McDonald’s Case History, 2006–2015

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As a companion to the book, we include this online case history of McDonald's using only published information. The original Six Rules book described the 2002–2005 McDonald's turnaround and our role in that business success. In this case, we detail the years 2006–2015 to show how the brand surfed the turnaround momentum and eventually found itself in need of another revitalization.

The new McDonald's turnaround is still in its infancy as this case comes online with our new book on the revised Six Rules. Hopefully, the initial success of the third-quarter 2015 performance is the beginning of another new era at McDonald’s.

At the end of this case, there are some questions for you to think about. In answering these questions, you will need to synthesize the information over the 10-year period discussed, 2006–2015.

As you read the book and learn about the ways brands fall into trouble, get out of trouble, and can stay out of trouble, you will see these brought to life in this McDonald's case.
THE STATE OF THE BRAND

The Situation

By the end of December 2005, Russ Smythe, head of Europe, Claire Babrowski, head of operations, and Marvin Whaley, president Asia operations, had resigned. Larry Light had ended his three-year contract and was slated to leave January 1, 2006. By August, Mike Roberts, chief operating officer (COO), would be gone as well. And soon after that, Bill Lamar, head of marketing for North America, would retire. This was followed by Matt Paull, chief financial officer (CFO), leaving in July 2007. In addition, the hedge fund activist, William Ackman, was working with other McDonald’s shareholders on behalf of his vision to make McDonald’s more of a real estate–focused enterprise.1 His initial proposal (November 2005) had been rejected2, but he was coming back with a revised recommendation.

The original turnaround leadership that worked with Jim Cantalupo and Charlie Bell would essentially be gone from McDonald’s. To understand how they left the brand, the Wall Street Journal Online site press release on January 17, 2006, listed the accomplishments. “McDonald’s delivers strong December comparable sales. Total global comp sales rose 5% in December on top of 4.9% increase achieved for December 2004. Global comparable sales for the fourth quarter and the year were strong at 4.2% and 3.9% respectively.”3 Jim Skinner, the new CEO, said, “In the U.S., comparable sales rose 4.4% for the month of December, reflecting the ongoing popularity of McDonald’s signature breakfast menu and our premium chicken offerings. U.S. customers also responded positively to McDonald’s Arch Cards, our new gift cards launched during the holidays. Europe’s comparable sales for the month were up 4.6%. We remain focused on building sales momentum across Europe, and I am confident we have the right plans in place to do this. In Asia/Pacific, Middle East and Africa comparable sales (were) up 5.9%.”4

McDonald’s was in great shape. Analysts, observers, reporters, and pundits would comment on the consecutive quarters of positive earnings. Jim Skinner attributed the successful fourth-quarter 2014 to the Cantalupo and Bell Plan to Win with its must-do actions related to “quality food choices, greater convenience and an enhanced focus on the McDonald’s restaurant experience,” specifically, breakfast and chicken offerings. Skinner also mentioned that he would continue to ride the already established momentum.5

Europe was a bright spot. Reports indicated that it was up 4.6% versus a 2.2% rise a year ago. This was above the previous estimate for flat sales. Results from Europe indicated a seventh consecutive month of positive results.6 Japan, a volatile country for the brand, also reported a terrific quarter, revising upward its estimate for the year. There were increased customer visits even though per-customer spending fell 8.0%. However, Japan said the pace of decline continued to narrow.7
However, some observers indicated that there was perhaps a hint of trouble sizzling beneath the unbroken positive results. Even though the brand demonstrated continued health and robustness, some perceptive outsiders saw the potential for trouble. Putting the remarkable results aside, some questioned how McDonald’s planned to sustain its perpetual growth. When asked of McDonald’s management, the response was “to keep adding new items, a strategy that has to date worked well.” At MSN Dell Money, a reporter wondered whether McDonald’s could continue to do this before hitting a wall and whether McDonald’s had begun to hit that wall already.8

Mr. Ralph Alvarez, president of McDonald’s North America, gave a speech in which he confirmed the continued focus on new menu items. These items attract new customers. And the new customers are “demanding more chicken and that McDonald’s has to follow that trend.” Mr. Alvarez made it clear that the customers “do not just come for our tried and true core products.” Although he did emphasize that the corporate focus on new items would not come at the expense of burgers, the MSN Dell Money reporter questioned how this would be possible. The reporter observed that with such an expansion of new menu offerings, it did appear that McDonald’s was “diversifying away from its core burger and fries business.” The reporter noted that expanding the menu had been a good strategy for the brand: with new items, McDonald’s had been attracting “a new set of health conscious and premium-minded consumers to its restaurants.” But what is notable, the reporter continued, is that the company “has largely ignored its burger area when it comes to new offerings. That complacency may lead to customer alienation over the long run. After all, plenty of companies, from CKE Restaurants to Red Robin Gourmet Burgers are working hard to reach burger aficionados. If McDonald’s neglects its core products for too long, it may find that its next big thing will be to win burger fans back.”9

Pershing Square

After the rejection of his first proposal, Pershing Square, William Ackman’s hedge fund leaked a glimpse of its McDonald’s restructuring proposal on January 18, 2006, that included plans to form a new company and sell 20% of shares to the public. Pershing Square now proposed the eventual sale of 1,000 of McDonald’s company-owned stores in mature markets. Observers indicated that this McDonald’s proposal was similar to the one Ackman had with Wendy’s. Mr. Ackman revealed that he did have some franchisee backing. And, as part of the proposal, Pershing Square wanted at least one franchisee seat on the board.10 Mr. Ackman called his revised proposal his “Plan to Win-Win,” clearly a play on the McDonald’s Plan to Win strategic document.11

Interestingly, the analyst community did not present a united front supporting Pershing Square’s proposal. Some analysts believed that Mr. Ackman’s accusation of lackadaisical management on the part of McDonald’s was an “off-base” argument. These analysts pointed to McDonald’s remarkable results that were envied by many. Stakeholders were already reaping financial rewards. On the other hand, supporters of Pershing Square said its plan could lead to much higher stock prices. At least one of these Pershing Square supporters could not understand why the initial recommendation was rejected in the first place.12
Shareholders rejected the second Pershing Square proposal by January 19, 2006. With the extraordinary turnaround based on a solid and proven strategy that lifted share prices, investors were clear in their belief that the brand would achieve Ackman-proposed levels by themselves. Mr. Ackman stated that he did not believe the results were as good as these could be even though the 3-year turnaround strategy (Plan to Win) delivered 32 consecutive months of higher sales at the chain’s 30,000 outlets worldwide.

Although Mr. Ackman and Pershing Square lost this second round, Richard Gibson of The Wall Street Journal reported that McDonald’s planned to refranchise several hundred overseas restaurants. CFO Matt Paull announced the refranchising plan but once again rejected the Pershing Square spinoff. “We believe that some of the 8,000 restaurants we own will be better served in the hands of franchisees.” Mr. Gibson added that one place where refranchising would happen would be the UK, where McDonald’s owns 800 restaurants.

By mid-January, McDonald’s appeared to have ceded to some of the Pershing Square “requests” when the brand announced plans to sell 1,500 loss-making stores to local franchisees in up to 20 countries. Analysts and the press believed this was a way to address concerns that its company-owned restaurants were underperforming. The observers also saw this as a sign that Mr. Ackman’s arguments were not dismissed outright but actually considered viable. Jim Skinner stated that the sale of company-owned stores (McOpCo) was a way “to create more transparency around McOpCo performance.” Ackman made it clear that McDonald’s actions were an acceptance of his proposals even though investors rejected Pershing Square twice. Mr. Ackman said, “They’re giving us almost everything we want, and more. They acknowledged significant underperformance in McOpCo, and selling 2,000 restaurants. And, they’re giving you transparency—transparency gives you value. They’re doing all the right things. I don’t think the market yet appreciates what they’re doing.”

FINANCIALS

Even though McDonald’s share price doubled since the beginning of 2006, the financial community was feeling concerned; the share price had fallen 8% since its five-year high on February 8, 2006. Investors and analysts saw that higher gas prices and economic worries in the U.S. were having an effect everywhere, including at McDonald’s. In July, analysts felt somewhat relieved as shares did come back a bit. And McDonald’s basic principles seemed to be a secure way to exist in a shaky environment. The financial community believed that as a cheaper alternative than a casual dining restaurant, McDonald’s would still be able to lure customers into its restaurants. (However, Applebee’s, TGI Friday’s, and Chili’s are not in the same competitive set as McDonald’s. The financial community did not report on how McDonald’s might fare relative to KFC, Wendy’s, Popeye’s, or Burger King.) Relative to a casual dining establishment, McDonald’s is a cheaper eating experience. Analysts overlooked needs and occasions and based their pronouncements (incorrectly) on industry definitions. And these financial proclamations overlooked the fact that McDonald’s had placed numerous premium-priced items on its menu board, reaping profits. McDonald’s announced that it would spend $6 billion to $7 billion on dividends and stock repurchases.
Second-quarter 2006 earnings continued the positive news. Europe was clearly the driving force. There was good U.S. growth, but there were the best European results in more than a decade. McDonald's attributed the Europe results to breakfast, higher end coffee, and premium chicken. However, as the year wore on, the cracks in the fortress were starting to become more visible. McDonald's reported that July 2006 U.S. same-store sales grew by their smallest amount in more than three years. CEO Jim Skinner reminded investors that gas prices could impact store traffic. Even though analysts could see the issues, the financial community believed that McDonald's could still grow substantially. They seemed to believe that customers could possibly cut back but that McDonald's had headroom.

At the end of September 2006, McDonald's made the decision to increase its dividend by 50%. The press reported that the McDonald's Board of Directors cited “confidence in the ongoing strength of its business and the reliability of its cash flow.” The increase would be an annual payout to $1 a share versus 67 cents, payable on December 1. Matt Paull, McDonald's CFO, said, “We like dividends. If we are going to be better, we can afford to be paying a higher dividend as a way of reminding people of how strong and steady our cash flow generation is.” Of course, the analyst community was thrilled. One analyst said the following: “In the 1990s McDonald's chased rapid growth; they were more focused on being bigger than they were on being better. They started to run into some trouble that they’ve addressed in the past few years. The company’s stock has more than tripled since 2003 when the company instituted a turnaround program dubbed Plan to Win, which it says has driven 40 straight months of positive worldwide sales increases and double-digit increases in earnings per share for the past three years. McDonald's has seen recent success from its ‘i’m lovin’ it” advertising campaign and new product promotions, such as its breakfast menu, premium coffee and chicken items.” This analyst was looking at the results from the timeline of 2003, during the turnaround. He mentions the Plan to Win and the “i’m lovin’ it” campaign. He also mixed in the premium-priced items and the 2006 focus on breakfast, premium coffee, and chicken—a focus that ignored the core product line.

