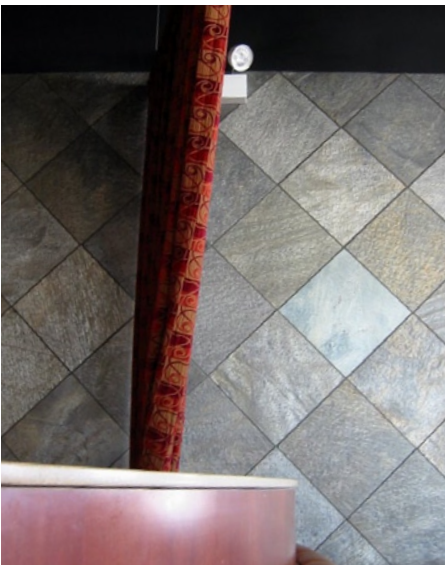
Staging area for all orders servers will take to tables.



Rear dining area looking toward the rear-projected display and front service counter



Lounge dining area and cementi tile floor



Tiled walls, curved booths, and velvet curtains delineate the dining areas



Rear dining area with a view of Randall Road through the floor-to-ceiling mahogany windows. Note the ceiling treatment and light fixtures.

The elegant materials and organic “flow” of spaces in Café offer a more upscale feel than a standard McDonald’s, with sturdy, if bland, furniture, and squared-off edges.



A standard McDonald’s dining area: functional, but not overly elegant.



Server in black shirt, black apron, and gold tie, before table service was eliminated in February 2006.



Dessert menu. These items can be ordered from the server at any point during a meal.

Café M experimented with table service for the first year it was open. While customers initially appreciated it, the extra cost didn't justify continuing something that "just didn't feel like McDonald's."



A conventional McDonald's counter service area.

French doors open to a patio area in good weather.

