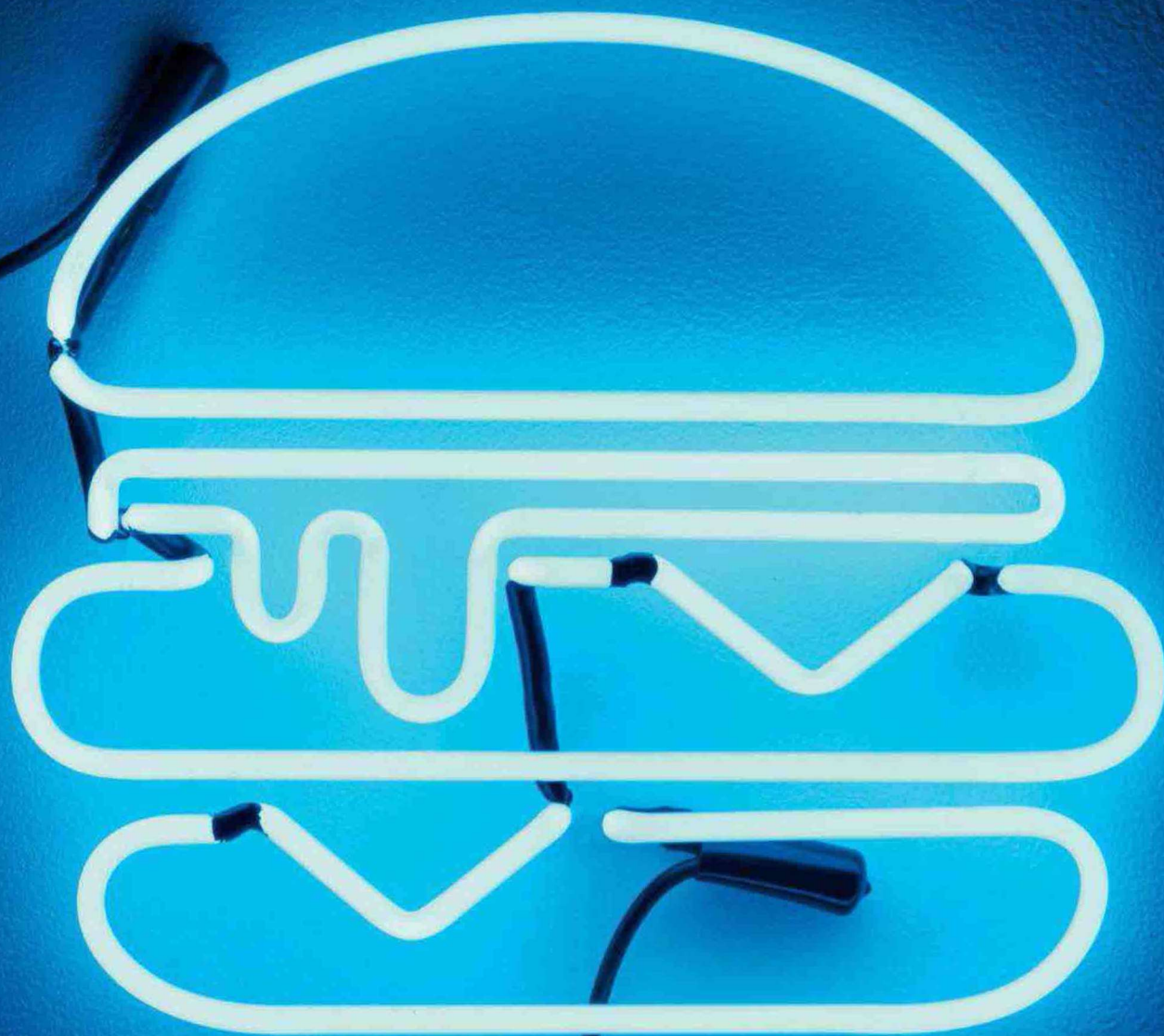


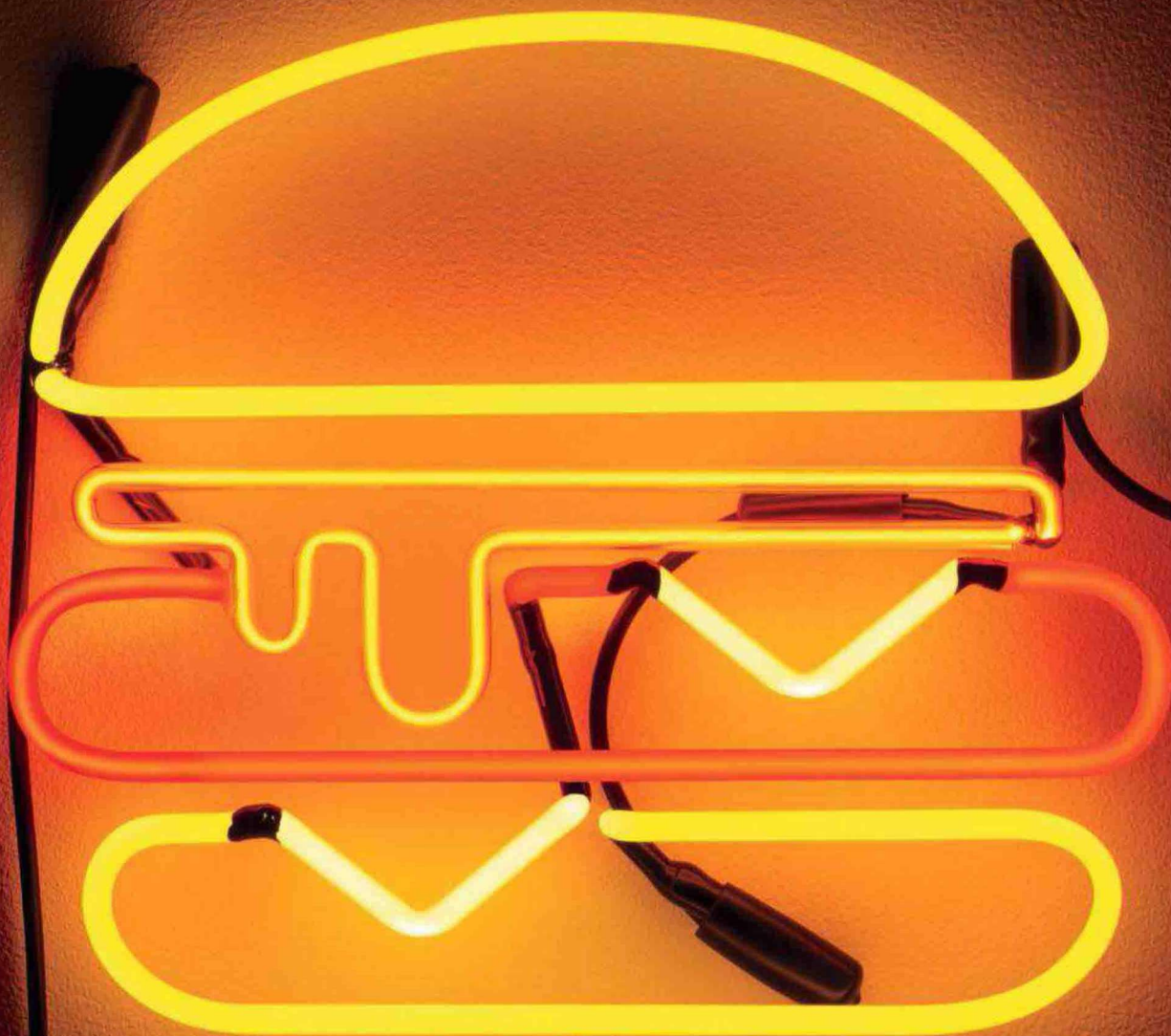
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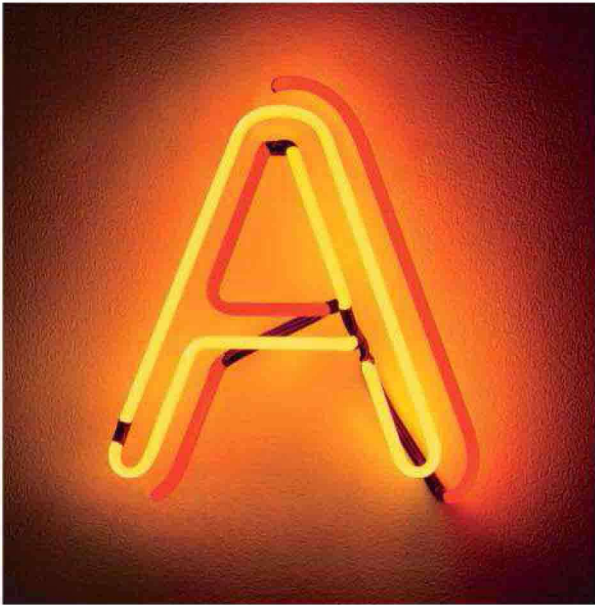
McDONALD'S



