



Photo by Alec Huff

## At C Level:

Ralph Alvarez

PRESIDENT AND CHIEF OPERATING OFFICER  
MCDONALD'S CORPORATION



# TRAINING: they're lovin' it

**McDonald's President and COO, Ralph Alvarez, and Vice President of Training, McDonald's USA and Dean of Hamburger University, Diana Thomas, agree on training's contribution to the company's success.**

*By Tony Bingham and Pat Galagan*

McDonald's is a global institution with a 51-year history of growth from a single drive-in restaurant to a network of nearly 32,000 restaurants worldwide. It's possible that Ronald McDonald is more widely recognized in the world than Uncle Sam.

Despite taking some hits in recent years—the sudden deaths in 2004 and 2005 of two consecutive CEOs, the book *Fast Food Nation*, and the documentary film “Supersize Me”—the company's performance continues to improve. Revenue is at record-high levels, up 7 percent in 2005. A deliberate change in strategy—from growing numbers of restaurants to growing numbers of customers by improving service and selection—has paid off. Four million more customers visit McDonald's restaurants every day than they did four years ago. Because of McDonald's size, a 1 percent improvement in sales can result in \$100 million in income.



In April 2003, following a period of disappointing business performance, the company developed and implemented a turnaround plan. Called The Plan to Win, it has two pillars: operational excellence (consistency and customer focus) and leadership marketing (talking to customers in relevant ways). The plan concentrates on five critical success factors: people, products, place, price, and promotion.

At the same time, there was a renewed emphasis on measurement and accountability through efforts to make metrics consistent and uniform throughout the company. Performance measurement is based on customer and employee feedback from 19 countries. The Restaurant Operations Improvement Process (ROIP) gathers data in five ways:

1. **employee commitment surveys**
2. **announced visits to restaurants**
3. **unannounced visits to restaurants**
4. **mystery shoppers**
5. **1-800 number for customers.**

While driving consistent metrics, the company also empowered its regional leaders to make changes on behalf of the customer. Restaurants may embellish the core menu with local innovation to reflect customers' preferences. McDonald's in Taiwan serves the Riceburger. U.S. restaurants have introduced "premium" coffee, bottled water, and salad meals. Local sourcing for ingredients is also permitted. In France, most menu ingredients are from French sources. France, where in 1999 a disgruntled sheep farmer bulldozed a McDonald's to protest creeping Americanization, is now the second highest-producing country for the company.

Close cooperation between leadership and learning at McDonald's accounts for much of its ability to drive common operational goals and metrics across nearly 32,000 restaurants in 118 countries. Ralph Alvarez, president and COO, and a 12-year veteran of the company, understands and supports that link as strongly as any corporate executive today. We talked to him about the learning culture at McDonald's and how training drives results and change throughout the company.

**Q** McDonald's is well-known for the amount of training it provides to its 1.6 million employees—from crew members to the executive level. Tell us from a COO's perspective how that training supports the organization's major strategies.

**A** As you know, we're a people-intensive business and in our Plan to Win, with its five points of emphasis, people are first. If we don't reach all the way out to the people at the front counters who deliver the moment of truth to customers, we fail. And if we don't operate consistently everywhere, we fail. That's what McDonald's stands for. The cheeseburger you eat in Illinois should taste as good as the one you eat anywhere else. That only happens when you have great systems and everyone from the crew members to the executives are trained in them.

During the last three or four years, we've broadened our menu a lot, and it's been a success. We would not have had success if we hadn't invested in a big way five years ago in our training systems. These training systems also contribute to knowledge-sharing throughout all of the levels of the organization.

In interviews with business magazines or industry analysts I'm often asked if our recent success is because of our new salads. And I've always said "No, our success is because of the training and replication systems we put in place that allowed us to change our menu and deliver operations at a higher level than before." I truly believe that's been a big part of why we've been able to make the changes that our customers are rewarding us for.

**“Our success is because of the training that allowed us to change our menu and deliver operations at a higher level.”**



**Q** What kind of metrics tell you that learning activities are working?

**A** We use direct and indirect metrics. You can measure specifically how much knowledge has been imparted and you can measure the results of training. One thing we have found is that when information is imparted it produces immediate results. That is true at HU (Hamburger University), where we train executives and managers and in the seed stores where we train local managers and crew members. A seed store is a restaurant where people from 15 to 20 surrounding stores get hands-on training. Then they go back to their restaurants and train their teams. We know that our training has produced results because we are able to do store-level verification through a mystery shopper program and our own consultants.

Another direct benefit of that process is speed. Four years ago, it would take us 18 months to roll out a new product. A lot of that was time spent on training. Now we have a process where operators and managers visit a restaurant where a product is being test-launched and learn directly about such issues as food costs, paper costs, handling procedures, supply chain issues, safety issues, and sanitation. The streamlined training has helped shorten launches from 18 months to about six months.

