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Boss Talk: How Jim Skinner Flipped McDonald's --- Big Chain's CEO Focused On Getting Better, Not Bigger; 'We Have to Provide Choices'

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Four years ago, Jim Skinner huddled with a handful of other McDonald's Corp. executives to tackle a big problem: The company, by most measures, was doing terribly. Mr. Skinner had just been named vice chairman and was part of a new management team charged with helping reverse the company's sliding profit.

Three days later, the group emerged with a new strategy, named Plan to Win. Instead of continuing to build lots of restaurants, the company would focus on improving existing locations. The goals: faster, friendlier service; tastier food; more appealing ambience; better value; and sharper marketing.

Sticking to that strategy has helped usher in one of the most successful streaks in McDonald's 51-year history -- and guided it through some tough times. Mr. Skinner moved up to the chief-executive spot in 2004 after CEO Jim Cantalupo died and his successor as CEO, Charlie Bell, relinquished his post to fight what proved a losing battle against cancer. McDonald's has endured a deluge of negative publicity thanks to movies like "Super Size Me" and books like "Fast Food Nation" that criticize the quality of its food and blame it for the nation's obesity epidemic.

Despite that, McDonald's stock has climbed about 45% since Mr. Skinner took over two years ago, and same-store sales and profit have risen steadily. Today, 50 million customers walk through McDonald's doors each day, four million more per day than 3 1/2 years ago.

Mr. Skinner's first job at McDonald's was as a crew person at a Davenport, Iowa, location when he was 16 years old. He spent almost a decade in the U.S. Navy, then returned to McDonald's as a restaurant-manager trainee in Illinois. He never graduated from college.

After eating a hamburger and french fries at the company's Oak Brook, Ill., headquarters recently, 62-year-old Mr. Skinner touched on topics ranging from trans fat to spotting and grooming executive talent. Excerpts:

WSJ: Why is it so important to you to be better and not bigger?

Mr. Skinner: Because we proved that we were getting bigger but not better. And we have to be better. Your experience today at McDonald's has to be a better experience than it was yesterday. People have limited time today. They don't want to get up and go, "Gee, I don't know. Do I think I can go to McDonald's?"

WSJ: You've credited the Plan to Win with turning around the company. How did you come up with it?

Mr. Skinner: Basically, we sat in this room and talked about how the growth story is problematic. We had contributed $4 billion or $5 billion to capital expenditures and building new stores over four years, and yet we didn't have any corresponding incremental operating-income growth. So we decided to focus on our existing restaurants.

Those of us that were hard-core restaurant people, which I was at the time, were saying, "Look, we've got to do a better job of delivering what we called quality, service and cleanliness on a daily basis in our restaurants." And value. Because value proposition's very important.

WSJ: You've made it a priority to put a big emphasis on health and nutrition both in the menu and in the marketing. Is that message compatible with burgers and french fries and milkshakes?

Mr. Skinner: What I put an emphasis on is what we call balanced, active lifestyles. When you look at the kinds of choices we've provided, we've done more work here than probably any other restaurant company in trying to be part of the solution. We are not going to solve the world's obesity problem. But what we can do is be productive and be part of the solution.

We are not prescribing what people should eat. I don't say to you: "Get up in the morning, and if you don't eat apple slices, you're going to have a problem." We have to provide choices so that you say, "I can go there because there's a choice that makes me feel good." But we have to remember who we are. We were a hamburger company. That's the way we started.

WSJ: Why has it been so difficult for you to take the trans fats out of food when other companies have done it?

Mr. Skinner: First, you always have to remember the scale. We're big. It takes awhile to be able to implement and execute any change at McDonald's. No. 2, we want to do it the right way.

We don't want to have a knee-jerk reaction. This is what happened in 2002. The United States division decided they had the problem solved and made an announcement, and yet our testing from our customers indicated the taste wasn't right. It wasn't ready. And so we couldn't execute. And I think, to our benefit, we didn't pull the trigger on something that wasn't going to give us the best opportunity to give our customers the best-tasting french fry as well as the benefits of a reduced-trans-fat oil.