BY JONATHAN RINGEN

Photographs by
Joel Stans

USING FRESH—NEVER FROZEN—BEEF IN ITS QUARTER POUNDERS IS JUST ONE PART OF A MASSIVE TRANSFORMATION THE COMPANY IS UNDERGOING IN THE FACE OF CHANGING CONSUMER TASTES AND COMPETITION. BUT IT'S DEFINITELY THE MOST COMPLICATED.



A CRYPTIC MISSIVE WENT OUT LAST SPRING TO all 3.6 million people who follow McDonald's on Twitter. The tweet read, simply: "100% Fresh Beef + John Goodman = ASMR(ish)" and included a link to a video. In the split-screen clip, the *Big Lebowski* and *Roseanne* star stares into the camera and—somewhat unnervingly—whispers a carnal ode to the fast-food giant's Quarter Pounder burger, accompanied by the sounds and visuals of an appetizing-looking patty sizzling on the grill. "Hey, you," Goodman murmurs intently. "McDonald's new fresh-beef Quarter Pounder is hotter and juicier. It'll leave you speechless. I can almost feel that juice sizzling.... Oh baby, the melted cheese is hugging every corner of that grilled patty.... That cheese is so hot, so melty." ¶ ASMR videos, named for autonomous sensory meridian response, typically star carefully primed young women tapping on objects and whispering into high-end microphones with the intent of creating a pleasant frisson in viewers,

whereas this one featured a large man waxing near pornographically about a burger. But the spot was a viral hit, quickly racking up more than 3 million views. It was timed to the arrival—at every one of the restaurant chain's 14,000 U.S. outposts—of fresh, never-frozen beef patties in its signature Quarter Pounder burgers, a change that execs say has been as seismic for the company as the introduction of all-day breakfast, in 2015, or even the drive-through window, which McDonald's began experimenting with in 1975. (The new patty is also available in the chain's more premium Signature Crafted Recipes line of burgers, but not yet in Big Macs or its basic ones.)

Over the course of interviews with five top executives, I never once heard anyone mention Shake Shack (110 U.S. locations) or In-N-Out (334 restaurants) by name, but McDonald's has clearly been studying these chains—both of which serve fresh beef—along with their millennial customers who don't find frozen patties appetizing. "We were hearing from consumers that our burger wasn't good enough, and we've seen a lot of trends around expectations of high quality," says the company's new chief marketing officer, Morgan Flatley, who arrived at McDonald's from PepsiCo a year ago. "To be able to deliver that at the speed and scale of McDonald's was a unique opportunity for us," she says.

Fresh beef is just one element of a massive transformation under way at McDonald's. Steve Easterbrook—a McDonald's veteran who had also run British casual-dining chains PizzaExpress and Wagamama—was elevated in 2015 from chief brand officer to CEO at a time of real crisis. The chain had been suffering losses for six straight quarters, with net income down 15% from the year before. The iconic BILLIONS SERVED signs didn't quite start rolling backward, but between 2012 and 2016, McDonald's forfeited a stunning 500 million transactions in the U.S., both to its typical competitors and a new wave of fast-casual spots like Shake Shack and Sweetgreen. "We'd lost a meaningful connection with customers," says Easterbrook, who sounds a bit like a younger Michael Caine. "They weren't excited about what we were doing, and that would be fairly universal on a global basis. So we rallied around a turn-around plan." McDonald's stock is up 60% since Easterbrook took over, but it has listed downward for much of 2018 as same-store U.S. sales growth has cooled from 4.5% to 3%. Consumers and investors alike are demanding more.

