Tuesday, 22 December 2020

The Burger King

Early Life

- When the accumulation of wealth becomes an obsession and a goal unto itself, it can work to a person's disadvantage often causing personal misery along with the loss of a worthwhile set of values. I have seen many people in this situation. The problem usually begins with establishing the wrong priorities and focusing on self as opposed by becoming involved with activities that help to enrich the lives of others

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YMCA & Colonial Inn

- The money part of it was great, but so was the sense of accomplishment that came with opening a successful business of my own. I was twenty-three years old when I opened for business, and the success I enjoyed simply reinforced my confidence and determination to become a very successful restaurateur. This was what I was trained for, and this was the only business I knew anything about
- One never knows what is possible until they step out into the foray and try it for themselves. Fear makes you stay unless courage propels you forward. The Colonial Inn whetted my appetite for growing in the restaurant business, and I was anxious to keep moving. I had no idea how far it would take me, but I was ready to give it a try

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Into the Soup

- Try to acknowledge the possibility that you are not as smart as you might think you are. If you think of yourself as too smart, you will probably make some mistakes you could otherwise avoid. You may need your coworkers friendship someday, but you could lose it in an instant by being too overbearing, cocky, or arrogant. A little humility will go a long way. I never knew anyone who learned anything by listening to himself talk
- It had never occurred to me that Miami was a seasonal city that practically shut down during the off-season and summer months
- Nancy and Bill showed me just how much the right partner could pave the way toward success when one might be floundering on their own. If you're going to take on a partner, trust and a shared vision for a common goal is tantamount to both your successes

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Starting Out

- The year 1948 was the watershed year for what soon became known as the fast-food business. Richard and Maurice McDonald were the pioneers who

conceptualized an idea which was to take America and the world by storm. Their food-service methods also marked the beginning of the end for the carhop drive-in industry, which experienced such significant growth in the thirties and forties by catering to an increasingly mobile America. After the McDonalds' conception opened and became so obviously successful, the public became transfixed with limited-menu, self-service restaurant concepts of all kinds. This was destined to forever change the character and style of the food-service industry in both the United States and abroad

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The Desperate Search for Capital

- I learned that our system of service, which was new at the time, confused and irritated a lot of our customers. They were very concerned as to whether or not our employees could remember their order once they had paid for it. The Insta-ticket system contributed to the problem. For control purposes we had set up a system where, after paying for their order, our customers received serially numbered tickets. They would then wait before receiving their food. Customers did not seem to know what the tickets were all about. For example, a customer ordering two eighteen-cent hamburgers received two blue eighteen-cent tickets. An order for ten-cent fries was worth one white "fry" ticket. Red "drink" tickets were issued for soft drinks and so forth. Customers often started in disbelief upon receiving tickets in exchange for their money. A typical reaction was an incredulous look which I interpreted to mean "Look I paid for food, not tickets, what do I do with these tickets?" To add to the confusion, after paying and receiving tickets, the customer was directed to another window where an employee was supposedly ready to deliver the order. Often it was necessary to ask the customer to repeat the order. This added more pressure to an already difficult situation particularly when the customer couldn't remember what had been ordered in the first place
- I coined an expression in the 1950s, which I posted in the restaurants. It simply stated: "Our customers have two things to spend - time and money - and they would rather spend their money." I used that expression often in our early training sessions and in our attempts to emphasize the importance of fast service

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The Whopper is Born

- It occurred to me that it might be a good idea to introduce a big garnished hamburger in our Miami restaurants. I expressed this opinion to Dave, who quickly agreed. I suggested that we call our product a "Whopper" knowing that this would convey imagery of BIG. I also suggested that we put signs saying "Home of the Whopper" under our Burger King name to indicate that our new product was the specialty of the house. We both agreed that this made a lot of sense. We arrived in Miami long after midnight, tired but excited about our plans to add the Whopper to our menu
- At the time we couldn't possibly have imagined that someday in the future this product would become the most popular and best-known sandwich in the United

States - perhaps in the world. The Whopper was a stunning success from the moment it was introduced