About a month before the dividend announcement, it was revealed that William Ackman, the hedge fund activist who had sold all his shares after the second rejection of his “proposal,” had bought a huge stake in the brand. With the announcement of the increased dividend, Mr. Ackman was quoted as saying, “The more stock we own, the greater the influence we can have.” McDonald's did not comment on Mr. Ackman's stock repurchase. However, McDonald's was very clear: its performance speaks for itself, citing 40 consecutive months of worldwide sales increases. There appeared to be agreement in the financial community that with McDonald's excellent results and this dividend as a signal of internal performance confidence, Mr. Ackman may not find a receptive audience for a “shake-up.”

In October, the monthly earnings story was again positive. Europe's strong sales and the breakfast and coffee initiatives along with chicken sandwiches were generating increased same-store sales. Jim Skinner stated that the breakfast, coffee, and chicken entries made the brand more relevant. He also indicated that the brand was strong enough not to be affected by the rising gas prices in the United States.
As 2006 ended, the brand continued its strong earnings growth. As with the previous months, the reasons were the menu offerings of breakfast, coffee, Chicken Snack Wrap, and extended hours. McDonald’s shares showed the enormous momentum of the 2002–2005 turnaround as shares more than tripled since 2003. The “I’m lovin’ it” advertising campaign, along with the Plan to Win program, were still generating success.24

**MARKETING**

**Forever Young**

In October 2005, McDonald’s hired a global CMO from Quaker, Mary Dillon, to replace Larry Light, who had been part of the Cantalupo/Bell/Light team responsible for the 2003–2005 turnaround. The company believed that Ms. Dillon, who had no global experience, needed a three-month window to learn the McDonald’s business and understand the concepts that propelled McDonald’s to its three-year successful turnaround. During her “transition time” Ms. Dillon stayed below the radar. But soon she needed to address the Olympics, as McDonald’s was one of the sponsors.

Was the brand’s marketing in trouble? This is what *The Chicago Sun Times* said: “Since October, McDonald’s had been keeping Mary Dillon under wraps until Monday when she was brought forth to discuss the meager and uninspiring campaign for the upcoming Winter Olympics in Turin, Italy. Sadly, our first brush with Dillon was eerie in the extreme as we sat and listened to a recitation for a five-minute statement on the advertising strategy. But, perhaps Dillon’s performance was merely a reflection of what McDonald’s is rapidly becoming under its new leader, Jim Skinner—a faceless pre-programmed behemoth intent solely on keeping those sales figures growing at an acceptable pace.”25 *MSN Dell Online* reported the story differently. And, in that online story, Mary Dillon articulated how much she supported Forever Young. “We’re continuing to let our ‘forever young’ brand attitude shine through in this entertaining Olympic Games themed advertising,” commented Mary Dillon, Executive VP and Global Chief Marketing Officer.26

Some of the marketing initiatives, including the campaign “I’m lovin’ it,” continued. *The Wall Street Journal* reported that an ongoing initiative to “tidy up” in-store promotional materials was on track, clearing up the “McJumble” of messy, uncoordinated clutter of messaging. “For the first time, nearly all the fast-food chain’s 13,700 U.S. outlets are using the same slick promotional signs.” As the article noticed, the previous approach of “everyone does their own local store marketing” had created confusion at the counter. “McDonald’s effort to coordinate its in-store promotions, implemented gradually during the past year, is one of a number of steps the fast-food chain has taken to boost sales in the aftermath of a slump earlier this decade. The effort required almost a year’s worth of complex logistical work. It was rolled out in January at a limited number of restaurants and expanded to the rest of the chain in subsequent months.”27 This was part of the previous reimaging effort that focused on bringing the restaurants, inside and out, closer to being expressions of Forever Young.
The global restaurant reimaging began in 2003. The designs came from France, where the ideas for reimaging started as far back as 1996. These were not just exterior changes with interior furniture renewals. The changes associated with five different designs were holistic, addressing the customer's five senses. By 2006, McDonald's Europe reported that about 2,000 outlets would be refurbished. Denis Hennequin, president of McDonald's Europe, pioneered the French reimaging. When he spoke about this, he used the UK as an example for his changes. He said that, “Britain no longer wants cheap food but expects choice, comfort and ambience.” He also said that reimaging is part of “upgrading the customer experience” to build trust in its brand—a trust eroded recently in Europe by consumer concern about diet and health, food quality, and advertising to children. “Only by building this trust will we increase loyalty, frequency, penetration, sales and returns.”

“i’m lovin’ it”
When this campaign began, it had at its core the idea that McDonald's was a part of people’s lives and that is what they loved about the brand. McDonald's was part of your lifestyle: there for you with delicious, relevant, and uniquely McDonald's foods and beverages delivering a relevant and uniquely McDonald’s experience. Since the campaign began, 2 million more daily customers were visiting McDonald’s. The campaign, known internally as “ili” created relevance for McDonald's. As related in Advertising Age, “It revitalized the brand’s image, and framed it as a modern and contemporary lifestyle brand.”

Ms. Dillon decided that it would be better to become a product-focused brand. She mistakenly believed that the “it” must now refer to a product, not the bigger, more exciting, and motivating idea of being a part of your life. She changed the focus of the marketing from being customer focused to product focused. “We have done a great job on showing the customer we know them with the ‘I’…. Now we must focus on the ‘it’…. When we get to convention we will show the evolution.” This change from being a customer-focused brand affected more than just advertising. This decision contributed to making the brand less relevant. In March 2006, Ms. Dillon gave this new assignment to the advertising agencies. However, she couched it in terms of “better connecting our food to the feeling and moment that people have with the brand.”

Competition
During the 2002–2005 turnaround, McDonald's experienced a lucky break. Burger King was undergoing a difficult period of corporate changes, declining sales, and franchisee uproar over its marketing. This gave McDonald’s some breathing room: its main competitor was in a state of disrepair. However, by 2006, Burger King seemed to have appeased the franchisees sufficiently and “peace” reigned, as Advertising Age commented. This meant that Burger King was getting itself together and possibly becoming a strong competitive force. One of the ways Burger King reformed was to focus on its core burgers and fries. Today, the Burger King brand is doing very well considering it went through another series of corporate changes. However, it still keeps a lens on its core menu. In 2006, it was noted that Burger King, along with others such as CKE restaurants, was churning out Whoppers, leaving salads to McDonald's. The core Burger King customer is simply not that interested in salads, selling about three per
store per day. On the other hand, on average, a Burger King restaurant sells approximately 300 Whoppers a day.33

To continue to appeal to its core base of customers and attract more young adult males, Burger King did not focus on items with fewer calories and less fat. Whereas McDonald’s added items to appeal to moms, women, and the health conscious, Burger King added to its reputation as the fast food chain where you could be one meal away from a coronary. But with young adult males as its core, this may have been the correct, more relevant positioning because this group is far less concerned about health and nutrition than other groups. “They’re just in your face and they have a core customer that loves that,” said Marion Nestle, professor of nutrition, food studies, and public health at NYU.34 Whatever the rationale, Burger King became a true competitor to McDonald’s again with a highly focused approach and appeal.

Even with its keen eye on its target audience, Burger King was aware that it had a unique opportunity with this audience to go up against McDonald’s with breakfast. After a great fiscal first quarter, Burger King announced that it was considering promoting a breakfast value meal to take on McDonald’s.35

**Pricing**

When asked about the one thing that mattered most to the turnaround, Larry Light has continuously said that it was the three-tier pricing strategy. This was not a “Good, Better, Best” approach where degree of value and quality vary by price. Quality did not vary by price point. And each price point was excellent value. What varied by price point were differences in product design. It was a disciplined, thoughtful approach to the menu where each of the three pricing tiers represented a great value.

One level represented the Dollar Menu and various meal options. Here prices were $1 and under for appropriately sized, delicious McDonald’s food. Another tier comprised the core menu items such as Big Mac and Egg McMuffin. The strategic intention was that there would be little or no discounting in this category. Dealing on the core menu only detracts from the brand and extracts value from the brand. The third tier included the premium items such as premium salads and premium coffee. These were items outside the group of core menu items.

The Dollar Menu was successful especially among the young adult audience with limited money to spend. The Dollar Menu also provided add-ons, such as yogurt parfait and extra fries, in addition to what people purchased from the regular menu. Observers said that the Dollar Menu was a huge force in the 36 consecutive months of sales growth. And, as one journalist pointed out, over the three-year period of the turnaround, the Dollar Menu became so integral that “revenue increased by 33 percent with shares rocketing 170 percent, a remarkable turnaround for a company that only four years ago seemed to be going nowhere.”36

However, under Jim Skinner, U.S. prices for the new menu options rose to levels well out of the range of most core customers. Analysts commented that the hefty rise in prices increased the average check total by 5%, which is huge for a company that operates in a price-sensitive environment. The Cobb Salad had a ticket price of $4.50. The strategy
seemed to be including items that were not designed for children and young adults. The price increases were seen as one of the key reasons the brand was doing so well in terms of earnings. For example, although salads made up only 10% (at most) of turnover, they sold at a premium for about $4.20 (on average). A Big Mac cost about $2.89.

