

Scaling Innovation at McDonald's Corporation

Key Insights Summary

Successful Innovation Requires Taking a Stance

The McDonald's *Plan to Win* required the company to become more prescriptive. A focus on testing within well-constructed constraints—"Freedom within a Framework"—allows people to be creative. And the Innovation Center "helps avoid the really stupid things at scale."

To Achieve Significant Change, There Can't Be Any Spectators

By bringing knowledge from the field, McDonald's centralizes good ideas in the Innovation Center and enables field leaders to see ideas being tested firsthand—in essence, creating a network of evangelists.

Culture and Talent Are the Key Elements of Success

Process and portfolio are important, but culture and talent get things done. To establish a culture of innovation, McDonald's seeks to manage the cost of failure, not the *rate* of failure.

Trust Is the Greatest Accelerator of Change

Trust creates a willingness to test, increases risk tolerance, and allows conversations on difficult topics. By building trust, McDonald's accelerates the pace of innovation.

Change Is Driven by the Pressure to Get Things Done

A clear business crisis or emerging business trend can be a strong driving force. Alternatively, managers can set improvement goals that can be achieved only through substantial change.

McDonald's Highlights

The event focused on various aspects of the McDonald's innovation and scaling system—including corporate strategy, menu innovation, and operations testing and scaling. The chart below shows how McDonald's innovates across different dimensions. While the best ideas typically come from the field, the Innovation Center tests and analyzes all menu items, décor, equipment, processes, and technologies before they are rolled out to restaurants.

McDonald's corporate strategy aims to foster innovation, not necessarily drive it. The *Plan to Win* galvanized 1.7 million employees around a core set of ideas, principles, goals, and metrics, as well as boundaries within which to innovate. Each market has its own Plan to Win linked to the global *Plan To Win*, which lays out corporate goals but doesn't specify how or where to innovate.

McDonald's finds that some menu ideas can be scaled to global markets, but others appeal only to specific countries. Introducing new offerings to

33,500 restaurants requires orchestration and standards. For instance, it can take years to create an assured supply chain at scale. The lead market transfers knowledge to the global team at the Innovation Center, which communicates it to other markets. This continuous improvement loop refines the process as it moves from market to market.

Field leaders who come to the Innovation Center gain a real experience of the pipeline, which helps them imagine how ideas might apply to their situation. This approach promotes long-term thinking about how individual markets can address their needs with ideas in the pipeline. On the kitchen floor of the Innovation Center, McDonald's conducts real-world tests to match the actual restaurants where the innovation will be implemented.

Overall, McDonald's has a strong focus on process and people. When referring to a specific innovation, the presenters and their materials almost always mentioned the name of the original champion. This emphasis reinforces McDonald's culture and celebrates individuals and their role in innovation.

Tracking innovation across different dimensions

	Product	Place	People	
	Menu	Restaurant design	Operating platform	Technology
Innovation model	Market led	Area of world led	Center led	Center led
Operations model	Decentralized	Balanced	Center	Balanced
Responsibility	Chief Marketing Officer	Chief Restaurant Officer	Chief Restaurant Officer	Chief Financial Officer

Source: McDonald's

Additional Insights from a Cross-Industry Panel of Experts

Panelists: Jean Gilles, SVP, Deere & Company; Roger Hochschild, President and COO, Discover Financial Services; and Jeff Stratton, EVP and Worldwide Chief Restaurant Officer, McDonald's Corporation. **Moderator:** Rob Wolcott, Professor of Entrepreneurship & Innovation, Kellogg School of Management.

General Observations

Jean: We spend a lot of time at Deere thinking about products and solutions. We have a gathering that we call a "Parts Expo" aimed at supporting our network of dealerships in their pursuit of the parts business. What I saw here today at McDonald's convinces me that we are doing it well—and could do it even better. In particular, I was impressed by how McDonald's connects corporate strategy to the goals and plans of small units.

Roger: About a year ago, the Discover board of directors charged me with figuring out how to improve innovation. Today, I saw great examples of how necessity is the mother of innovation. A lot

of menu ideas come from Australia. It's not that they are more creative; it's largely because McDonald's has such a large market share there. Since they need to meet the same growth targets, they have to come up with great thinking on offerings. A lot of cooking equipment ideas come from Japan: due to real estate constraints there, their kitchens are small so they have to use space efficiently. Discover has focused on innovation around accounts, with a focus on rewards. But that approach won't take us to the next level, so we are exploring new paths to innovation.