Now the company and its franchisees—owner-operators who typically sign a 20-year agreement for each restaurant and control more than 90% of the U.S. chain—are embarking upon its biggest innovation test in years with the rollout of the new Quarter Pounders. Can a company that's famous for its predictability succeed

Prop stylist: Taylor Horne at MHS Artists

in selling a fresh-beef hamburger—with all the logistical and food-safety risks that entails—at the scale, speed, and price its customers expect?



THE BRAND-NEW HEADQUARTERS of McDonald's, a nine-story open-plan office tower, are in the rising Chicago neighborhood of the West Loop. From 1971 until this past June, the company operated out of a parklike campus in suburban Oak Brook, Illinois, 20 miles outside of the city. Now it's on a stretch of West Randolph Street that is currently Chicago's hottest restaurant row. "We felt like it would get us closer to our customers, closer to the competition, closer to the trends

that are shaping society," says Easterbrook. Plus, he notes, it's good for recruiting: "The talent tends to be living downtown." The young corporate employees toting Sweetgreen bags back across the street to their office during a recent lunch hour—because who can eat McDonald's every day?—demonstrate that Easterbrook's plan is already taking hold. Several told me excitedly about the expanded lunch options the new HQ will provide.

The McDonald's café in the lobby of the building has one feature you won't find anywhere else: a rotating selection of regional items from outposts around the world, including a spicy-chicken sandwich from Hong Kong. The limited availability of these items has turned out to be

a canny marketing move, sparking a flood of social media interest and press coverage, but the space is also, clearly, a test lab. Menu chief Linda VanGosen, who joined McDonald's from Starbucks last year, works closely with chefs and food scientists at McDonald's suppliers and keeps a close eye on food trends, which have to reach a certain level of mass appeal to make sense for McDonald's. She and her team also conduct ethnographic research, including shadowing customers to see how McDonald's fits into their lives, and take what VanGosen refers to as food safaris, eating their way across America. "If we want to find great coffee, we'll probably go to the West Coast," she says. "For burgers, it's probably somewhere in the South."

A key insight she's learned is that what consumers say they want, and what they actually buy, are two different things, which presents an interesting challenge. "That's kind of the secret sauce," VanGosen says. "What's an emotional need you can answer?"

The company had been receiving consistent feedback from a wide range of consumers in recent years—both via focus groups and from unsolicited comments—that its beef patty, the cornerstone of its business, was subpar. But figuring out exactly what customers found unsatisfying took time. Eventually, McDonald's determined that the burger was too dry and didn't arrive hot enough, and executives discerned that the culprit in both cases was the flash-freezing process the patties had been subjected to. "We looked at a lot of things—raw material, fat content, grind—for the right taste and textural elements," VanGosen says, noting that this work began well before her arrival.

They found that the patty itself didn't have to change, just the way it was handled. Keeping the meat fresh and cooking each burger to order improves the eating experience immensely. "The game changer turned out to be serving it hot off the grill," she says, adding that the never-frozen patties cook in 60 to 80 seconds—about a minute faster than frozen ones—which also helps offset the added time it takes restaurant workers to start cooking each burger as soon as it's ordered. McDonald's declines to reveal the costs associated with the new patty, beyond saying that it is not appreciably more expensive to produce than the frozen version, and that consumers won't see an increase in price. "I haven't seen data on this,

THE COMPANY HAS HOMED IN ON ITS ESSENTIAL PRODUCT: A HAMBURGER, THE BIGGEST, BURGERIEST HAMBURGER MCDONALD'S SELLS.