24/7
In April 2006, the press began reporting on the new hours for fast food restaurants. Occasion segmentation pointed out that the three discrete eating occasions (breakfast, lunch, dinner) had changed remarkably. People were eating at all hours. In a 24/7 world, dinnertime was now bleeding into bedtime. Snacking was becoming an important mealtime occasion. Data were showing that 6.7% of fast food meals were consumed between 9 PM and midnight. And research showed that late-night dining was more profitable than earlier meals: for example, $4.43 was an average ticket for a daytime fast food customer, whereas $6.22 was an average ticket for a late-night fast food consumer. Fast food marketers were seeing strong sales of late-night meals, which NPD Group estimated were accounting for nearly 8% of the $160 billion fast food industry. “The notion of breakfast at 7 AM, lunch at 12 (noon) and dinner at 6 PM is over,” said Bob Golden, executive VP at Technomic. McDonald's said that stores with late hours were experiencing double-digit same-sales gains. Taco Bell was also entering late night and differentiating its offering by calling this time zone a fourth meal around its four taste and texture profiles of crunchy, spicy, melted, and grilled.

At the end of August 2006, Jim Skinner announced that a new kitchen system would finally allow for all-day breakfast. The “flexible operating system” would provide variety with greater ease. In the past three years, breakfast had been and remains the strongest performer among the three major meal segments.

Segmentation
Part of Burger King’s revival was due to the laser focus on the young adult male. This had been one of McDonald’s target audiences during the turnaround. Burger King called its target the Super Fan. The Super Fan was described as a young, 18–34, blue-collar worker; slightly more male than female; and more than 30% are Hispanic or African American. Super Fans loved technology and tended to be early adopters. They really loved Burger King. Although Super Fans were only 18% of the Burger King customer base, they accounted for nearly half (49%) of all visits. They were frequent users of Burger King, with at least nine visits a month. On average, Super Fans ate at Burger King around 16 times a month. They were always on the run and always multitasking; they over indexed on drive-thrus. McDonald’s was following a very different strategy; it was broadening its menu to broaden its appeal. Instead of focusing on a few market segments, McDonald’s seemed to be trying to have something for everyone at every occasion.

Happy Meals
During early 2006, Disney cut its ties to McDonald’s and stopped supplying tie-in promotional materials as giveaways with Happy Meals. Disney felt the pressure from the nutritional community and the increasing awareness of childhood obesity with its
associated dangers such as juvenile diabetes. McDonald’s had to look elsewhere for the “toys” that helped to sell the Happy Meal.

One of the great ironies of 2006 was the Hummer giveaway. 2006 was the beginning of the “astronomical gas price” summer. Cash-strapped customers found that higher gasoline prices impacted their restaurant visits, including fast food. But while McDonald’s felt the pinch of the emptier wallet, it glorified the biggest gas-guzzler icon of them all: GM’s Hummer. Not only did it gulp gallons of gasoline, but from an ecological standpoint, the Hummer was a sign of extreme environmental disregard. As the financial community started noticing the impact of gas prices on meals away from home, McDonald’s decided to tout the Hummer. McDonald’s called it a “Hummer of a Summer” promo. The press took a dim view.

Here are some of the press comments:42

- *Advertising Age:* “License to Drive Sales: Why GM Is Putting Hummers in Happy Meals.” “GM lost $3.2 billion last year globally in the second quarter and GM licensed products in the US sold nearly as much. The HM inclusion will total 42 million Hummers, much to the chagrin of environmentalists.”
- *The New York Times:* “Would You Like a Gas Guzzler with That?” “With gas prices at $3 a gallon and threatening to go higher, Hummer sales are declining. But McDonald’s appears not to have gotten the message. By putting Hummers in HMs, McDonald’s is sending a message to kids that utter waste of this precious resource that is causing us such national security problems is OK.”

**Food**

**Fries**

During the course of 2006, there was a controversy regarding the iconic McDonald’s fries. (N.B.: In 2015, McDonald’s promised openness and transparency. Its online site for information on any food product caused a controversy of its own as customers asked questions such as, “Are the burgers really made of pink slime?” and, “What are the ingredients in the fries?” Perhaps it was the 2006 blow-up that colored the way McDonald’s started to approach “transparency.”) The food environment in 2006 reflected customers’ newfound ability to seek and find information on everything, including ingredients and food allergens. The FDA instituted new food labeling laws, so companies had to comply by listing all ingredients. Due to the FDA changes, McDonald’s admitted, “its fries contain wheat and milk ingredients that might cause problems for diners sensitive to these substances. Previously, McDonald’s described its fries as free of substances that can cause allergic or other medical reactions in sensitive people.” Not only free of allergens, but also, McDonald’s stated that the fries were safe to eat regardless of sensitivities. Now McDonald’s had to state that, in fact, “the fries include a natural flavoring made in part from extracts of wheat and dairy products.” This is problematic for those with gluten allergies and other food sensitivities.43 The McDonald’s French fries controversy blossomed into several lawsuits claiming the public was misled. One of these lawsuits was on behalf of a child with celiac disease (allergy to gluten) who became sick after eating the fries.44
Additionally, with the new labeling laws, McDonald’s had to admit that its fries had more trans fats than thought. Citing “new test” results, it turned out that the fries had a third more trans fats: 8 grams rather than the stated 6 grams.45

The controversy regarding McDonald’s foods did not end with the FDA labeling changes and the fries with gluten issues. In April, in a New York Times Op-Ed, Nina Teicholz contributed her opinion in “Nuggets of Death.” In her article, she reminded people that there is a heart-punishing fat (trans fat) hidden in American fast food—in this case, Chicken McNuggets.46

Meat
A truly important initiative at McDonald’s was the push for meat provenance. Gary Johnson, the senior director of worldwide supply chain, spearheaded this effort. He truly believed that global meat supply should implement cattle traceback so customers could know just where the meat they were eating came from. If the big users like McDonald’s would ask cattle people to do this, then the rest of the world would follow. He was forceful in asking for an industry wakeup call so consumers could trust their food.47

Breakfast, Coffee, and Chicken
Beginning in 2006, McDonald’s focus became solidified as “breakfast, coffee, and chicken.” From the beginning of CEO Jim Skinner’s tenure, he consistently told analysts and investors that McDonald’s was doing well because of its breakfast, coffee, and chicken. He did not say anything about the core products. In fact, in March, McDonald’s stated that its February comparative sales were up 4.7%—positive across all geographies. Increases in U.S. comp sales (3.6%) were achieved in part “by the new spicy premium chicken sandwich, breakfast menu options, and extended hours.”48 Again, there is no reference to core products. And, in April, Mr. Skinner stated that coffee was doing incredibly well and becoming a major contributor to earnings. “We didn’t make an enormous change in the blend...but revisited procedures, made sure we were doing it in the right way,” said Mr. Skinner. He also admitted that other companies were focusing on breakfast, but McDonald’s would continue to “communicate very strongly around our high-quality breakfast.” Share price fell 1.3%.49

By April, McDonald’s added yet another chicken item to its menu. Long-time restaurant business journalist, Richard Gibson (The Wall Street Journal), noticed that burgers were not added. Nor were improvements to the core burger products on the menu. He commented, "For a chain founded on hamburger, McDonald’s is paying a lot of attention to chicken. Its core menu already boasts more than a dozen chicken dishes ranging from sandwiches and salads to its famed McNuggets. A spicy chicken sandwich was recently added and an Asian chicken salad is coming soon. So is an item called snack wrap."50 (N.B.: Currently CEO Steve Easterbrook is taking his 2006 UK mission, “to be a progressive, modern burger company” and using it globally. However, he is not at this time, publicly supporting fixing the core menu, which has many burgers. The latest new product is Crispy Buttermilk-Fried Chicken. Does being a progressive burger company mean focusing on chicken at the expense of the basic burger, Big Mac, and Quarter Pounder?)
During the turnaround, new product development changed to begin with having a foundational understanding of customer needs and occasions. Instead of saying, “We need a new chicken sandwich,” the question became, “What needs do the customers have? When do they have these needs? Which needs are best satisfied by a new chicken sandwich? Why?” This disciplined process—foods designed to satisfy needs in certain occasions—worked to McDonald’s advantage. Chicken Caesar Salad and McGriddles are examples. Additionally, Charlie Bell started convincing franchisees to put McCafés in their stores, an idea born in Australia. (N.B.: while Charlie was alive, a McCafé was built in the lobby of the Oakbrook, Illinois, headquarters. Jim Skinner ripped it out upon Charlie’s death.) Although McDonald’s owned breakfast, Starbucks and Dunkin’ Donuts were making inroads. And coffee was becoming a premium item. McCafé was not meant to be a coffee brand serving a complex array of hot and cold beverages.

April quarterly results were positive due to breakfast, chicken, and longer hours. Same-store sales, globally, rose 6.2%. The core products were not mentioned in McDonald’s reports to analysts: “In the U.S., the company’s largest market, chicken sandwiches as well as its breakfast business and longer store hours contributed to a 4.1% sales increase.” And it is important to remember that the chicken sandwich in the U.S. was a “premium priced” item. European same-store sales rose 9.3%, while in the Pacific, the Middle East, and Africa, same-store sales rose 6.5%. This was reportedly due to strong sales in Japan and Australia.

McDonald’s, facing breakfast competition from Starbucks, Dunkin’ Donuts, and Burger King, threw more resources into coffee. Burger King, noticing that McDonald’s coffees were sold at premium prices and included more complicated frothy options, saw an avenue for grabbing breakfast from McDonald’s. Burger King executives saw their coffee as the more affordable, straightforward option. As one Burger King executive said, “Those buying our BK Joe Coffee don’t want it to be complicated, like a chai half-decaf whatever. Our customers don’t have that kind of money, frankly, and don’t have that kind of profile. They just want it to be straightforward. This is not frou-frou coffee.” However, McDonald’s vocally supported its more premium coffee offerings, saying that its coffee sales have increased at a double-digit rate. (Was this a road to “pricing out” its core customer base? Was this part of the beginning of McDonald’s decline?)

Additional reports at the time indicated that McDonald’s was now considering other premium-priced beverages with a range of bottles and cans, including energy drinks and iced tea as an alternative to soft drinks.

August sales rose. Mr. Skinner stated that the rise in earnings was due to the breakfast menu and the newly introduced Chicken Snack Wrap. Europe still represented the strength, but the breakfast menu and the Chicken Snack Wrap helped the United States significantly.