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Early Franchising

- A fellow named Charlie Krebs from Cincinnati, walked into our office and asked if our Burger King store number five was for sale. We were still in desperate need of cash, and he made us a cash offer of $20,000 for the business. After discussing the matter at length, Dave and I accepted his offer and signed an agreement making him a franchisee. Until then, Dave and I always thought in terms of operating all the restaurants as company units. Charlie agreed to pay us a royalty of 2.9 percent a month and an advertising charge of 2 percent of sales. Our contract required him to operate the restaurant according to the standards outlined in our Manual of Operating Data, a copy of which was attached to his franchise agreement
- Following the sale of store number five, we made the strategic decision to put our full emphasis and focus on franchising. The sale of four of our remaining units followed in quick succession and this was accomplished with little effort. After the sale of these units and receipt of payment for them, we built additional Burger Kings with the intention of franchising these restaurants and growing the business as fast as we possibly could. The watershed year was 1957, when we switched from being a purely restaurant-operating company to an organization fully committed to the concept of restaurant franchising. It was the right decision at the right time, and I must say that it felt good to be doing a few smart things for a change
- On a bit of sour note, the Jacksonville-based Burger King of Florida Inc. appropriate our terms “Whopper” and “Home of the Whopper” by registering these trade names in Washington. We were not aware that they had done this. I think that had we known, we probably would have objected, although I doubt that we would have contested the matter as we had no current intention of moving out of our territory in South Florida
- Something of considerable significance took place in late 1959, although at the time we had no idea what the future impact of it would be for our growing business. The event was the inaugration of the first commercial jet passenger service in the United States. The Boeing 707 jets were owned and serviced by Pan American World Airways. At the time Pan American was an international carrier, without authority to fly domestic routes in the United States. Seeking the maximum utilization of their new Boeing 707s, they entered into an exchange agreement with Miami-based National Airlines to fly the Pan Am jets from Idlewild Airport in New York (now renamed Kennedy), to Miami, with a return flight to New York. We didn’t think much about it at the time, but this early domestic jet airline service was destined to have a significant impact on the development of Burger King all across the country. The historic event opened an era of convenient, nonstop jet service between Miami and major cities everywhere. Within a few years, it was possible for Miami-based businessmen to fly quickly, comfortably, and conveniently to cities all over the country. This also opened the possibility of expanding our Burger King business into other parts of the country. It was

virtually impossible to base a national organization in Miami because piston-driven aircraft were slow and inconvenient to fly to other cities. Miami in 1959 was still considered a destination resort catering largely to tourist traffic. The jet age allowed the Miami business community to envision the development of business opportunities of considerable significance. We were destined to become part of that new vision

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We're on the Air

- In 1958, we agreed to sponsor a competing children's show called *The Jim Dooley Show*. Mr. Dooley also had a children's audience, and his show featured a chimpanzee named Mr. Moke whose antics always delighted the viewers. We met with Mr. Dooley, liked him, and agreed to become a sponsor. The only condition I laid down was that we would be permitted to deliver a bag full of freshly made Whoppers during every live broadcast. That was all right with Jim, so at a certain hour every weekday our delivery man would carry a paper bag full of Whoppers into the studio. A fresh Whopper has a wonderful aroma. It smells as good as it tastes! Mr. Moke obviously agreed because as soon as the studio door opened and the bag of Whoppers arrived, Mr. Moke smelled them and would go berserk in anticipation of his meal. He would grab the bag, tear it open, and devour the big hamburgers as fast as he could. The children were always delighted at the spectacle, and so was Jim. I am sure the viewing audience enjoyed it just as much as the studio audience did
- A few years after our luncheon visit, Royal Castle had their initial public offering of common stock, at which time Mr. Singer sold his entire financial investment in the company. Following the public offering, the company floundered a bit and began to go steadily downhill. By the early 1970s it had virtually ceased to exist. Such a story is a strong reminder that times change, markets change, and businesses must change in order to keep up with the times. It is not a happy thought that Royal Castle no longer exists, but I always regarded the demise of this once proud, robust and vital organization as a stern warning to businesspeople everywhere to stay alert and responsive to the demands of consumers or suffer the indignity and embarrassment of going out of business
- Being children's favorite restaurant was an enviable position to be in. McDonald's found this out many years later when they directed their own advertising toward the kids' market with their famous clown, Ronald McDonald. This brilliant strategy helped launch their company to impressive new heights of customer acceptance. Kids' approval proved to be an important factor in developing the right kind of marketing strategies in the growing food-service marketplace

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The Race Begins

- Enamored with the prospects of expanding the McDonald's concept in 1954, Ray Kroc entered into an agreement with the McDonald brothers to be the exclusive distributor of franchises. This gave him the right to use the McDonald's name and their system of food service. He was given the right to expand the business but was obligated to adhere to the McDonald's operational standards and obtain the