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but if I had to guess based on other restaurants, I'd say it costs McDonald's a little more," says industry analyst Mark Kalinowski, of Kalinowski Equity Research. "But we're getting a lot of evidence that they are selling well." Kalinowski says that the average McDonald's does twice the business of an average Burger King or Wendy's. (Wendy's, which has long served never-frozen patties, recently took the opportunity to mock its bigger competitor on Twitter: "Hey @McDonalds, heard the news. Happy #NationalFrozenFoodDay to you for all the frozen beef that's sticking around in your cheeseburgers.")

McDonald's began testing fresh-beef Quarter Pounders nearly two years ago at restaurants in Tulsa, Oklahoma, and Dallas, markets selected because they are serious burger country. The response was conclusive: More than 90% of customers distinctly preferred the new burger. It's been a hit with critics too. "The meat was tender, it tasted fresh and delicious, with that classic whiff of black pepper McDonald's uses," said one *Food & Wine* review. "To boot, there was a nice bit of char around the edges. Simply put, there was no disguising the fact that this meat is a fairly significant upgrade from McDonald's as usual."

In addition to taste, today's restaurant-goers increasingly care about the provenance of the food they consume. At Sweetgreen (91 locations), for instance, an employee writes the names of the farms that supplied the season's ingredients on a chalkboard in the restaurant. Shake Shack published a cookbook last year that highlights its local purveyors. While moves like these are impossible at the scale of McDonald's, the chain has been taking gradual steps in these upstarts' direction. The company committed in 2016 to using exclusively cage-free eggs by 2026. Its chicken is now free of most antibiotics, which has been the policy in the U.S. since last year (though the Humane Society thinks these changes don't go far enough). McDonald's also recently announced it would stop using plastic straws in the U.K. by 2020 and begin testing alternatives in the U.S. Generally, the company has become more transparent about its sourcing in the post-*Fast Food Nation* era, distancing itself from the industrial food processes it formerly employed that had so disgusted consumers, including incorporating "pink slime"—beef castoffs treated with ammonia—into its burgers.

IN CRAFTING THE NEW QUARTER POUNDER, MCDONALD'S HAS SUBTLY IMPROVED THE ENTIRE SANDWICH, ADJUSTING GRILL TIME AND THE BUN-TOASTING PROCESS.



But fresh beef is many orders of magnitude more challenging than any menu update thus far, and more significant to the company overall. "We thought, How do we make the biggest difference to the most customers in the shortest possible time?" says Easterbrook. Rather than playing defense against critics by adding a healthful—and potentially unpopular—option to the menu, the company has homed in on its essential product: a hamburger, the biggest, burgeriest hamburger McDonald's sells.



IN A LATE-SPRING TUESDAY, not long after the new patty began being served nationwide, Christa Small, one of the company's top operations executives and the person whose

team was responsible for coming up with the procedures that make fresh beef possible, visits

a McDonald's near the old campus in Oak Brook. It's hard to imagine anyone you'd trust more with the task of making sure the biggest restaurant chain in the world can safely sell a potentially pathogen-carrying product to millions of customers a day. Small is friendly but intensely focused, with a tiny Golden Arches pin on her lapel. She's worked for McDonald's her entire career, beginning with a "crew member" position at a restaurant in suburban Chicago, followed by a corporate internship the summer before her freshman year at University of Michigan, where she studied electrical engineering (she also has a master's in computer engineering). She has served in a wide variety of roles at the company, from the IT department to helping develop the automated beverage machine.

Food safety, especially in the wake of Chipotle's disastrous E. coli outbreaks in 2015 and 2016, which hurt both its business and its brand,



is clearly a priority for McDonald's. The company's suppliers have spent around \$60 million to enhance equipment and systems, including new refrigeration and food-packing technology. (Lopez Foods, which supplies restaurants in the Texas and Oklahoma region, led the pilot program to develop a process to produce, pack, and ship fresh patties.) The distribution centers and cold trucks were also revamped, to ensure that the patties would be kept appropriately cool yet at no point be exposed to freezing temperatures, rendering the whole fresh-meat initiative moot.

