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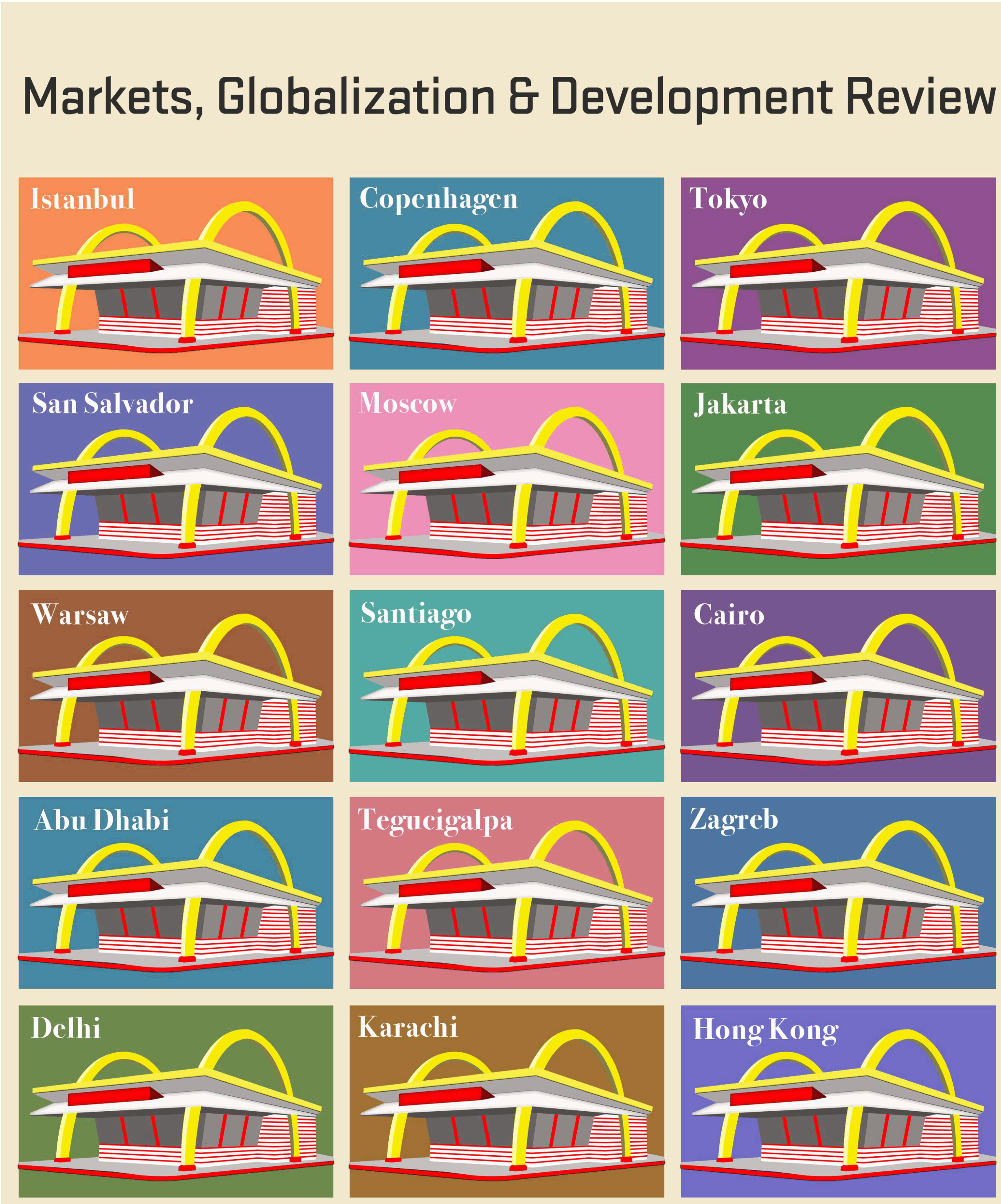

Film Review

John Lee Hancock, The Founder (2016)

Overview

The Founder presents the early history of the McDonald’s corporation, covering the period from the 1950s to the early 1960s. The movie’s main emphasis is on the takeover of the company by Ray Kroc, played by Michael Keaton, an ambitious milkshake machine salesman. In the 1920s, the McDonald Brothers (The “Brothers”), Richard (“Dick”), played by Nick Offerman, and Maurice (“Mac”), played by John Carroll Lynch, moved from New Hampshire to California to find employment. They worked in the movie industry and earned sufficient money to buy their own movie theater. The beginning of the Great Depression, however, forced them into bankruptcy; and subsequently, to look for new sources of income. They noticed that simple food enterprises earned money; thus, they opened a “hotdog and orange” juice stand in the town of Arcadia. In 1940, they moved the stand to the larger (nearby) city of San Bernardino and opened “McDonald's Bar-B-Que.” This latest establishment took advantage of the era’s craving for drive-in restaurants and operated with 25 items on the menu. It had carhops, a jukebox, and a cigarette machine.