McDonald brothers' approval before making any changes to the operational system. The contract specified that franchisees would pay a royalty of 1.9 percent of sales, and it placed a $950 limit on the amount that could be charged for a franchise. The 0.5 percent of system-wide sales were payable to the McDonald brothers monthly. The remaining royalty of 1.4 percent of sales could be used to service the system and hopefully make a profit. This was a bad deal both financially and operationally. The McDonald brothers were to receive almost 30 percent of the royalties that Mr. Kroc was entitled to charge, but what was left could hardly be expected to cover the expenses of adequately and properly servicing the business. The $950 limitation on the charge for individual franchises would be an outright gift to the franchisees, but it would be an absolute disaster for Mr. Kroc, who would find himself in the position of expanding his business only to experience a loss on each sale of a franchise. Numerous conflicts between the parties made a buyout of the McDonald brothers mandatory by 1961. The brothers demanded $2.7 million to step out of the picture. This was a huge sum at the time. Kroc's new McDonald's Corporation earned only $77,330 in 1960, and the net worth of the company was slightly in excess of $250,000

- Sonneborn's plan required franchisees to put up a security deposit on each lease, usually in the amount of a year's rent in advance. If McDonald's bought a vacant property, the security deposit was used to make a down payment on the purchase of the land. The owner was offered top dollar for his property, but in order to get this high price, he had to agree that the remaining balance due to him could be paid over a period of ten years. In addition, the owner was required to subordinate his purchase money mortgage so that a superior mortgage could be placed on the property. This enabled McDonald's to borrow the money needed to construct their building. The franchisee's future rental payments were calculated to cover the monthly payments of principal and interest
- In the event the land and building were built-to-suit by the property owner or developer, it was leased directly to McDonald's and then subleased to a franchisee. The terms of the franchisee's sublease assured McDonald's a handsome markup on each leasing transaction. Rental charges to franchisees were often based on markups running as high as 40 percent above cost. On top of that, the franchisee was required to pay the higher of his marked-up rent or a set percentage of his sales (usually 8.5 percent). The franchisee-lessee paid all taxes, insurance, and maintenance on the property so that the lease was always "net-net" to McDonald's
- These creative financing schemes were the basis upon which McDonald's became the largest retail property owner in the world. Their highest percentage of corporate earnings comes from real estate operations. It was clear from the beginning that this ingenious real estate development formula was earmarked for success. Sonneborn, addressing the New York Society of Security Analysts shortly after going public in 1965, made the statement that his company was "first and foremost in the real estate business." One investment banker later referred to his ingenious financing concept as "McDonald's exquisite use of debt." What was not mentioned was that the key to this success was based on the success of the individual restaurants. Were that not the case, the scheme would have fallen flat

as many less capable imitators would soon find out. This was a high-leveraged game with a thin margin for mistakes

- Sonneborn's Franchise Realty Corporation was a wholly owned subsidiary of McDonald's, and by the early 1960s, it was bearing a crushing burden of debt as a result of engaging in all of the real estate financing. If it ever developed that a certain number of franchisees were unable to pay their rent, the scheme might easily have backfired. By 1961, the consolidated financial condition of McDonald's painted a grim picture of a company precariously overleveraged with leasing debt. It would be next to impossible for them to obtain additional financing on conventional terms
- The Sonneborn-Bristol loan package was a high-risk proposition, but it came at a time when it was imperative for McDonald's to get the $2.7 million loan, even on the most onerous of terms. It was also a risk for the investors, and Bristol insisted that the reward to the lenders had to match that risk. The loan agreement called for a 6 percent interest charge, and the schedule of repayment of principal and interest was set at 0.5 percent of system-wide sales. This schedule was equal to the payments called for in the contract Kroc had signed with the McDonald brothers. The royalties that were collected in the future would determine how fast the loan could be paid off. This was simple enough, but there was an added provision that specified that when the loan was finally paid off, a bonus to the lenders would come into play. The bonus would be equal to 0.5 percent of system-wide sales for the exact period of time it took to pay off the original loan. Thus, if it took eight years to pay off the original loan, McDonald's had to agree to pay a bonus of 0.5 percent of the future system-wide sales to the lenders during the ensuing eight-year period of time. It was an ingenious arrangement that was very rewarding to the lenders and critically needed by the borrowers

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Putting it in Gear

- Dave and I were more than willing to issue territorial agreements in those days. We felt that this was the best way to position the company as a large, growing and profitable organization that had the capacity to compete and grow on a national basis. We felt it was important to expand the system rapidly in order to establish Burger King as a leader in our field. We picked the best franchisee prospects we could find and if they are willing to commit to us, we were willing to grant them territorial rights to develop and open a specific number of Burger King restaurants according to a set timetable we both agreed on. The franchisees agreed to forfeit their territorial rights if they failed to meet the opening schedule. This acted as an incentive for them to meet our growth objectives. This in turn contributed to our becoming a leader in the world of restaurant franchising
- Our first out-of-state store was opened in Wilmington, Delaware. Granting a franchise to four people I had known during my Colonial Inn days during the late 1940s, we learned an important lesson that we never forgot. All four of these men were passive financial investors, and as absentee owners there was nobody willing to assume the responsibility of managing the business, the result was that the restaurant never did very well. From that time on, we avoided issuing franchises to investors who were not deeply committed to operating the business