**Trans Fats**

One of the key dietary issues of 2006 was the removal of trans fats from food products. In the restaurant business, this was a touchy issue. Many products were beloved, and a change in formula could result in a “New Coke” fiasco. In November, both KFC and
Wendy’s had already cut trans fats. Burger King announced that it would test new oil in 90 days. McDonald’s announced that it would also make such a change.

Frightened that any change to the iconic fries would alienate scores of customers, McDonald’s stalled. Even though the company made no change to the fries, the company heard from its customers that they did not like the changed taste of the fries. During the 2002–2005 turnaround, there was a serious commitment to rebuilding trust. McDonald’s had a program based on trust-building principles. “Transparency” was one principle. “Become part of the debate; do not hide from it” was another. Under CEO Jim Skinner, those trust building principles seemed to be abandoned. This behavior did not go unnoticed by the press. Kate MacArthur of Advertising Age titled her article “Why McDonald's Hasn't Cut the Fat: Fast Food Leader Fears Oil Change Will Leave Bad Taste Among Its Fry Fans.”57 Apparently, the fear of losing customers did not extend to Europe, where the brand decided to replace the offending oil with a new rapeseed oil.58

STEVE EASTERBROOK

In 2006, McDonald’s moved the chairman and CEO of McDonald’s UK, Peter Beresford, to the U.S., reporting to Mary Dillon. His new job was described as “leader of strategic global brand development.” Replacing Peter Beresford was Steve Easterbrook, who had been reporting to Peter Beresford as executive vice president and COO of the UK.59

PARTNER BRANDS

Jim Cantalupo had given the orders that the Partner Brands had to go because they detracted and distracted from concentrating on the McDonald’s brand. Resources were redirected. In May 2006, Matt Paull, who had been CFO under Jim Cantalupo, told analysts that all the Partner Brands were sold or being readied for sale except for Boston Market. He told investors that selling Boston Market was not a big deal because it was “an unimportant brand.” McDonald’s purchased the brand as Boston Chicken in 2000 for $173.5 million paid mainly for its real estate portfolio. McDonald’s plowed resources into the brand and changed its name from Boston Chicken to Boston Market. But analysts pointed out that it was currently worth about $100 million—a possible loss of $73.5 million, not counting the millions invested in reimaging the brand. Mr. Paull added that McDonald’s should not have bought it in the first place. The BusinessWeek headline stated the obvious: buyer’s remorse.60
**Year 2007**

**Financials**

January 2007 began with more good financial news. The positive momentum initiated by Jim Cantalupo and Charlie Bell continued. McDonald’s global sales rose 7.2% in December 2006. Europe was a bright spot. The changes made by Denis Hennequin, head of Europe, had enormous positive impact. As the press reported, the new head of the UK, Steve Easterbrook, adopted and imported the effective Hennequin decisions to fix the UK because, compared to the rest of Europe, it was a laggard. “Under Steve Easterbrook, the UK has been trying to emulate the continental European McDonald’s business with a greater variety of restaurant designs, ending a one-size-fits-all philosophy at its 1,220 UK outlets that had made them look decidedly dowdy.” In the United States, it was becoming clear that McDonald’s was moving away—albeit in its own way—from its core menu. The 2006 addition of chicken wraps was still a successful menu item. “McDonald’s is no longer just a ‘burger joint’. They do about $5bn in chicken sales in the US on an annual basis, roughly equal to their burger sales,” said Jack Russo, analyst at AG Edwards. “Expect new chicken snack wrap flavors and new chicken sandwiches. Expect more new products at breakfast. Expanded coffee offerings from the recently launched premium coffee blend could include specialty coffees such as lattes and flavored iced coffees.” January 2007 began as December 2006 ended: the core products were not high priority on the McDonald’s radar screen.

When fourth-quarter 2006 results were announced in January 2007, revenues were up 11%. McDonald’s fourth-quarter 2006 profit more than doubled, thanks in large part to the spinoff of Chipotle, and continued strength in Europe. CEO Jim Skinner commented: “McDonald’s is delivering the strongest business results in 30 years. Our double-digit earnings growth for both the fourth quarter and full year reflects the success of our Plan to Win…. We begin 2007 from a position of strength and I am confident we will continue to deliver sustained profitable growth well into the future.”

The business reporters wrote glowing articles. But the remarks from Mr. Skinner and from Mr. Alvarez, president and COO, made the press think about how McDonald’s would keep up the momentum that began under Cantalupo and Bell. The press knew that McDonald’s had been “on a tear since 2003.” McDonald’s needed to figure out how to maintain its success, especially since the competition was becoming much savvier and was already stealing customers, particularly from profitable areas like breakfast. True, Mr. Skinner had announced a new flexible system that would allow a kitchen to serve breakfast all day, but nothing had happened. There were other ideas that were talked about, such as a payment system for speedier purchases, more restaurants with longer hours, and a wide variety of new items, including more specialty coffee drinks.

In late January, Erin Burnett, then at CNBC, interviewed David Palmer, a UBS analyst who was quite bullish on McDonald’s. Mr. Palmer followed the restaurant business and was well versed in all the fast food and fast casual entries. Ms. Burnett expressed some concern that something is not seemingly “OK” with McDonald’s. Its shares were down,
even though McDonald’s preannounced this slippage. Ms. Burnett prefaced the interview with this remark:

“Golden Arches came in with profits of 61 cents. They pre-announced. So no one is surprised about that. Revenue though up 11 percent, a little bit shy of what people were hoping to see and a lot of noise in the report. We are going to be joined now by David Palmer. He is the restaurant analyst at UBS. He is going to be with us now and after the bell to talk about McDonald’s.”

She followed with this:

“David, now we have that, let’s—what do you do with McDonald’s shares? I mean, they pre-announced. Again, we get back to this point, people should have known what they were going to get. And yet we are still seeing a bit of a sell-off. So what would you do today with this stock, which is already up, what, 30 percent over the past six months?”

Mr. Palmer responded:

“We like McDonald’s here. The return on invested capital, which is the key driver for this stock, should expand over the next year and in fact two or three years; part of which is a result of the fact that the company is selling underperforming markets around the globe to licensees. So the earnings volatility will go down. The margins will go up. The steadiness of earnings will go up. Plus the international markets are performing, and that is driving relative earnings growth relative to the market, which, as you know; earnings growth in the market is projected to slow.”

Ms. Burnett’s co-anchor, Mark Haines, questioned Mr. Palmer’s remarks by saying that McDonald’s would be opening 800 new restaurants that year. He wondered where these would go because the United States seemed so saturated. Mr. Palmer indicated that most of the restaurants would be in Russia and China. But he added that with the McDonald’s view that a McDonald’s restaurant be on the outside of a three-mile radius of other McDonald’s restaurants, there would still be space in the U.S. for new stores. When Mr. Haines asked whether buying into a McDonald’s franchise was a good idea, Mr. Palmer said yes. But then he qualified by saying Starbucks should be your first choice.

In March 2007, the report from McDonald’s showed February increases in global same-store sales. The rise was 5.7% and derived from double-digit growth in the APMEA region. U.S. same-store sales rose 3.1%. McDonald’s attributed these gains to breakfast and late-night menu options, as well as a new grilled and honey-mustard Chicken Snack Wrap.

April reporting indicated that U.S. same-store sales rose 6.2% in March. Additionally, the share price reached a seven-year high. The popularity of the Snack Wrap was given as the main reason for the good results. Europe and APMEA also were strong. Same-store sales rose 11.2% in Europe in March, while same-store sales grew 9.6 % in
March same-store sales worldwide rose 8.2%. For the first quarter 2007, same-store sales increased 6.3%. Global system-wide sales climbed 12.7% in March, and 10.3% for the first quarter. CEO Jim Skinner said, “Our customer-centric Plan to Win continues to drive McDonald’s sustained momentum and is generating broad-based growth in our business.”

The amazing March results caused analysts to pause: could the brand continue at this pace? Could it maintain the growth? From where would the growth come? “Shares of fast food companies had mixed reactions to news Friday that burger giant McDonald’s saw profits rise 22% in the first quarter. McDonald’s said it would sell about 1,600 restaurants in Latin America and the Caribbean to a franchisee and return the gain to shareholders through dividends and share buybacks. The report sent McDonald’s shares to an all-time high of $49.70 earlier in the day.” And then McDonald’s was down 42 cents to $48.36.

April 2007 same-store sales climbed 4.8% worldwide. McDonald’s said it was due to the success of its breakfast menu, Happy Meals, and new Snack Wrap sandwich. In the U.S., these offerings contributed to a 3.5% increase in same-store sales. Same-store sales climbed 3.5% in Europe as well and rose 10.3% in APMEA. Japan and China had strong performances due to extended hours, breakfast, and local menu offerings. McDonald’s shares fell 6 cents to $49.44 in late morning trading. They reached an all-time high of $50.06 last week. “McDonald’s has generated fifty-four consecutive quarters of positive Cash Flow from Operations. Cash Flow from Operations for the most recent quarter also reached a nine-year high.”

Shrek the Third (DreamWorks Animation) helped McDonald’s U.S. May results. U.S. same-store sales rose 7.4% and 11.9% worldwide. McDonald’s reported that the film and its breakfast initiatives contributed to May’s positive performance. In the U.S., McDonald’s said its Shrek the Third promotion and breakfast contributed to last month’s strength. The Shrek promotion with McDonald’s Happy Meals used the green ogre to feature healthier food items like its salads, milk, apple slices, and other products. McDonald’s was concerned about criticism that its food is a factor in the obesity epidemic affecting not only children but adults. In Europe, same-store sales rose 8.9%, based on Chicken Selects and Snack Wrap in Germany and limited-time offerings of premium chicken and beef sandwiches in France and the UK.