WSJ: Is it the french fry that's the biggest problem?

Mr. Skinner: We have reduced trans fat in the other products. But to get to zero, there are all those considerations -- what kind of oil is it, how much oil is there. Our suppliers have to be on board. If you change one oil to get to zero trans fat and you end up with higher saturated fats, or an oil that's not compatible, and you don't get the right-tasting french fry, then that's a problem.

WSJ: Do you anticipate you'll have a total U.S. oil changeover by the time the New York City trans-fat ban goes into effect in July, or might you have to use a different oil in that market to comply?

Mr. Skinner: We will be using the oil in that market that we expect to use throughout the system.

WSJ: You've become more vocal against the critics that blame the company for obesity. Why have you decided to take a sharp stance against them?

Mr. Skinner: I don't know that I've taken a sharp stance against the critics. We love the passion of people who want us to serve food that we feel has those characteristics that everybody wants when they're eating. But most of the time what they say is not factual relative to the quality of our food, the very high standards we have around our food safety -- yet since we're the lead dog, we're the ones that people point to. I just don't think it's fair.

WSJ: Do you see McDonald's ever selling organic food?

Mr. Skinner: It's possible. We look at everything. If we had the kind of demand for organic food that is perceived to be healthier, we'll be all over it. We are customer driven. We measure everything. We test everything. We are talking to our customers every day in those restaurants that are buying those french fries. And measuring not only the impact of how they feel about the taste but the intent to purchase those french fries again.

WSJ: Has Starbucks changed the restaurant environment?

Mr. Skinner: I think that they certainly have brought to people's attention the great opportunity for coffee. But if you really look at the impact on the restaurant business, I don't know I could say they've had an impact.

WSJ: Are they a company that you watch very closely?

Mr. Skinner: We watch all companies very closely. Starbucks is a company that we're watching because we could argue that it's a very successful company. They've done a lot of great things. But they've done a lot of the things that we did -- took a great concept and replicated it.

WSJ: You took over the helm of a company that had lost two CEOs in succession very suddenly. What was that like?

Mr. Skinner: It was very, very emotional for me because not only did we lose two great leaders but I lost two great friends. It was also traumatic for the organization, so the need for stability in the organization was very important. The board deserves credit because the road map was managed by them.

WSJ: How has the company managed to stay on track given the unexpected loss of management?

Mr. Skinner: One of my goals has been to do a better job of selecting the high-potential people who can accelerate our momentum.

WSJ: How do you do that?

Mr. Skinner: Some of it's structural and some of it is by gut. We created a leadership institute in the last 15 months, which really houses the spirit of everything we're trying to get done around development of our people.

We assess our talent twice a year. I ask all my senior people to do 40 hours of personal development annually , including myself. I ask all the senior people to have two ready-now candidates to succeed them. Every time I meet with them we talk about, what are you doing to develop them? We might even have a debate about the two they picked.

WSJ: What's the biggest remaining challenge McDonald's faces?

Mr. Skinner: I worry about complacency. We're not satisfied. We have a lot of work to do.

WSJ: How often do you eat at McDonald's?

Mr. Skinner: Almost every day.

WSJ: I know that you like the Quarter Pounder.

Mr. Skinner: Quarter Pounder plain. No cheese, no condiments. Just the bun and the meat.

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5 Tips from Jim Skinner for Managing a Turnaround

-- 1: Focus on people, leadership development and succession planning.
-- 2: Face the facts. Listen to your customers because they will tell you what really matters.
-- 3: Have a plan of action. Stick with it, align your team around it and focus on execution.
-- 4: Have the discipline to pursue continuous improvement.
-- 5: Be passionate and committed to your business. All the way in or all the way out.

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