Sniffing Around: The Booz Allen Visit

- Booz Allen attributed the flat growth in institutional food sales largely to the explosive growth taking place in the away-from-home market. They concluded their report by advising Pillsbury that if they wanted to participate in the overall food business, they should consider taking a position in the restaurant business

Removing Obstacles

- The centralizing of equipment procurement and delivery became so efficient that within months we decided to build our own hamburger broilers. This was a means of protecting our technology and lowering our costs. These broilers were patterned after the initial design that Dave Edgerton conceived and built in 1955. We had enough extra space in the newly constructed commissary addition to enable us to build a better-quality broiler at substantial savings. This put us in the equipment manufacturing business, albeit on a modest scale
- The broiler was made from parts cut from sheets of stainless steel. We bought heavy-duty equipment designed to cut and form these panels. In starting the manufacturing process, we hired experienced sheet-metal workers and machinists. Once established as a manufacturer, we decided to effect additional cost savings by producing our own stainless steel refrigerators, counters, sinks, shelving, walk-in coolers, fry stations, and other items. This created another space problem requiring us to build an additional thousand square feet to the existing building. When finished, this gave us a total of forty-five thousand square feet of industrial warehousing and production space. Even this would not be enough. We made a decision to build a full-scale equipment-manufacturing plant at a site located only a short distance from our expanded commissary facility
- We named our equipment manufacturing division Davmor Industries, which was a portmanteau using the name DAVe and McLaMORe. We expected to be building and supplying much of the equipment that would be needed in the hundreds of new Burger King restaurants we planned to open every year into the future. We were convinced that we could build better quality equipment than we were able to buy, and that we could lower our costs in doing so. We finished a completely new fifty thousand square-foot plant and offices for Davmor Industries on a twenty-acre site in 1966. Within a few years, this business grew to the point of employing 325 machinists, sheet-metal workers and furniture makers. Annual sales reached a high of $27,500,000 and pre-tax profits exceeded four million dollars a year. Within a short time, Davmor Industries positioned itself as one of the largest fabricators of restaurant equipment in the United States
- First Florida Building Corporation gave Burger King the benefit of having the services of a general contractor who was experienced in building our restaurants on a cost-efficient and timely basis. Under the leadership of Bill Miller, First Florida became one of the largest general contracting firms of its kind in the United States. Initially its sole specialty was the construction of Burger King restaurant buildings. The repetitive nature of this activity resulted in major cost and timing efficiencies, which were of considerable benefit to the company and

its franchisees. The company became so efficient that they were able to deliver restaurant buildings within forty-five to sixty days of breaking ground. This played a vital role in helping us reach our overall corporate objectives regarding growth and expansion

- First Florida quickly demonstrated its talents as a low-cost producer of restaurant buildings. The company became so efficient in constructing quality buildings for Burger King that it took on construction responsibilities for many other fast-food chains. They were faced with the same problems we were, which was to find a building contractor able to consistently deliver quality construction on a timely, reliable, and cost-effective basis. First Florida served us and its many other customers very well. At any given time, they might have fifty or more restaurants under construction all the way from Maine to California. Our First Florida venture was another innovative industry first in the rapidly expanding field of chain restaurants
- With the growth and expansion of the 1960s and 1970s, independent suppliers came into existence intent upon capitalizing on the opportunities of doing business in such a lucrative market. We always knew that our three start-up companies would attract competition. Many franchisees, who started out very slowly and modestly during the late 1950s and early 1960s, had no previous experience in purchasing, procurement, or construction. Over time they grew into much larger businesses. As they gained experience, sophistication, and financial independence, they were able to contract for services and supplies from a number of different organizations, all of which were organized and anxious to serve them. Our franchisees began to challenge the idea of purchasing supplies and services from companies owned by or affiliated with the parent Burger King organization
- Franchisees value their independence and usually prefer to do business with outside contractors. Our franchisees were not obligated to purchase supplies from us, and we expected that they would ultimately try to seek sources of procurement on the outside. A gradual withdrawal of their support for Davmor Industries and First Florida Building Corporation might have been heavily influenced by the desire to be more independent in their search for value

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Scrambling to Stay in the Lead