The main equipment investment McDonald's franchisees have had to make for the fresh-beef switch is a squat, two-drawer refrigerator. ("Do [franchisees] like writing big checks?" Easterbrook asks. "Of course they don't! But if there's a strong business case behind it, they'll naturally want to invest.") Small's group also developed new "small wares" for the process, including

trays and tongs that are only used with the new patties. Most crucially, she and her team developed a mandatory curriculum for the handling, cooking, and serving of fresh-beef patties. "It's the most intensive training process we've ever done for a new product," she says. "We really want to make sure we maintain our reputation in regards to food safety."

In crafting the new Quarter Pounder, McDonald's has made subtle improvements to the entire sandwich, adjusting grill time and the bun-toasting process, for example. But the biggest change is in the labor process to prepare it. McDonald's switched from batch cooking to preparing each Quarter Pounder when ordered. This required fundamental shifts in kitchen culture and training. "It takes them a minute to understand that I want them to react as soon as a customer orders," Small says of employees. "I want you to get the patty down, I want you to

White Castle Slides Into New Territory

Privately held White Castle, which operates nearly 380 restaurants in the U.S., launched an experiment this past spring that's in some ways even more radical than fresh beef: It began testing a \$1.99 Impossible Slider, built around a highly convincing plant-based patty made by Impossible Foods that chars and releases juices upon cooking.

1

The Run-Up

White Castle marketing head Kim Bartley became interested in meat alternatives a few years ago and asked the chain's director of innovation and head chef to keep an eye out. "They brought the Impossible to me and I was blown away," she says. White Castle and Impossible Foods worked on the patty throughout 2017; within 18 months of Bartley's first taste, the slider was on test-market menus.

2

The Rollout

The Impossible Slider, released April 12 in 140 outposts in New York, New Jersey, and Chicago, was aimed less at vegetarians and vegans than the more than 26% of Americans looking to eat less meat. Unlike the beef sliders, which are steam grilled, the Impossible Slider is cooked to order on the grill. Each sandwich takes around three minutes to prepare.

3

The Response

Social media lit up with posts about the burger. "I can't even tell you the multiple on social," says Bartley, who notes the chain has also recently scored buzz via its new uniforms, designed by New York fashion label Telfar. White Castle declined to release sales figures but says the test more than doubled sales goals; the chain is hoping to add more markets soon. Meanwhile, McDonald's tells *Fast Company* that it is investigating the idea of selling a plant-based burger, and KFC announced that it's working on vegetarian fried chicken, which it plans to start testing in the U.K. this year. —JR

act with a sense of urgency. When you have to change the behaviors of hundreds of thousands of people, that's not a small thing."

To demonstrate, Small takes me to the other side of a McDonald's counter and asks an associate for a Quarter Pounder. As soon as the order enters the system, a cowbell sound—unique to the new burger—alerts the grill cook, who pulls on a fresh pair of blue gloves and grabs a patty from a sterile bag contained in a blue tub in the special fridge, which is labeled RAW FRESH BEEF ONLY/SOLO CARNE. FRESCA CRUDA. (The combination of the plastic bag and the plastic tub provides two lines of defense against the escape of "purge," which is the unappetizing word for the juices that the raw burger releases in the packaging. "That's where your main risk of cross-contamination is," says Small.) As the grill cook's burger hits the grill, he lowers a clamshell top, which flattens the patty and allows it to cook on both sides at the same time. In another area of the kitchen, the prep team pops a bun in the toaster and, as soon as it's ready, applies condiments. When the patty is done, the clamshell automatically floats open. The grill cook seasons the burger with salt and pepper and passes it on a tray to a short conveyor belt, where the prep squad unites the patty with the bun and condiments and packs it all in a cardboard box. The whole process takes less than two minutes. And the finished product? It is, indeed, hotter and juicier. John Goodman's whispers are not lies.


"CUSTOMER EXPECTATIONS ARE EVER INCREASING," SAYS CEO STEVE EASTERBROOK. "JUST BECAUSE WE'RE LARGE DOESN'T MEAN WE HAVE TO BE SLOW."