July results showed another rise: global same-store sales rose 6.5%. U.S. same-store sales rose 4.3%, aided by breakfast, new food offerings, and late-night hours. European same-store sales rose 7.7%, boosted by sales in France, Germany, and the UK. APMEA rose 9.9%, due to great performance in Japan, Australia, and China. August same-store sales climbed 8.1% boosted by strong overseas sales, its breakfast business, and new food offerings in the U.S. The U.S. same-store sales rose 7.4% due to breakfast, beverages, and new food items. Breakfast accounted for one-third of U.S. revenue. “McDonald’s has 40% of the breakfast market. McDonald’s is under pressure to attract and retain morning customers.” In Europe, same-store sales climbed 6.1%. APMEA same-store sales rose 12.4%. McDonald’s shares rose $2.03, or 4 percent, to $52.18. Goldman Sachs analyst Steven Kron called the month’s sales “exceptionally strong” and said in a note to investors that even “a pinched consumer” does not seem to be an
impediment to McDonald’s sales growth. Consumers have been struggling with higher gas prices and the weakening housing market, prompting some in the restaurant industry to worry that consumers may be less likely to spend for a meal out.\textsuperscript{73}

In September, the McDonald’s Board of Directors increased the dividend again, this time declaring an annual cash dividend of $1.50 per share, payable on December 3. This increase was 50% higher than the company’s 2006 dividend of $1 per share. CEO Jim Skinner said that McDonald’s expected to return $15 billion to $17 billion in cash to shareholders from 2007 through 2009. “McDonald’s shares rose 6 percent to $54.30 per share on Sept. 13. That same day shares hit an all-time high of $54.68. The larger shareholder dividend, coupled with additional stock buybacks and an increased debt level, will help McDonald’s return between $15 billion and $17 billion to shareholders through 2009, the company said. This is a significant increase from the last commitment to return about $5.7 billion by 2008.”\textsuperscript{74}

Third-quarter 2007 same-store sales climbed 6.9%, including a 5.1% increase in the U.S. During September, same-store sales increased 3.5% in the U.S., 5.7% in Europe, and 12% in APMEA.\textsuperscript{75} However, the great performance was diminished by substantial rises in commodity costs that would affect customer prices at the counter especially when it came to the Dollar Menu. Even though third-quarter net rose 27%, revenue was light, caused by labor and commodity costs. Cheese costs rose 20%–30%. Chicken rose 3%. These increased costs forced McDonald’s to raise prices in the U.S. by about 3.5%. President Ralph Alvarez said the Dollar Menu accounted for 14% of U.S. sales; therefore, maintaining it was extremely important.\textsuperscript{76} Additionally, as reported by CashFlowNews.com, cash flow from McDonald’s operations for the “twelve months ended September 30, 2007 was $4,928,200,000, a 19.2% increase over the year earlier same twelve months when McDonald’s generated $4,132,900,000 in Cash Flow from Operations.” This was a nine-year high. Shares of McDonald’s were trading at $59.74, which was within 1% of McDonald’s ten-year high of $59.92 on November 6, 2007.\textsuperscript{77}

December reports for November 2007 said that McDonald’s saw a 6.4% increase in comparable sales across its European business in October.\textsuperscript{78} November global same-store sales increased 8.2%. In the U.S., same-store sales rose 4.4% due to its value and breakfast menus, along with premium coffees. Europe same-store sales climbed 10.8%. APMEA same-store sales rose 12%.\textsuperscript{79}

**MATT PAULL, CFO**

At the end of July 2007, McDonald’s announced that Matt Paull, CFO, was retiring. Mr. Paull agreed to stay until the end of 2007 to help in the switchover to his replacement. Matt Paull took the CFO job in 2001. He was a key player in the Cantalupo/Bell/Light turnaround. He believed in brand building. In fact, his office was next to Larry Light’s office. Matt frequently said that if Larry could show how important something was for the brand, he (Matt) would find the money. The strategic actions defined in the Plan to Win could not have proceeded without Mr. Paull’s support.
**PLAN TO WIN**

In a November 2007 webcast, CEO Jim Skinner and other McDonald’s top management “reaffirmed the company’s commitment to being better not being bigger.” Mr. Skinner reminded viewers that McDonald’s had experienced 54 consecutive months of comparable sales increases due to the Plan to Win. “We’ve stayed focused and disciplined financially. That’s allowed us to consistently exceed the growth targets we laid out in 2003. These targets have served us well and will not change in the near term. They are realistic, sustainable, and will help us make the best decisions for the long term benefit of our shareholders.”

**PARTNER BRANDS**

The rumors about the sale of the 630-unit Boston Market emerged early in 2007. Michael Andres, the CEO of Golden, Colorado-based Boston Market, alerted employees on January 11 that a sale, after a seven-year McDonald’s ownership, was a possibility. McDonald’s heard of Mike Andres announcement, so it issued a statement saying that it was in fact assessing its options regarding Boston Market. However, it had not yet determined what to do. Boston Market was bankrupt when McDonald’s purchased it. McDonald’s saw the real estate as the main reason to invest in and hold the brand. However, much to its surprise, McDonald’s discovered that Boston Market’s frozen food grocery business was a very profitable operation with high-margin sales of more than $100 million annually. Boston Market had no franchisees with stores in 28 states. In 2006, McDonald’s spun off Chipotle through a “$320 million IPO and the subsequent distribution of McDonald’s remaining stake in the Denver-based burrito chain as a special dividend to McDonald’s shareholders.” As for the other Partner Brands, in 2003, McDonald’s rid itself of its stake in Fazoli’s, a fast-casual Italian chain. It sold the pizza chain Donato’s. It also divested itself of its stake in Aroma, a European coffee concept. If it did decide to sell Boston Market, McDonald’s would not have very much left of the Partner Brands. It still had a stake in London-based Pret A Manger, a grab-and-go sandwich specialty chain, which had not been successful in the U.S. Redbox, the successful video vending business, was still held by McDonald’s with a 53% stake. Reports said that Redbox was planning an expansion into a total of 1,600 McDonald’s stores by July 2007.

In August, McDonald’s agreed to sell Boston Market to the private equity firm Sun Capital Partners. Sun Capital Partners owned Fazoli’s, Chevys Fresh Mex, El Torito, and Bruegger’s Bagels. Although terms were not disclosed, it was public knowledge that McDonald’s paid $173.5 million for Boston Market in 2000. It was also public knowledge that McDonald’s was interested in Boston Market’s real estate. These locations were seen as potential sites for new McDonald’s. However, this never happened. U.S. revenue for Boston Market was $680 million in 2006. Except for its stake in Pret a Manger, the sale of Boston Market represented the last detachment from all the Partner Brands.
SERVICE
In February, Richard Gibson (The Wall Street Journal) reported a downturn in McDonald’s service. He pointed out that in 2006, with earnings soaring and with CEO Jim Skinner taking credit for just about every good thing that happened since 2002, service complaints were rising. Order accuracy had the highest number of complaints, followed by rude or unprofessional employees. The third-highest area for complaints was speed of service. There were too many items on the menu, and too many complex items on the menu, making it harder to prepare the orders quickly. Mistakes happened. Orders were put together incorrectly or mixed up, or condiments and utensils were left out. People at the drive-thru, where the majority of service happens, expect fast service and will complain to the crewmember. This makes crewmembers surly and unresponsive as a response can add a few seconds. This report should have been treated as a canary in a coalmine: a warning sign that something was not quite right.83
As an addition to the complexity issue, soon after this miserable service quality report became public, McDonald’s announced that it would soon be offering lattes. McDonald’s believed that competitors offering a wider variety of coffee drinks could steal customers from its lucrative breakfast business.84

COMPETITION
Nation’s Restaurant News published an article on breakfast in March 2007 that pointed to a full set of competitors for the breakfast occasion. Subway, Dunkin’ Donuts, Starbucks, Wendy’s, and Taco Bell were offering items for breakfast to wrest customers from the McDonald’s grip. All these competitors saw breakfast as the biggest day-part opportunity. According to Bob Sandelman, president of Sandelman & Associates (a San Clemente, California-based foodservice research firm that specializes in tracking consumer traffic), McDonald’s was showing vulnerability in the breakfast arena. Mr. Sandelman said that this weakness is why there is so much competitive activity. McDonald’s continues to test its new “kitchen system” that could lead to the extension of its breakfast offerings to all-day availability. Nation’s Restaurant News obtained an email from McDonald’s to its franchisees regarding getting ready for breakfast. In the email, McDonald’s told operators to begin your plans for implementation of “the Breakfast Optimization procedures.” The email is attributed to Jan Fields, chief operating officer of McDonald’s USA. As voiced by CEO Jim Skinner in 2006 (see above), these new procedures would require franchisees to buy and install new equipment. This equipment would expand the franchisee’s kitchen capabilities, improve its capacity, and be able to handle new products in the future. “Breakfast is the next battleground for market share with 8- to 9-percent daypart growth and increased competition,” the memo said. “The sooner we can optimize our breakfast platform to meet today’s growth opportunities ... and position The Entire System for future new breakfast products ... the greater chance we have to ‘win’ a majority of those guest counts.”85

Franchisees were unhappy. They were concerned that this strategy was an extension of planning articulated by Mr. Skinner in September when he equated the new system with all-day breakfast. McDonald’s did not confirm that it wanted to make breakfast available all day. Its statements continued to tell the franchisee community that “Breakfast Optimization” would be for better operations during the breakfast rush.
CFO Matt Paull told analysts in 2006 that breakfast was about 25% of McDonald's meal occasions. Mr. Sandelman said that all-day breakfast worked well for Jack in the Box (a much smaller, more diffuse operation). The researcher pointed to the changing work habits of Americans with many working odd hours. Franchisees worried that Jack in the Box could not possibly be a good model because it was a much smaller operation and had much less breakfast traffic. Further, franchisees continued to complain about the complex, overly full menu board. When it came to all-day breakfast, different brands have different demands. Burger King said it saw no need for it, whereas Dunkin' Donuts believed it made sense. Starbucks had breakfast sandwiches in its fresh case throughout the day and heated them to order.\(^{86}\)

In the meantime, reports indicated that the rush for breakfast hegemony among fast food chains was becoming more competitive. Burger King, Wendy's, and Starbucks were all creating items for morning meals. At a McDonald's conference of restaurant managers, Jan Fields counseled restaurant managers that the hours between 5 AM and 7 AM should be managed in the same way as they manage the lunchtime.\(^{87}\)