- The restaurant industry’s sales and profits grew impressively while sales in the nation’s grocery stores began to flatten and fast food was suddenly the hot ticket
- I wasn’t particularly concerned about the competition that had come to life during the 1960s and early 1970s. It seemed to me that most of these newly formed restaurant companies were organized by promoters who had an eye out to make a quick dollar on the sale of franchisees. They weren’t restaurant operators. Their lack of experience in the restaurant business led them to downplay the need to develop a long-term approach toward running their businesses. Most of them paid a minimal amount of attention to restaurant operations once their franchisees opened for business. They either abandoned them completely or failed to assist them in focusing on the basic fundamentals of running good restaurants. With this

kind of organizational chaos and lack of experience, it was predictable that their franchisees would have a tough time making a success out of their new businesses. As far as I was concerned, these people were on a road to certain failure. It was just common sense that if enough franchisees failed, the franchisor couldn't be very far behind

- A company called Minnie Pearl Fried Chicken was a perfect example of this kind of a doomed-to-failure business promotion. Minnie Pearl was a well-known and respected Grand Ole Opry headliner who lent her name to a restaurant scheme that turned out to be one of the most notorious restaurant-franchising fiascoes in the history of the food-service industry. The promoter of this enterprise planned to duplicate the success of the Kentucky Fried Chicken concept by copying their franchising and operating format. Laying claim to become the "Pepsi Cola of the fried chicken business," he began to sell large "exclusive territories" to gullible investors, along with the promise of vast riches to be earned selling Minnie Pearl Fried Chicken. In each franchising agreement, the promoter obtained a commitment from territorial franchisees to open a specific number of Minnie Pearl Fried Chicken stores within a specified time frame. Each territorial agreement called for a specific fixed-dollar payment to the franchisor. This charge was calculated on the number of stores opened in each territory. The actual cash payment to the parent Minnie Pearl company was minimal. The promoter accepted the franchisees' note for the rather substantial balance of the purchase price. For example, if a franchise contract called for the development of twenty stores in a particular territory, the agreement called for the payment of $5,000 per store, or a total purchase price of $100,000 for the territory. A typical arrangement for the purchase of $100,000 territory required a cash payment of $10,000 and the delivery of $90,000 in notes. The notes were payable at the rate of $5,000 per store, whenever the stores were opened. As incredible as it sounds, the company reported the entire $100,000 as earned income as of the date the contract was signed. Reporting this as "earnings" was justified by the reasoning that this was what the territory had been "sold" for. Just as surprisingly, Minnie Pearl's external auditors and accountants deemed this misleading and absurd accounting treatment acceptable. The result was that investors were given a grossly distorted view of the company's true earnings and financial condition. Initially this did not seem to matter to investors, because suddenly Minnie Pearl was a big hit on Wall Street. The company went public in 1968 at twenty dollars a share, and by the end of the first day's trading, the stock had more than doubled to over forty dollars per share. Within a short period of time, the market value of the company based on the stock price was $81 million, yet it had assets of only $2.2 million, and only had five restaurants in actual operation, none of which were doing very well. Apparently, investors never bothered to consider whether the notes the company had received could ever be paid off or whether the restaurants would ever be operated at a profit. As it turned out, neither happened. Very few payments were ever received on the notes, and before long the company was bankrupt and declared a colossal failure. Investors lost millions. The scam artists walked away with plenty
- Our New Orleans-based franchisees, Jimmly and Billy Trotter, formed a company called Self Service Restaurants. They were successful operators of Burger King restaurants in Louisiana and parts of the Gulf Coast. They took their company

public in the late 1960s. Mallory Restaurants, our Long Island franchisees, went public a year or so after that. It was when our three territorial franchisees in the Chicago area joined together with the intention to go public as one entity that I had to draw the line. We had not counted on having a number of public companies as franchisees

- I was troubled by the fact that McDonald's as a result of their public offering in 1965, was able to tap the financial markets and we had been unable to do that. This gave them a clear advantage. Their real estate strategy was not only masterful; it was downright brilliant. They kept buying or leasing land and constructing their buildings using their franchisee's lease deposits as down payments. They relied on franchisees' rental payments to help retire any real estate obligations they assumed. Their investment banker observed at the time that McDonald's strategy to go the leveraged route rather than the equity route in its real estate dealings was "an exquisite decision." By the mid-1960s, we were trying to develop a similar strategy, but the risks involved appeared to be too great that early in our national development program
- The high price-earnings ratio or "multiple" that the public placed on McDonald's stock often exceeded forty times their earnings. This highly valued stock gave them a reason and an opportunity to buy out franchisees. By valuing the franchisees' businesses on the basis of a lower multiple of earnings, they could pay for it by issuing their own highly valued shares. This practice went on to a certain extent and had the effect of steadily increasing McDonald's earnings per share. This helped to drive up the price of their stock even further, and in turn, enabled them to continue their aggressive expansion into the real estate business. During the thirty years or more following the date of its original public offering in 1965, the company never reported a "down" quarter. This extraordinary performance of over 125 straight calendar quarters of increased earnings per share certainly is an enviable record and a tribute to the company's strength, vibrancy and leadership