The other indirect measure that we look at is turnover. As you know, we're in an industry that has high turnover at the crew level but our turnover has gone down significantly. For many of our crew members, these are first jobs, transitional jobs, or after-school jobs, so we design training that will make them able to be productive and highly satisfied employees in a short period of time. That has a big impact on our 90-day and one-year turnover.

It also prompts people to stay with us long-term because they've been impressed with the system and want to make a career in the restaurant industry. We are second to none in career opportunities. Seventy percent of our managers started as crew. That's our farm team to grow our management from.

**“When we shortcut training, we see it in lack of performance of products.”**

**Q** Do you link any of the metrics on the training side to your key organizational metrics?

**A** They're absolutely the same. We have a variety of metrics. Right now we're measuring results for a new product—our chicken snack wraps. Did we merchandize it properly? Did we deliver it properly? We measure order accuracy, ingredients, portioning, temperature, and many other factors. The majority of those results link right back to training. And I'll tell you that when we shortcut training, we automatically see it in lack of performance of products.

**Q** Do you look at learning's impact on comparable sales and guest counts?

**A** They are interrelated. I can tell you that after the changes we made in training we saw quick impact. Our comparable sales are up; our guest counts are up; our mystery shop scores are improving; our customer complaints are increasing; and our customer complaints are decreasing. These are all indications that the attention to training is paying enormous dividends. Our sales and guest counts are so highly dependent on training that we will slow down product releases if the proper training hasn't taken place.

We measure learning in several ways. Trainees are asked to evaluate classes and there are knowledge assessments in every class. We talk to their bosses about how they did before and after the training to determine if behavior has changed. And we have data that shows that the regions that have more people trained have higher sales and guest counts.



Whether it's a Big Mac or premium coffee, McDonald's is a recognizable brand worldwide.



**Q** Diana Thomas is vice president of training for McDonald's USA and dean of Hamburger University. What metrics are applied to Diana's performance as a top learning executive and how do they compare to outcomes that are expected of other senior leaders?

**A** We have common metrics for the top team that address how the business is doing on sales, profits, operational excellence, consumer perceptions, and so forth. We believe it's very important that all the officers are evaluated against them so they are all pushing toward common goals. Some departments have additional specific goals. For Diana, it is the success of training through HU and our 22 U.S. training centers. We look not just at attendance but at the actual imparting of knowledge. In post-evaluations, we look for impact.

The best thing that Diana pushed us to do was to create the interactive labs at HU so that learning is not just theory. The value of that has really shown up in evaluations from the students. We ask how much the class helped them do their jobs better when they went back to their stores. The majority of people coming to our training are not McDonald's employees; they're employees of our franchisees, and if those franchisees don't feel like they're getting value, they won't send their employees to training. The fact that our attendance has doubled and tripled in the past four or five years depending on what time frame you look at is a confirmation of that impact.

**Q** You mentioned the imparting of knowledge and its impact. How do you know if that's happened? What are you seeing in the stores or what metrics confirm that this has occurred?

**A** We test at the individual and the store level. We test at the seed stores, and we visit restaurants to see that the behaviors that have been taught have turned into actions that are touching customers. Additional confirmation comes from our mystery shoppers and customer hotline, but also from our consultants who are in there verifying that the transfer of knowledge has occurred.

We have a large number of owner or operator restaurants. In the United States, we have 2,500 different owners. It's all McDonald's but the restaurants are run as independent businesses. You can really see that those that are the strongest learning organizations take training to the max. You can verify that in sales, traffic, and most importantly, profit and loss. Those restaurants are looking at training as an investment, not a cost.

**“We look at the actual imparting of knowledge.”**

**“Training is an investment we have to make in the leaders of tomorrow. We want to model that it's important.”**

**Q** How do you know when you've investing the right amount of money in training?

**A** That's a tough question. As you know, we're investing millions in training. At the store level, we have a better understanding of the connection because the metrics are real-time. We look at many data points on a daily basis. What's harder and has to be more of an organizational belief is that the training you do at the manager and officer levels delivers value. That's a strong belief that we have. Training is an investment we have to make in the leaders of tomorrow. We require that our executives and managers have a minimum of 40 hours of training every year. We want to model that it's important. For example, I'm going to a class at Northwestern University this year, two days a month. It allows me to interact with people who have expertise in areas that we hope will make me a better executive.

**Q** In your new role as CCO, where would you like to see McDonald's go with its training?

**A** I would like to see us take the great training work that we've done in developed countries and apply it where we've spent less time and have less infrastructure. I'd like to see us training in ways that establish the learning culture of McDonald's from day one and applying our learning tools, such as e-learning, more quickly than we have in the past.

The restaurant business is high energy and challenging, but when our employees are properly trained and become familiar with the environment, they fall in love with McDonald's. And when they do, the differentiator—the thing that continues their upward mobility—is training. Having a feeling of accomplishment and being in a learning mode is truly the differentiator from other choices they may have in their careers. That goes way back to Ray Kroc, our founder, and the start of Hamburger University, and it will continue wherever we do business. **T+D**

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