It was not just the United States where new burger restaurants were appearing. The European hamburger landscape was changing even in 2007. In May, an article in The Sunday Times newspaper reported that in London there was a rise in the number of “quality burger” restaurants. The reporter said the following: “All of them serve better-quality food in a smarter environment than a traditional fast-food outlet. They are a far cry from the sort of restaurants featured in Fast Food Nation, the film version of Eric Schlosser's best-selling critique of the industry, which was released this weekend. Collectively, these new eateries amount to about 50 outlets, insignificant next to the 1,800 or so operated by the sector's giants, McDonald's and Burger King, and have made barely a dent in the £11 billion UK market.” As the article pointed out, the rise of the “posh” burger restaurants was a symptom or a signal of a “flight to quality” that was impacting the entire UK food industry. The writer said that McDonald’s was feeling the pressure. McDonald’s was doing a lot to change its perception of “industrial food” by using free-range eggs and organic milk. And McDonald’s announced that it would introduce as a limited time offer (LTO) the Deluxe Burger, which used a ciabatta bun with Batavia lettuce. McDonald’s maintained that this sandwich would taste different from its core burger products. Burger King was not going to sit around: it introduced the Aberdeen Angus Burger in 2006. There were at least two variations planned for the Aberdeen Angus Burger in 2007, such as one with a UK blue cheese. Steve Easterbrook, CEO McDonald’s UK, insisted that McDonald’s was not in any way responding to these new burger joints. He stated that the new Deluxe was just one of many in a series of sandwich introductions. Mr. Easterbrook did not believe McDonald’s should feel threatened by these new burger restaurants.\(^{88}\)

**FOOD**

**New Products**

Once again, McDonald’s made the decision to ignore its core customer. In March, McDonald’s reported the test market of thick, higher-quality hamburgers as part of a strategy to appeal to more upscale U.S. customers. The Angus Third Pounder was
currently available in Southern California, where it was offered in three versions using a “denser bun” than McDonald's regular hamburgers. It cost $3.99, making it the most expensive sandwich on the McDonald's menu board. As pointed out by food research firm Technomic, McDonald’s was entering the premium food category in a big way: “They are now merchandising premium salads, premium chicken sandwiches, premium coffee, so why not a premium burger? Instead of Johnny Rockets, people have another option for a better burger.”

**Current Products**

An interesting survey was released in March and reported in the trade journal *BrandWeek*. The study, Restaurant Marketing Group’s *Leaky Bucket* survey, stated that 73% of McDonald's lapsed users said the reason they no longer return is that they cannot “stomach the food.”

**Beverages**

In March, McDonald's said it was planning to add smoothies and specialty coffees to the menu board. There was also a commitment to create an iced coffee in the hopes that this cold beverage would attract new customers. McDonald's announcements followed reports from Wendy’s saying that it would be adding unique beverages unavailable at any other fast-food restaurant. The McDonald’s revelations also followed an analyst report that Burger King was developing premium iced coffee. In October, McDonald’s confirmed its specialty coffee drinks would be available in all U.S. restaurants by the end of 2008. This meant adding lattes and cappuccinos to its line of successful premium coffee. In the release announcement, McDonald's forecast more than $1 billion a year additional sales would be attributable to these new drinks.

During December, McDonald’s agreed with franchisees to share the billion-dollar costs for the new coffee machines needed to compete with Starbucks. McDonald’s agreed to pay up to 40% of the costs needed for installing the machines that brewed lattes, mochas, and other specialty coffee beverages. McDonald's USA President Don Thompson acknowledged that remodeling costs might reach around $75,000 per restaurant plus another $25,000 for each piece of “specialty coffee equipment. Mr. Thompson reinforced that the new specialty coffees had the potential to boost sales per restaurant at around $125,000.

**Chicken**

McDonald’s reported to a Canadian newspaper in May that it now sold more chicken than Kentucky Fried Chicken. McDonald’s chicken sales were reported to be $5.2 billion in the 12 months through March, pushing it ahead of YUM!’s KFC. McDonald’s strengthened sales with premium-priced chicken sandwiches and the affordable Chicken Snack Wrap. McDonald’s said the Snack Wrap helped McDonald’s lift April sales at older restaurants in the U.S. and Europe by 4.8%. Also, chicken helped reduce criticism that McDonald’s sold high-calorie and high-fat foods.

**Burgers**

In August, with restaurants from Bob Evans to Burger King now offering premium burgers, McDonald’s decided to offer a new burger offering, too. McDonald’s said it was
testing a new Angus Third Pounder burger in southern California that was also in test in Ohio.95

**Breakfast**
In November 2007, McDonald's announced the introduction of a new breakfast sandwich, the McSkillet Burrito. The new morning sandwich was described as an offering that would grow sales and go head-to-head with competitors, Burger King Holdings Inc. and Wendy's International Inc. A McDonald's spokesperson indicated that the new breakfast burrito could range from $2.39 to $2.59. The last new breakfast product was the Tom-Ryan-designed McGriddle sandwich in 2003.96

*Nation's Restaurant News*, also reporting on the McSkillet Burrito introduction, said that McDonald's enhanced its breakfast and beverage business with products such as a Southern-style chicken biscuit, espresso drinks, smoothies, and sweetened iced tea. Cappuccinos, café lattes, and mochas already available increased sales (per restaurant) by 5% annually, or $125,000.97

After the 2007 Thanksgiving, McDonald’s reported that it would not be offering all-day breakfast. Breakfast was the most profitable meal of McDonald's U.S. division, accounting for 24% of McDonald's U.S. sales and 28% of transactions. But Jan Fields McDonald's USA chief operating officer said all-day breakfast would not be happening any time soon. True, McDonald's had expanded breakfast items. But this did not mean all-day breakfast. As reported in *The Chicago Sun-Times*, the new McSkillet Burrito contained 610 calories, 1,390 grams of sodium, and 36 grams of fat, including 14 grams of saturated fat and 0.5 grams of trans fat. It cost $2.49. Although Jack in the Box offered all-day breakfast items, franchisees continued to reinforce that Jack in the Box is a smaller operation with less traffic and smaller crowds at rush times.98

**TRUST**

**Happy Meals**
*The Wall Street Journal* reported that McDonald’s “trust” scores among mothers were declining. Franchisees believed that the declining trust scores were indicators of discontent with Happy Meals. Due to this loss of trust, McDonald’s was focusing on improving the nutritional configuration of the Happy Meal. Some of the aspects under review were sodium reduction and calorie reduction. The perception was that the calories were too high for girls.99

At the end of December 2007, McDonald's in Florida created a promotion that rewarded children with a Happy Meal if they received good grades on their report cards. *Financial Times* headlined this news as “bad marks” for McDonald’s.100

**Quality Correspondents**
McDonald's continued to fight the customer and critic perceptions that its foods were making kids fat. As a countermeasure, the brand gathered large groups of moms called “Quality Correspondents.” McDonald’s revealed that its trust scores among moms were not impressive and certainly not in sync with its sales. However, according to an
McDonald’s Case History

Edelman survey, conducted by StrategyOne, McDonald’s trust scores among college-educated, informed domestic opinion leaders ages 35–64 were at their highest levels in 8 years.101

McDonald’s recruited six “everyday moms” as Quality Correspondents to experience McDonald’s food quality firsthand and share learnings with peer moms around the United States. Writing their own blogs, these moms described their personal McDonald’s experiences. Their aim was trust building with other moms. Their goal was to spread the McDonald’s food quality story. As part of the “quality correspondents” program, Lopez Foods, an Oklahoma-based McDonald’s beef supplier, opened its doors to the Moms’ Quality Correspondents. Moms in the program had voiced many questions and concerns about McDonald’s hamburgers. A 40-year supplier to McDonald’s, Lopez Foods gave the moms a factory tour so they could see exactly how McDonald’s beef patties were made, packaged, and shipped to the restaurants. As part of the process, the moms became crewmembers at a local McDonald’s restaurant in Mustang, Oklahoma, where they worked the hamburger grill.102

Super Sizes
According to The New York Times, the new McDonald’s super size menu item was hard to understand. Why would the brand go back to something so provocative? The supersize beverage was back but with a new name. The Hugo, a new drink size, was available only in certain markets. It was a 42-ounce drink for as little as 89 cents. According to McDonald’s, one Hugo soda contains about 410 calories.103

Transparency
Transparency or openness is a critical component of trust. During the 2002–2005 turnaround, Denis Hennequin rebuilt trust among the French through its Open Doors program. Customers, schools, parents, and children were invited to visit the restaurants and see behind the scenes: “We have nothing to hide.” Wanting to copy Mr. Hennequin’s successful trust-building approach, the UK team made a decision on transparency that is haunting the brand to this day. In May 2006, one of the brand’s agencies created a website called www.makeupyourownmind.co.uk. The site answered customer questions on all aspects of McDonald’s. In April 2007, reports on McDonald’s transparency problems through its McDonald’s UK “make up your own mind” initiative surfaced in the press. Since its launch, website visitors posted a wide range of (in many cases) inappropriate questions. Marketing and media experts questioned the continuation of the initiative because some respondents complained about the “prerecorded” answers they were receiving. McDonald’s admitted providing “rote” answers that “did not receive the full and thorough answer deserved.” The press reported that this UK initiative was not at all of the same quality as Mr. Hennequin’s. The “Open Door” strategy developed in response to these issues paid dividends in France, the company’s most profitable market outside the U.S. Transparency, food quality, and health were the cornerstones of its marketing across the Channel, “where McDonald’s famously advocated only visiting its outlets once a week. Critics said the UK work was a cheap attempt to exploit this success.” As reported publically by Nicola Clark in Marketing,
here are some of the questions that appeared on the UK website for answers:

“Data file Questions on makeupyourownmind.co.uk

- Do your burgers contain eyes or organs?
- Why did your employees ejaculate into my grandmother’s milkshake?
- Why is it all of your burgers look like they have been sat on?
- Do you squeeze cows lips to make your milkshake? That’s what my big brother said.
- The tap water at every McDonald’s I’ve ever eaten at tasted like petrol. Why?
- Do you put brain cells in your burgers?
- I heard that Milkshakes are made from Pig’s fat, is it true?
- Are there eyeballs of chickens in the chicken nuggets?
- Did people find a chicken head in their chicken McNuggets?”104