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The Decision to Join the Pillsbury Company

- It is important to acknowledge that any major decisions made in the course of business come by utilizing the information and context available at that given time. Hindsight is the only perfect vision. Harvey and Dave were right, and I was wrong about responding to the first buyout offer that came around. My mistake was that I was driven by the immediacy of my personal and professional financial goals and aspirations. I had not exercised enough good judgement in considering all the aspects of the matter. I had been in business for myself for twenty years, and I still had not learned to hesitate, reflect, consider and act before jumping into situations like this

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Coming Aboard

- I learned an important lesson about corporate procedure: It wasn't advisable to bring my own agenda directly to the board of directors. This was a job for management. It was their prerogative and responsibility. I had short-circuited the

system by not knowing that this was prohibited procedure. Being unfamiliar with this new world of corporate procedure. I should have had more sense than to make such a grandstand play. One thing I did learn in making the presentation was that it was becoming apparent that the strategy involving Burger King's future growth had already been determined. Pillsbury would use conventional methods to finance Burger King's growth and the pace of development would be much less aggressive than I had hoped

- As landlords, McDonald's could be more effective in insisting the franchisees comply with their required standards of restaurant operation. Poor operators could be eliminated when leases were canceled. It was a bit more difficult for Burger King to act in this fashion when our only leverage rested in our ability and right to enforce provisions contained in our franchise agreements. The real trump card was the lease itself. In McDonald's case, any failure to meet the company's standards of operation could result in the franchisee losing both the lease and the business. I doubt that many McDonald's franchisees were willing to seriously challenge the parent company in situations of this kind
- Many of the comments and suggestions I made regarding issues seemed to be consistently at variance with those of Pillsbury management. This raised serious questions about whether I would ever succeed as a professional manager. I had been my own boss throughout my twenty-year business career. In the new scheme of things, it was necessary to consult, review, debate, and clear major actions with others. This wasn't a familiar or comfortable style of managing for me. I thought it was inefficient and difficult to become accustomed to

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Fitting Into the Corporate Mold

- As the meeting was about to break up and in a state of utter frustration, I suggested the Pillsbury people should take a hand grenade, pull the pin out, and lob it on top of the table before getting on the elevator. The "hand grenade" comment really struck a nerve and was often referred to in trying to resolve our differences. When the big blowup came, it marked the beginning of my exit as the chairman and CEO of Burger King Corporation
- During the 1970s, when Pillsbury was orchestrating a cut back in Burger King's growth, McDonald's was surging ahead at an extraordinarily rapid pace. From their opening of just 105 stores in 1967 and 109 stores in 1968, McDonald's opened 211 stores in 1969, 294 in 1970, 312 in 1971, 368 in 1972, 445 in 1973 and 515 in 1974
- In desperation, I took my concern into the Pillsbury boardroom but that didn't have much of an effect, and it put me in an even more difficult position. This was going over the head of management and that wasn't a very smart move. I was learning a valuable lesson about the role of corporate directors. The lesson was that directors do not interfere with management when they introduce new ideas and strategic directions, because it takes time to prove whether these ideas are good or not. Directors usually want an agonizingly long period of time to reach a conclusion about things like that. In Burger King's case, they hadn't reached that point. With management fully in support of what I thought was a terrible strategic

mistake, I knew this was the way it was going to be, and that I had better get used to it. Unfortunately, Pillsbury management was not finished tearing the heart out of Burger King's strategy for the future

- McDonald's stepped up the pace by 1974, opening an average of ten new restaurants every week during the year. Most of these were operated by franchisees, but the real estate was either owned or controlled by McDonald's. This was their golden egg. McDonald's view of the value of franchising and real estate development was exactly the opposite of Pillsbury's. Their growth strategy was a preemptive strike establishing them as the market leader, a position I doubted they would ever knowingly or willingly give up. I told our management team in Miami that we had lost the race for the top and had best hope that we could hold onto the number two position
- I believe my presence on the Pillsbury board might have been irritant to some, but it was my obligation and responsibility to study and comment on operating plans and corporate strategic issues. When I agreed or disagreed with management, I considered it my duty to make these feelings known. Criticizing top management put me in a difficult situation when I thought they were wrong. In challenging their thinking in the boardroom, I was risking the loss of friends in important places

