ARBOR OUTLOOK

Ray Kroc: The fast food fiduciary

Margaret McDowell

"I've got all the riches baby ... one man can claim."

— From "My Girl" as performed by The Temptations

He was a 55-year-old cleaning restrooms. Not very successful, right? At the time of his death at age 82, though, he was worth about $8 billion.

He worked a side business to provide cash flow, but his heart was in his future chain of fast food restaurants. The first was built in Des Plaines, Illinois, a Chicago suburb. Each day he walked to the restaurant and helped his first franchisee. He cleaned the restroom, picked up parking lot trash, and hauled and peeled potatoes. Eventually, his chain included 7,500 restaurants in 31 countries.

The movie ("The Founder") about the life of Ray Kroc has now premiered, but while waiting for it to open, I read "Grinding It Out: The Making of McDonalds." How this Multi-Mixer and paper cup salesman created a fast food empire is fascinating reading. There were struggles, mistakes and adversity at every step of the journey.

Kroc believed in a few basic principles. One was that "the corporation was not going to get involved in being a supplier for its operators." Kroc chose not to profit from supplying food, materials and paper products to his restaurants, in addition to the money he was making from their sales. "There is a basic conflict in trying to treat a man as a partner on the one hand while selling him something at a profit on the other," he said. Kroc negotiated with third party food suppliers to supervise quality and price for his franchisees, but did not profit from the sales.

Perhaps you've heard of the Fiduciary Rule? Kroc's aforementioned statement defines it succinctly for us. A financial fiduciary is prohibited from selling a product (insurance, annuity, etc.) to his client without informing the client that it may not be in the client's best interest, because the advisor is making a profit from the sale. Consider the sale of an annuity. Perhaps it's in the client's best interest, perhaps not. But if the financial advisor is profiting from selling the product to the client, a conflict of interest is possible.

The Department of Labor has decreed that as of April all investment professionals providing advice on retirement accounts must do so acting as a fiduciary. If the advisor sells a financial product or invests client assets into an investment vehicle that pays the advisor a fee and the sale is not in the client's best interest, the advisor must disclose this conflict of interest in writing.

Efforts are underway to delay, change or nullify the DOL ruling. Companies that sell financial products are helping lead the fight. Time will tell. But Ray Kroc had that one figured out early on.

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