In spite of the restaurant’s large menu, Dick noticed that 87% of the businesses revenue came from drinks, fries, and hamburgers. Also, the cigarette machine and jukebox detracted from the establishment’s “family” atmosphere. Based on these observations, they closed the drive-in and reduced the menu to only hamburgers, fries, soft drinks, and milkshakes. Correspondingly, they designed a “mass production” kitchen, which produced and served up orders in 30 seconds. The restaurant quickly became first a local and then a national sensation.

This success attracted the attention of Ray Kroc, the Restaurant’s “Multi-Mixers” (machines which can simultaneously make 5 milkshakes) supplier. Ray’s curiosity was founded on the desire to discover the type of establishment that could produce and sell “30 milkshakes at one time”. To quench his curiosity, Ray drove from his home base in Chicago to San Bernardino, on the outskirts of Los Angeles. At the McDonald's restaurant, he ordered a hamburger, fries and a drink; and was pleasantly shocked when the food appeared almost instantly. He requested the brothers to observe the McDonalds’ operation processes in detail, and Dick and Mac obliged him with an inside tour of the restaurant. Ray instantly saw franchising opportunities in this food preparation model. He convinced the brothers to enter into a partnership in which he would serve as head of the franchising operations of the restaurant.

Based on previous unsuccessful attempts at franchising, the brothers compelled Ray to sign a contract that obligated him to obtain their permission for any changes in the new franchises' operations. The contract provided Ray with 1.4% of the profits and the brothers with .05% of the profits.

Ray initially used a traditional franchise model that obligated the independent franchisee to lease a parcel of land (from a third party owner) and to construct and operate a McDonald's restaurant. These efforts enabled him to expand quickly the number of McDonald's franchises in the Midwest.

Even with this success, the meager (1.4%) profit placed Ray at the risk of bankruptcy. Given this pressure, he sought to renegotiate a higher percentage of the profits with the brothers. They rejected this request, along with other measures to increase profits (e.g., a request for Coca Cola to "sponsor" the chain's menu and a bid to replace dairy-based milkshakes with powdered ones).

In order to turn around his financial situation, based on the advice of financial guru Harry J. Sonneborn, Ray established a new corporation to manage McDonalds' franchises. Under the new arrangements, McDonald's would purchase all sites and lease them to new franchisees. The lease agreements stipulated that the company could cancel the franchise's lease if it did not adhere to McDonald's standards. The agreement applied to the land leased by the McDonald Brothers. Thus, Ray essentially gained control of even over their operations.

Ultimately, the situation evolved into a conflict in which the brothers sold their share of the partnership to Ray for:

- $1.35 million paid to each brother;
- permanent ownership of the San Bernardino McDonalds; and
- 1% of the profits in perpetuity.

While the first two conditions were stipulated in writing, the payment of royalties was based on a handshake agreement.

The Movie's Main Theme: Ray Kroc as a Thief?

Throughout the movie, Ray Kroc is characterized as a ruthless operator who is willing to defeat his competitors through any means possible. This lack of moral compass is reflected when Ray states (both in the movie and real life) that business is not "dog eat dog, but rat eat rat". The sentiment is placed in operational terms when he asks Mac McDonald "…if my competitor were drowning I would walk over and I would put a hose right in his mouth, would you do the same?" (After which Mac replies "I can't nor would I want to," and then proceeds to pass out).

Ray's ruthlessness is especially evident in his consistent willingness to steal others' ideas, possessions, and even spouses. This dishonesty permeates throughout the early expansion of McDonald's, as depicted in this film, and includes the following:

- The "Golden Arches": Shortly after meeting the brothers, Ray glimpsed a portrait of a typical 1950s/1960s McDonald's. The model, which had been conceived by Dick McDonald, featured the era's walk-up windows and Golden Arches. In a subsequent conversation with a potential financier, Ray took credit for the concept of the arches.
- McDonald's #1 Restaurant: Even though the original McDonald's was in San Bernardino, Ray named his first franchise, in Des Plains, Illinois, as "McDonald's number 1".
- June Kroc (Ray's third wife): One potential franchisee introduced Ray to his wife. Ray then courted and ultimately married her.
- The McDonald's Name: After buying out the brothers, Ray revealed to Dick McDonald that he had not only purchased the ownership of the company, but also the intellectual rights to the McDonald name. The brothers were then compelled to change the name of their restaurant to the "Big M" (which Ray then drove out of business by placing a McDonald's franchise across the street).
- Royalties: According to the movie and most sources, the McDonald Brothers never saw their royalties based on the handshake agreement.
- Ray Kroc as the founder of McDonald's: After driving the brothers out of business, Ray promotes himself as the "Founder" of McDonald's.