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Stepping Down

- As I was coming to grips with rebuilding my life after retirement, I began to understand why so many people who lead hyperactive business careers often die within a few years of retiring. Many of them are simply unable to cope with facing a drastic change in their pattern of daily living. After ending extremely active professional careers, they don't know what to do. My business career was filled with decision-making, heavy-travelling schedules, meetings, tough choices, and pressure-related job activities, so I understood what that was all about. I knew that when my action-packed lifestyle was suddenly altered, I would have to fill the void with something else or face certain problems associated with withdrawal and a change of pace. I didn't realize at the time just how much my previous outside activities would contribute to a comfortable transitional experience
- In most major corporations, mandatory retirement usually takes place somewhere between the ages of fifty-five and sixty-five. Unless a person prepares carefully for that day and for that event, the shock of retirement can have a profound effect. Sudden withdrawal can lead to all sorts of psychological disorders ranging from chronic depression to a sense of worthlessness. The trick is to prepare carefully in advance in order to avoid the trap, and this is not always an easy thing to do

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Burger King Grows 1972-1988

- As the country entered the 1960s, the American lifestyle began to take on an entirely new character and focus. The rapidly increasing demand to eat out more often was a phenomenon attributed to a number of economic factors and social changes. During the latter part of the 1940s, family income began to increase as

more women and teenagers entered the workforce. Returning servicemen from WW II and Korean War married and began raising families, leading to the development of a phenomenon that became known as the “baby boom.” This in turn triggered an exodus from urban centers and a rush into the growing area of suburbia, which brought about large-scale construction of new homes, developments of shopping centers, and construction of highways

- One of the initial campaigns launched in the early 1970s was the “Have it Your Way” campaign, which was not only very effective advertising, but it also put Burger King on a new course. The promise contained in this advertising was that we would give our customers a special, new, and unique service, which they could not get at other fast-food restaurants. We made the point that we would dress our sandwiches exactly according to our customers’ wishes. This was a direct strike at McDonald’s, whom we believed to be vulnerable because their production and service methods did not enable them to provide this kind of special treatment and handling for their customers. “Make It Special, Make It Burger King,” which emphasized the personal treatment and made-to-order good food our customers could expect in our restaurants, followed this very successful campaign
- Pillsbury was obligated to acquire Diversifoods in order to preserve the integrity of the Burger King name. The 377 Burger King restaurants were so poorly run in recent years that our reputation was badly damaged in a number of important markets. It was enough of a problem to clean up the Burger King situation, but a bigger challenge was involved in making some sense out of a sick pizza business which we knew nothing about. There was also the problem of managing the Chart House chain of full-service specialty restaurants spread out from coast to coast. I began to regret even more Pillsbury’s failure to acquire Chart House on the terms Art Rosewall and I had recommended in the early 1970s. Now they were forced to pay a king’s ransom for a sick business that earlier would have cost a fraction of the price
- Between 1985 and 1988, the revolving door in the executive suite at Burger King seemed to turn faster and faster. These changes in management created a certain amount of disorientation. Long-term strategic planning gave way to dealing with shorter-term tactical issues, operational problems, quick fixes and just putting out fires. At this critical juncture, Burger King’s management made a number of poor decisions destined to have a negative impact on our business
- New products were introduced in a never-ending stream without management sensing the damage. Burger King was founded on the simple premise that a limited menu was our key to success. Our expanded menu confused the public. This created in-store production problems that reduced our speed of service, lowered the overall quality of our product line, and the added confusion made it difficult for employees to fill our customers’ orders, accurately. This became our number one customer complaint. Additionally, menu price increases brought on a steady erosion of the customer base. It became glaringly apparent that we were pricing ourselves out of the market

- Years later, Burger King was forced to admit that during a period of eight years from 1986 to 1993, we lost an average of 34 percent of our previous customer traffic per restaurant

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Hostilities from London

- Miami executives seemed to feel that they were in the position of coming to Minneapolis in beggar's clothes, with outstretched hands asking for favors. They felt left out of the strategic planning process. It was their view that tactical approaches to problem solving and most operational issues were decided upon long before they got to town. Problems like these are not particularly unusual in parent-subsidiary relationships. Pillsbury and Burger King were two very different companies, each having unique corporate styles and philosophies. These differences often lead to personal conflicts, making it difficult to maintain smooth working relationships. By the time Grand Met entered the picture, this situation had existed throughout most of the twenty-one year history between the two companies

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Stumbling Blocks for Grand Met