STEVE EASTERBROOK

In 2007, Steve Easterbrook stated his vision for McDonald’s in the UK. He said, “We want to be a modern and progressive company, not such a faceless corporate giant. Not necessarily a different McDonald’s, but a better one.” Mr. Easterbrook said that the customer’s mind-set had changed: “People care more and more about three things—what they eat, where they eat, and the company they are buying from.” So, he took credit for reducing salt in fries, removing the blended meats, introducing organic milk, and bringing in Innocent Smoothies for Happy Meals. The company launched a number of green initiatives. In an interview, Mr. Easterbrook was quite clear that his mission was to “change public impressions (of McDonald’s) and, quite possibly, set new standards for the brand.”105

MARKETING

Olympics

In August of 2007, ahead of the 2008 Beijing Olympics, McDonald’s disclosed its plans for a kid-focused 2008 Olympics program. Behind the initiative was the idea that McDonald’s supports responsible marketing to children. Called “McDonald’s Champion Kids,” the initiative would provide 300 children worldwide the chance to attend the Olympics, watch the games, meet the Olympic athletes, tour cultural sites, and interact with children from around the world. Mary Dillon, global chief marketing officer, said this reflected McDonald’s long “tradition” of responsible marketing to children. It was an awkward announcement as McDonald’s Olympics program was made right after the revelation of a “study finding that children preferred the taste of food and drinks they thought were from McDonald’s over identical alternatives.” (Here is what The New York Times said about the study: “Children like food better if the bag has a certain label. In taste tests with 63 children ages 3–5, there was only a slight preference for the McDonald’s branded hamburger over one wrapped in plain paper, not enough to be statistically significant. But for all the other foods, the McDonald’s brand made all the difference. Almost 77% thought that the McDonald’s French fries served in a McDonald’s bag tasted better, compared with 13% who like the fries in a plain bag. McDonald’s branding of milk, apples, salads and other fruits and vegetables has directly

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resulted in major increases in the purchases of these menu items by moms, families and children.” Additionally, McDonald’s made the Olympics initiative “within days of the Federal Trade Commission issuing subpoenas to McDonald’s and a handful of other large chains to require them to hand over documents on kid-marketing practices.” Ms. Dillon said that McDonald’s had been very responsible handling its marketing to children. Her statement did not deter critics who continued to call attention to the problems with McDonald’s marketing practices and menu. Ms. Dillon stated that the Olympics initiative would be a stellar example of McDonald’s commitment to children around the world.

**Dollar Menu**

The Dollar Menu was always an essential part of the 2002-2005 turnaround, and of the Plan to Win. In 2007, commodity-cost rises impacted the Dollar Menu, especially the Double Cheeseburger. Some franchisees took the item off the menu, while others raised its price, defeating the concept of the Dollar Menu. The sandwich was now a loss leader for franchisees. Discussion of the Dollar Menu and the Double Cheeseburger became antagonistic.

**U.S. Marketing Team**

At the end of November, Bill Lamar, U.S. CMO, retired. McDonald’s announced that Neil Golden (an 18-year McDonald’s veteran) would replace Mr. Lamar. Mr. Lamar had been McDonald’s U.S. CMO since 2002. He spent close to 25 years with McDonald’s, including restaurant operations, and more than five years running McDonald’s Atlanta region. Advertising Age reported that even with Mr. Golden in his new job, nothing different was expected in marketing as Mary Dillon was still in her Global CMO job.

**EUROPE**

McDonald’s announced at the end of August 2007 that it intended to invest about $1 billion in Europe saying it was McDonald’s biggest opportunity for growth. Ralph Alvarez stated that McDonald’s would put as much money into Europe in 2007 as it was putting into the U.S. market. European sales were slowing due to a focus on healthier eating, and this was leading to lost market share. Mr. Alvarez said McDonald’s would sell anywhere from 5 to 10 percent of the company-owned restaurants in Europe. And, McDonald’s would move beyond reimagining of restaurants to offering healthier foods and items catering to regional tastes. Denis Hennequin, President Europe, would lead these efforts. Mr. Hennequin was correct about the need to change the restaurant designs to appeal to European “food aesthetics.” His ideas for competing in an environment of food-conscious sensibilities were spot on: sales at reimaged restaurants averaged 4.5% increases.
McDonald’s Case History

**Year 2008**

**FINANCIALS**

As the year 2008 began, McDonald’s reported that global comparable sales climbed 5.7% for the month of January. Worldwide, McDonald’s systemwide sales climbed 13.4% in January. U.S. comparable sales lifted 1.9% in January due to breakfast combined with McDonald’s Dollar Menu. Europe comparable sales rose 8.2% in every market in January. In APMEA, January comparable sales rose 7.8%.114

Jim Skinner, CEO, said, “While severe winter weather throughout the month and softer consumer spending resulted in December (2007) US comparable sales being flat, we remain confident in our US business.” Some economists believed there could be a U.S. recession because of the housing slump and the credit crunch. Annual profit fell 32% during 2007 to $2.39 billion, partly due to a write-off associated with the sale of company interests in Central America and South America. “Mr. Skinner said McDonald’s had taken a number of strategic initiatives to boost its performance and stressed the use of a “three-tiered menu” which offers customers premium, core and dollar menu options.”115

McDonald’s said that its 2008 net profit rose 80% from a year ago due to customers trading down to low-cost meals as the global recession deepened. McDonald’s reported that net profit for 2008 was $4.3 billion, compared to $2.3 billion in 2007. These strong annual results were juxtaposed against a 23% decline in fourth-quarter net profit. CEO Jim Skinner stated that the results for 2008 were based on “menu choice, food quality and value.” He added that the average number of “customers served per day increased to more than 58 million in 2008.” McDonald’s said comparable sales and customer counts across grew all segments for every quarter. The company had double-digit growth in operating income for the final quarter and the year.116

In January, The Sunday Times (London) polled two finance experts for their decisions to either buy or sell McDonald’s stock. One recommended, “buy” the stock for the following reasons: “Its global operations diversify its revenue streams. Europe being the largest (35.4%) followed by the US (34.6%) with the remainder from Asia (14.1%), Latin America (7.7%) and Canada (5.0%). This spread prevents overexposure to the weakening US dollar. In fact, earnings may get a boost due to the strength of the euro against the dollar. More than 70% is franchised, generating revenue upfront as a franchisee must purchase equipment, signage and decor from the company.” Additionally, this expert reminded readers that McDonald’s does charge rent on its properties. “… (McDonald’s) owns or leases the land and building, charging the franchisee rent and service fees for the 20-year franchise agreement. McDonald’s gets guaranteed rent on appreciating property for 20 years and a percentage of sales.” And, he pointed out that McDonald’s receives a percentage of revenues from franchisees while supplying the food and packaging for each restaurant. This financier felt that the 54 consecutive months of comparable sales increased with its same-store sales growth in November across all regions would allow McDonald’s to rise above the unfortunate
recessionary economic times. However, he did say that the stock price was expensive as McDonald’s trades 19 times next year’s earnings.117

The other financial expert had a slightly different perspective recommending that people buy McDonald’s stock only when they saw a price dip. Why the different interpretation of the stellar McDonald’s results? Here is what he said: “In December (2007), the stock traded at an all-time high of $63...a multiple of 20 times earnings. With the historic range for the stock between 10 and 20 times earnings McDonald’s now looks expensive. Much of the turnaround in its prospects has been priced in and the stock has been re-rated. Quick-service restaurants such as McDonald’s have done well recently thanks to the popularity of breakfast and snack offerings. There is evidence, however, that the sector is hitting a slowdown.” This expert believed that with 35% of revenues and 60% of operating income coming from the U.S., the $54 a share, or 16.5 times earnings, made McDonald’s stock “pricy.” He felt it might be susceptible to a de-rating. If that were to happen, McDonald’s would be a more appealing purchase.118

In March 2008, McDonald’s reported that same-store sales in the U.S. for February fell for the first time in 5 years.119

In advance of McDonald’s reporting its April earnings, some analysts began commenting and offering opinions. One analyst pointed out that the restaurant chain had robust sales abroad and would probably benefit from foreign earnings due to the weak dollar. Jeffrey Bernstein, a Lehman Brothers analyst, said McDonald’s margins might suffer as McDonald’s promotes “value” or low-cost menu items. Bernstein’s rating for McDonald’s is “Overweight”...“but thinks results may fall shy of consensus earnings estimates for the first quarter.”120

Reporting on first-quarter 2008, McDonald’s exceeded Wall Street’s first-quarter profit estimates based on performance in non-U.S. markets. McDonald’s did report, however, that an essential U.S. sales gauge unexpectedly fell in March for the first time in five years, partly the result of a weak economy. McDonald’s was optimistic that there would be a U.S. rebound, however. The financial community indicated it was not worried about an extended U.S. slump. Yet, some analysts and investors expressed concerns about the March decline in U.S. same-store sales. March U.S. same-store sales fell 0.8% compared with the previous March. Most analysts were looking for domestic same-store sales growth of 1% to 1.5% in March. Europe had an 11% comparable-sales increase over 2007, the biggest such jump in its history. McDonald’s said that the U.S. March decline was due partly from the timing of Easter, which was in March, compared to April in 2007. U.S. sales on Easter weekend tend to be lower. McDonald’s results were also affected by the downturn in the U.S. economy. And, analysts said that McDonald’s was comparing March 2008’s sales to a particularly strong March 2007. “And some of McDonald’s competitors, most notably KFC with its new chicken wrap, had new products out in March.” Competitors had more new news during the period,” Miller said. In a teleconference with analysts, McDonald’s executives said they didn’t see competition having an effect. KFC’s wrap is a follow-up to McDonald’s Chicken Snack Wrap, which has been a big hit. ‘That’s something that happens when you have success,’ said Ralph Alvarez, McDonald’s president.” The Chicago Tribune pointed out that McDonald’s has been a huge, powerful food and beverage force over the past few years,
showing quarter after quarter of solid sales and profits. However, in December 2007, McDonald’s experienced some bad news, the first instance in a very long time: U.S. same-store sales were flat partly because of the economy. Then came March’s U.S. results. McDonald’s was adamant that U.S. comparable sales would grow in April by 2% to 2.5%. And CEO Jim Skinner made a statement to analysts that the current McDonald’s strategy was designed to weather a weaker economy where budget-conscious consumers seek lower-priced, cheaper foods. “In this environment, our strategy of affordability becomes even more important and we will continue to emphasize our value offerings,” he said.121