The Truth on Ray: Probably Somewhere in the Middle

While the movie portrays Ray Kroc as a ruthless player, it deemphasizes two real life details regarding the brothers' own abuse of the relationship. First, the McDonald Brothers failed to inform Ray that they had previously sold the Chicago area franchise rights to another individual. This forced him to pay $25,000 to attain those rights (money he did not have at the time). Also, some articles emphasize (e.g., Brancaccio 2017) that the brothers collected considerable profits from Ray's franchising efforts while he was going broke. Indeed, throughout the movie, neither Dick nor Mac travel to either Ray's Chicago offices or to any of McDonald's fast expanding franchises. This lack of initiative leaves the impression that the brothers were willing to “sit back” and collect the profits on the back of their hardworking partner.

Who was the Founder?

The ultimate questions raised by the movie is whether Ray Kroc or the Brothers were the true founders of the modern McDonald’s Corporation. To some extent, history has recognized that both were the founders, in their own ways. Without Ray’s drive and ruthlessness, McDonald’s today (if it still existed) would be a small franchise of fast-food restaurants in southern California. However, without the “seed” that was planted by the McDonald’s brothers, especially the efficient cook-and-serve system, Ray Kroc would have remained an over-the-hill milkshake machine salesman. Thus, the ideas and energies of both combined to create the modern McDonald’s. Even the McDonald’s corporation has ultimately recognized this dual role after the 1984 passing of Ray Kroc. This recognition included a 1984 invitation for Dick McDonald to taste the chain’s 50 billionth hamburger and the subsequent inclusion of the McDonald brothers’ story on the company website.

Three Complementary Lessons

Even with its over-portrayal of the McDonald brothers as happy-go-lucky victims of a ruthless operator, The Founder reinforces three innovational and marketing patterns that we keep witnessing, even in more recent business expansions:

1. *Innovative ideas and technical knowledge are not enough to expand a business empire. Branding and brand equity are vitally important:* Near the end of the movie, Dick McDonald asks Ray why did he just not steal the McDonald’s fast food system and start his own chain. He replies “…it is not just the system, Dick, it is the name, ‘McDonald’s’ ….would you eat at a restaurant called Kroc’s?” Thus, innovation may start a business, but aggressive branding and marketing are essential to its expansion. This pattern is seen consistently in the tech world. The most notable case is Apple Computers. In this firm, cofounder Steve Wozniak possessed the initial innovative ideas (e.g., the Macintosh), but the company became a global behemoth only through the other cofounder Steve Jobs’s subsequent aggressive branding and marketing.
2. *Business empires can be maintained only through constant innovation:* Although a good idea and aggressive marketing may initiate an empire, it can survive and grow only through constant

innovation. Without consistent innovation, there is "nothing to market". At the end, The Founder emphasizes that many of McDonald's successful innovations were created by the franchises. In today's tech industry, analysts are wondering if, after the death of Steve Jobs, Apple is capable of further innovation or is willing to settle for "tweaks" to its old devices. To the contrary, the "stodgy" Microsoft Corporation, led by its new CEO Satya Nadella, has successfully expanded its "cloud" presence.

3. *Business is tough:* Although business schools consistently push the idea of "ethical" business practices, great business empires are often built through aggressive marketing and opportunism. Ray Kroc, Steve Jobs, and Bill Gates were all aggressive marketers and took advantage of key opportunities, even to the point of being "unethical" at times. Business Schools should teach these lessons (of history) and debate whether the large successful companies could exist without aggressive and possibly even some unethical practices.

The pages of a journal such as MGDR are ideal for debating such complex and intertwined issues of markets, business and globalization – especially since the historical contexts can be, and are, given attention in several MGDR articles and reviews (for examples of other movie reviews in MGDR, see Özkan 2017 and Ozdamar-Ertekin 2017). In this movie, neither the Brothers emerge as purely helpless victims nor does Ray Kroc come off as a purely ruthless businessperson. Ambiguity often is a rich terrain for research and learning.

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