- It is useful to remember that advertising is a two-edged sword. It is risky and unwise to invite people into restaurants when the products and services aren't right or the business is poorly managed and not meeting customers' expectations. Good advertising might bring in new customers at first, but damage occurs when they are shown how ineffectively their needs are being met
- We created one of our major problems when we introduced so many new menu items. This brought on even more confusion. We took the focus off hamburgers and put it on chicken, fish, desserts, and specialty sandwiches of all kinds. Even though the Whopper was clearly recognized as the most preferred sandwich in the United States, management took the focus away from hamburgers and our unique flame-broiled cooking process to promote other products. Before long, we were no longer "America's Burger King." This was the hard-earned and lofty position we had fought for throughout the years
- Dave asked me what I would do if I still ran the company. I answered "I'd do what Lee Iacocca does for Chrysler and be the spokesman for the company. I would tell the public that I created the Whopper over thirty years ago, and I would show the hamburger on television with the comment that the public considered the Whopper to be the best and most preferred hamburger in the country." A few months later I saw Dave in his first television commercial acting as the spokesman for Wendy's. I don't know whether he got this idea from me or whether it was something he had already decided upon, but Wendy's decision to use Dave as its spokesman proved to be one of the most highly successful marketing strategies in the food-service industry. This personal touch to the Wendy's marketing program helped to increase their store sales significantly over the years following

Getting Involved Again

- The theory behind discounting the Whopper was that it would build traffic by taking a much reduced, nominal profit on the sale of each Whopper in exchange for selling ancillary products at regular margins to a vastly increased customer base
- At the time of the Tampa meeting, the then current policy gave our franchisees the authority to decide which advertising and marketing strategies would be used in their own areas. I expressed that this cumbersome arrangement had to be discarded in the interests of the entire Burger King system

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What's Next?

- I had always been concerned about the size of our hamburger. It weighed 1.8 ounces against our major competitor's 1.6 ounces, and there were two things wrong with that. First of all, we were not getting any credit for being "just a little bit bigger." It was hardly noticeable. Secondly, we charged a higher price, which as far as consumers were concerned, offered very little in exchange. I thought management's response to this situation was right on the money. They decided to introduce a 2.8 ounce product to replace the 1.8 ounce patty we had been using for the regular hamburger, cheeseburger, and the Whopper, Jr. Using two of these significantly larger patties of beef, they introduced the new "mega double cheeseburger," which created a bit of a sensation. Even with competition able to challenge us on price, we believed that consumers would buy on the basis of quality. This was no longer the fifteen-cent burger that the hamburger fast-food business had been built. This was a matter of a good hamburger beating out a rather ordinary hamburger. Price would be immaterial. Our advertising would soon be able to convey the message that our regular hamburgers were 75 percent larger than our competition. Having built their business on a small hamburger, this would present them with another major challenge as we would again be presenting a critical distinction between our major competitor and ourselves. We hadn't done that since 1973, when we told the world to "Have It Your Way"
- This was all taking place in 1994, and Burger King at the time was definitely on a roll having only recently come out of the doldrums. This was in contrast to conditions in the restaurant marketplace where competition was heating up. Many companies were experiencing declining sales, numerous cost pressures, and in many cases, sharply reduced earnings. There was mounting evidence that the supply of restaurants was exceeding the demand for these services. "Saturation" was the buzzword that financial analysts, restaurateurs, and the chain executives used with a growing concern about its many implications
- I believe the real challenge for fast-food chains will be to address the needs and demands of the rapidly growing ranks of senior citizens. I would target this group as the most promising of them all. Older people are more willing to accept a service style familiar to them, and being more set in their ways, they are less interested in looking for new and innovative concepts. That turf, they believe, belongs to the young. Accordingly, I tend to think that the big restaurant chains

will align themselves with the needs and preferences of an aging population. That is not to suggest that large chains won't target kids, families and young people. They may find it frustrating to come up with an efficient way to serve the younger generation's preferences, but this market is far too big and important to ignore

- My business experience has taught me that very few managers really know how to listen. I have always thought of myself as a good listener, and I believe that this is the quality that a leader must have in order to be effective I have very little patience with people in leadership positions who are unable to control their egos. People with huge egos might climb the rungs on the management ladder for a while, but ultimately their performance is negatively affected by an inability to listen to people other than themselves. Egos can act as earplugs, and I have witnessed too many situations where this has interfered with good executive decision-making

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Looking Back

- The bottom line to the question of whether I would have done anything differently boils down to this: Burger King should have remained independent until it was the right moment to go public, and I probably should have been smart enough to see this and insist upon it. My confidence that Pillsbury was the right company to help us grow and keep pace was clearly misplaced. If I had known that they might abandon our growth strategy, there would have been no doubt about the direction we would have taken. We would have waited and remained independent hoping to take the company public whenever we could have arranged it