How do you cultivate a culture where you can try innovative ideas?

Jeff: One of the things we had to do was change the talent early on. We needed world-class talent working on some of our operating systems, our processes and platforms. And we had talent that we were not utilizing well. So bringing talent forward was the first step. Then we decided that we wanted to be a world-class innovation company. But first we had to be world class in execution so that we could scale and create value. That required taking a stance on some things and becoming more prescriptive.

About the Event

In the nine years that the Corporate Leadership Center has been running the *CEO Perspectives* program, more than 180 Fellows have become alumni and nearly 60 companies and community organizations have sponsored senior executives. Through this trusted network, executives learn and build important connections.

On October 29, 2012, the first-ever *CEO Perspectives* Company Insights event was held. The purpose of a post-program event such as this is twofold: to generate ongoing access to relevant business and leadership insights and to foster connections among the *CEO Perspectives* Fellows. This inaugural Company Insights event was designed to provide an opportunity to delve into the wisdom and experience of the McDonald's Corporation in scaling innovation around the globe, across multiple platforms and stakeholders. *CEO Perspectives* intends to offer the Company Insights events once or twice per year.

We are grateful to Don Thompson, Chief Executive Officer, and Jeff Stratton, Executive Vice President and Worldwide Chief Restaurant Officer of McDonald's Corporation, and their executive teams who hosted the event, which was held at the McDonald's Innovation Center in Romeoville, Illinois. The program featured remarks by key executives involved in the innovation process at McDonald's including corporate strategy, menu innovation, and operations innovation; a tour of the facility's full working test kitchens; and a panel to compare and contrast innovation approaches at other companies such as Discover Financial Services and Deere & Company.

Jean: We are trying to create a culture where it's OK to fail small and early—"Bullets only, then a cannon ball!" We have a history of innovation, starting with our founder who built a plow that could open the prairie, turning the Midwest into the breadbasket of the world. It's the first thing we tell every employee. We became big coming out of the 1980s, when things were very difficult in agriculture. We had leaders who had the guts to drive new programs and to spend the time and effort to deeply understand our customers.

Roger: When talking about innovation management, you can look at process, talent, and culture. The last two are the most important. It's hard to create a culture that tolerates failure. For us, it was easier to create a culture where you're expected to try new things and distributing that across the organization. We want it to be everyone's job—not just product development—to try three to four new things.

When a big idea at corporate is getting stuck, whom do you hold accountable in a matrix organization to get "the next big thing" done?

Roger: Discover doesn't have anyone with a title of innovation, instead going down the path of encouraging innovation from everyone. By contrast, one of our competitors set up a 300-person digital innovation group away from headquarters. From what I hear, everyone in the operating business hates them and waits to kill the ideas coming out. You need corporate resources to support innovation, but the key is to have operating units with pressure to meet tough goals in order to create a pull for corporate

innovation resources, versus trying to push things out from corporate. Also, a lot of innovation can be driven by developing partnerships with innovative companies and aligning incentives. It's a challenge to build a PayPal culture in our regulated industry. But such partners can influence how we think.

Jean: We do have someone with innovation in his title. We expect him to help lead the structure in which we do our advance work. But a lot of innovation comes directly from the market. We develop a strategy road map for technology development, bringing together people from the businesses to share how they see the world and where things appear to be heading. Then we work on creating options. When it's time for product development and execution, the business units run the program. In earlier stages, some innovation projects must be separated in order to not die. The innovation group opens minds and provides a framework for the future.

Closing Comment

Rob: Joseph Schumpeter, who invented the modern notion of innovation economics, made a prediction in the 1940s that is often dismissed: large organizations have the innovation advantage. There are a lot of data points to suggest he's wrong. But there are also an increasing number that support his view. He believed that large companies have the ability to usurp ideas—sometimes come up with them on their own—and then test, scale, and build portfolios on a repeated basis to create significantly advantaged success. I think over the next 10 or 20 years we are going to see that prediction come to fruition. ■

Additional Readings

"Cracking the Code of Innovation," *Forbes*, August 19, 2003

"How to Bring Innovations to Market," *strategy + business*, January 14, 2011

"Scaling Innovation Initiatives," *strategy + business*, forthcoming