

Money Matters & Business Start-Up

Avoiding Financial Pitfalls

Traveling salesman Ray Albert Kroc started the McDonald's empire after buying the name and concept from the McDonald brothers in the 1950s, but turning a profit proved to be a challenge, despite the popularity of the hamburgers.

Although Kroc sold 200 franchises within five years and the unit's were grossing \$37 million annually, yet his share after paying business expenses and licensing fees to the McDonald's was so small he had to earn money for personal and living expenses by selling milkshake mixers to restaurants.

Kroc had entered into an agreement with the McDonald's that severely restricted how much he could charge for the hamburger franchises. Eventually, Kroc took on a business partner with financial savvy and he found a way around the rules spelled out in the agreement. However, Kroc spent millions of dollars to buy his way out of the restrictive agreement.

Lesson: A bad contract and a lack of financial street smarts can ruin even a great business idea.

Boas, M & Chain, S. (1976). *Big Mac: the Unauthorized Story of McDonald's*. Page 24.