The new beef patties have a 14-day shelf life from the time they are formed at one of the company's meat purveyors until the moment they're served. But there are many factors that could prevent them from getting to a customer at all. The refrigerated trucks McDonald's uses, for instance, are constantly temperature-monitored: If the interior temperature goes even one degree too high or low, the entire load is discarded. There's also, for the first time, a question of supply. After all, ground beef is a seasonal agricultural product, and even if you are one of the biggest purchasers of it on the planet, as McDonald's is, you still need to plan ahead for the arrival of barbecue season. "We're competing with retail on fresh beef, and we need to make sure we can access the supplies we need," says Marion Gross, the head of the U.S. supply chain and a 25-year veteran of the company.

"This is new for us, and we're coming into our first grilling season and it's going to test the robustness of our supply chain. But so far, so good!" To better anticipate purchasing needs across the entire business, Gross's group is making significant investments in computer learning and researching emerging technology like the blockchain. "We're looking at all those kinds

of things seriously," she says, "so we can better manage the data we have." She adds, laughing, "We have a lot of data."

McDonald's has put all of this energy into fresh beef because it really needs the burger to succeed. The chain's stalwartly low prices are the result of razor-thin margins and massive sales volume, so keeping costs down and getting more customers through the doors—or onto its highly regarded ordering app—is paramount. To this end, the company announced another step in its ongoing restructuring in June, closing regional field offices and further shrinking the management structure. All told, it plans to reduce expenses by \$500 million by the end of 2019. And it's begun looking into a host of potential new offerings, from plant-based meat alternatives (like the Impossible Slider that White Castle has begun testing in certain markets; see sidebar) to restaurants that recognize diners upon entering and prompt them with their favorite orders. "Customer expectations are ever increasing," Easterbrook notes. "What used to be convenient 10 years ago, those rules get rewritten based on the Amazons and Ubers and the Netflixes. Just because we're large doesn't mean we have to be slow."

About a month into the fresh-beef rollout, things are definitely bustling during the dinner rush at a McDonald's on Manhattan's Upper West Side. A few minutes after a touch-screen-kiosk order for a Quarter Pounder with Cheese is placed, a young female employee brings it to my table. Have things been busier since the rollout? "Oh yeah," she says, already speeding back to the counter. "Everybody tells me how much they love this burger." ■

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Barry Diller

(Continued from page 70)

position, you have to do it, but if you do it consistently, I think it's the definition of a poorly managed company.

Tinder, and its cofounder Sean Rad, emerged from an incubator that you funded and fostered. What do you think about incubators as an approach to finding and nurturing talent?

Well, they're inherently crapshoots. They're speculations, and you're really not looking for the kinds of ratios you should look for in directly managed businesses. If you're rational and objective, you know that a great many of them will fail. Every once in a while, though, something good happens. Tinder is an example of that.

You have a long history of mentoring women. Is this something you've done consciously? I'm lucky I never made any distinction. Why, I can't really tell you. I just didn't.

IAC has a number of women running portfolio companies, such as Vimeo CEO Anjali Sud and The Daily Beast CEO Heather Dietrick. Do you think they run their companies differently? Yes.

How so? They are women, not men.

But they have to perform or they wouldn't get to stick around. I didn't say that they perform better or worse. That's ridiculous. But when you say, "Do they run them differently?" Yes, they are a different gender. You can be neutral about [gender] in terms of making choices, but there are gender differences, and I think that's good.

I imagine that politicians solicit you all the time for money. Yes.

Do you see any breakout talents in politics today? Are there people who could, were they not in politics, thrive at IAC? Few, I'm afraid.

Is that because politics and business require different skill sets or energy levels? It's like the difference between educators and film stars. I

mean, they're the other sides of the hemisphere. There's nothing in common.

What about media and technology, two worlds where you have a lot of experience. Do you think the talent requirements there differ?

Generally, yes. Technology is zeros and ones and an affinity for that. And a narrative storyteller is very much the opposite of that. There's no commonality there. There's more a magnet repellent.

Tech and media companies seem to want to collaborate, but it seems like the pairs that succeed are the exceptions, not the rule. It's hopeless. Collaboration is hopeless. It doesn't mean one can't buy the other, but I would not put them in the same room.

What turns you off when you're talking to a potential job candidate or young person? Someone with too many specific goals.

What advice would you give people early in their career? Is there anything that you would tell young readers of *Fast Company*? Yes. Begin. ■

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