In Canada, The Financial Post stated that Wall Street might not be providing the best assessment of McDonald’s performance, underestimating its earnings-growth potential for the second-quarter half of 2008. UBS analyst David Palmer repeated his “buy” rating and did not change his U.S. $69 price target. Mr. Palmer said, “While dividend increases will continue to support valuation, we believe return of investment capital gains and earnings-per-share upside should remain the key stock drivers in the second half of 2008 and beyond.” He reminded readers that with the new beverages being launched, McDonald’s could expect sales upside.122

Nation’s Restaurant News’s “Ahead of the Tape” column in July 2008 noted that analysts’ expectations for McDonald’s rose based on higher per-share earnings of 21% in second-quarter 2008 from the year earlier based on overseas earnings and thrifty customers. “Ahead of the Tape” noted that although “risky,” McDonald’s venture into fancy coffee drinks was a great way to offer affordable coffee beverages to Starbucks customers who may need to trade down.123

In September, McDonald’s stated an 8.5% increase in August global same-store sales with a 4.5% U.S. gain. Beverages, the breakfast menu, and an Olympic-themed Southern Style Chicken Sandwich furthered U.S. performance. European same-store sales leaped 12%. APMEA experienced 10% growth. Olympic-related marketing was partly responsible for the increases. System-wide sales increased 14% worldwide. “UBS predicted that McDonald’s could outperform its peers on the back of its Olympics advertising campaign and a successful Star Wars Happy Meal. Soaring commodity costs have forced some McDonald’s franchisees to re-evaluate pricing, including the popular Dollar Menu. McDonald’s has been testing modifications to its popular $1 double cheeseburger and higher prices for the sandwich as it prepares to change Dollar Menu over the next years.” Analysts believe that McDonald’s new menu items, its expanded hours, and the tendency of cash-strapped consumers to trade down from more pricey eating-out options in the U.S. have been the drivers of McDonald’s success.124

McDonald’s earnings for third-quarter 2008 came in early October. The results for the quarter ended September 30 showed that systemwide sales for all stores increased 11.4% in September and 10.1% for the third quarter. Systemwide same-store sales increased 7.3% in September and rose 5.8% for the quarter. These results show U.S. comparable sales increases of 10.6% for the month and 8.5 percent for the quarter. European restaurants reported a 0.6% same-store sales decline in September and a 0.3% increase for the quarter. In APMEA, same-store sales rose by 7.3% in September and 5.4% in the third quarter.125
In October, CEO Jim Skinner stated that McDonald’s was “recession resilient.” He said this in the context of continuing customer demand for burgers and fries. According to Mr. Skinner, the customer’s desire for a burger with fries seemed to be “resilient to economic weakness” worldwide. Mr. Skinner reminded analysts that McDonald’s continued to grow even in the midst of a fragile, global economic scene. *Financial Times* stated that even with slowing U.S. customer spending, self-service fast food restaurants continued to outperform more expensive, family restaurants with waiter service, including Applebee’s and Denny’s. *Financial Times* reported that customers of more casual, sit-down restaurants were eating more at home. McDonald’s COO, Ralph Alvarez, commented on the fact that in the U.S., grocery prices were rising, making the cost differential between eating at home and eating at McDonald’s a small increment. “We believe (the price of) food at home has grown so much higher that it makes our category a better deal than eating at home.” McDonald’s executives continued to emphasize the brand’s continued commitment to the Dollar Menu as a key value-focused initiative.\(^{126}\)

In reviewing the September 2008 results, some members of the financial community voiced concern that McDonald’s was “caught up in the global consumer slowdown. Many agreed with Mr. Skinner that McDonald’s was “relatively recession-resistant” given its value and convenience positioning as well as its continuing store remodeling initiative. Zacks Equity noted, “McDonald’s, which recently boosted its dividend by 33%, has been consistently outperforming the market during the recent turbulence and over the long-term.” And Bank of America took issue with reports about the frozen credit lines for franchisees. A Bank of America spokesperson said the bank would honor any obligations to franchise owners spending up to $100K to remodel.\(^{127}\)

A strong October was followed by a strong November. As *The Wall Street Journal* pointed out, “...of the 30 companies on the DJIA only McDonald’s and Wal-Mart have a higher stock price today than a year ago.” (McDonald’s increased its dividends by 33% in the previous month.) McDonald’s low prices aided customers who were trading down to cheaper restaurant meals from mid-priced, more casual, and waiter-service-sit-down restaurants. However, McDonald’s fast food competitors also did well in November. McDonald’s continued to support the idea that the key to its success is the 6-year old Plan to Win turnaround strategy.\(^{128}\) U.S. same-store sales increased by 4.5% during November. McDonald’s credited this to the breakfast menu and the chicken items as well as everyday value throughout the menu. Globally same-store sales grew 7.7%. However, the data showed that European growth dipped from the 10.8% seen in November 2007. APMEA same-store sales rose 13.2%. U.S. Burger King showed strong performance in December.\(^{129}\)

When November 2008 results were reported, it turned out that customers bought a lot of burgers and chicken breakfast biscuits at McDonald’s in October. This led to a significant climb in sales. During October, global same-store sales increased 8.2%. McDonald’s was one of the only restaurants to do well in October. In the U.S., same-store sales climbed 5.3%. McDonald’s said this was due to the new menu items, including the Southern Style Chicken sandwich along with ongoing breakfast demand. The Dollar Menu and the Monopoly game attracted value-focused customers. Same-store sales increased 9.8% in Europe and climbed 11.5% in the APMEA. Analysts and the press used Mr. Skinner’s description that McDonald’s is recession resistant.\(^{130}\)
CEO Jim Skinner said it first while management (and the press, financial, and investor communities) repeated, “McDonald’s is recession resistant.” Analysts and investors commented that third-quarter results reinforced his sentiment. In fact, third-quarter 2008 beat analysts’ expectations but did not help McDonald’s stock, which collapsed below its “buy” point in October. McDonald’s was growing due to new menu items and strong overseas growth. “Chief Executive Jim Skinner credited the Dollar Menu with increasing foot traffic in restaurants, though not profits directly.” But, as McDonald’s continues to state, economic downturns see consumers tightening their budgets and eating out less.\endnote{131}

**FOOD**

**Dollar Menu**

In August, *The Wall Street Journal* reported that McDonald’s restaurants were becoming “stingy” because franchisees reduced the expensive ingredients in the $1 Double Cheeseburger due to rising commodity prices. Don Thompson, president of McDonald’s U.S. business, said there is ongoing testing to figure out how to make the burger less expensive to produce. “Some restaurants are selling it with one slice of cheese instead of two and billing it as a ‘double hamburger with cheese.’” Some make the sandwich without cheese, billed as a “double hamburger without cheese.” Franchisees are raising prices in the test markets. Some franchisees are selling the Double Cheeseburger as is but at $1.09 to $1.19, clearly not $1 or below as the Dollar Menu states. The reporter said that McDonald’s was considering placing this burger in its middle price tier, where items range from $1.30 to $2.\endnote{132}

The Dollar Menu appeared in 2003 as part of the turnaround plan of a three-tiered pricing strategy: Dollar Menu, Core, and Premium. Since then, the Dollar Menu had been a key driver of sales in the U.S. Some franchisees believed that the Dollar Menu attracted less than desirable customers.

McDonald’s continued to monitor its pricing as the economy turned downward. It was essential that the menu stayed affordable without hurting profit margins. In November 2008, McDonald’s pulled the Double Cheeseburger off the Dollar Menu, replacing it with a McDouble burger with one slice of cheese instead of two. It kept the Double Cheeseburger on its regular menu and raised the suggested price to $1.19.\endnote{133}

**Value**

McDonald’s introduced lower priced beverages in 2008. These beverages have been siphoning off the purchase of the more expensive premium coffees. In October, McDonald’s announced that the iced mochas, $1 iced sweet tea, along with Dollar Menu foods were gaining in sales. CEO Jim Skinner said, “Value, which has always been important, is mission critical today. In the US, there’s no doubt that today’s environment is challenging for consumers and restaurants.”\endnote{134}

**Beverages**

As 2008 began, McDonald’s announced the rollout of one of its biggest and most expensive new product concepts ever: premium coffees. Analysts said it was an
opportunity to compete with Starbucks for upscale coffee drinkers, especially since Starbucks was in trouble. Starbucks's same-store sales were slowing. (Starbucks announced during the first week of January that CEO Jim Donald was let go and that founder and chairman Howard Schultz would return as CEO.) McDonald's said that the new beverage strategy could add up to $1 billion in sales. This initiative requires franchisees to build a McCafé in their restaurants. “This is the biggest endeavor for McDonald's since our introduction of breakfast 35 years ago,” says John Betts, vice president of national beverage strategy. Statements from McDonald's indicated that over the next two years, most of the brand's 14,000 domestic locations would add McCafé coffee bars (near the registers). The McCafé area was where coffee beverages such as cappuccino, lattes, and mochas were created. The beverages were not cheap. However, compared to coffee competitors, McDonald's specialty coffees were about 40 cents to 80 cents lower priced than coffee chains' $1.99 to $3.29. Compared to Starbucks, there were few coffee choices.

Franchisees were not completely positive when asked about the coffee initiative. They were concerned about the slow sales of the hot beverages. And they worried about the costs of the new equipment. The coffee initiative required construction costs of as much as $100,000 a store. McDonald’s did agree to pay up to 40%. However, as one consultant says, “Franchisees have more demands for their money than they know what to do with.” Another consultant, Richard Adams, president of Franchise Equity Group, said, “It is certainly the biggest potential mistake in the history of the system. McDonald's new product development has always been done in baby steps. This is a giant leap of faith.

In observing and analyzing the difficult economic environment, analysts questioned McDonald's timing of the premium beverage rollouts (lattes, cappuccinos, smoothies, and sweet ice-blended frappes). In the case of coffee, analysts commented that in a weak economy, many people forgo coffee outside at cafés and restaurants, preferring to brew coffee at home. (29% of Starbucks customers who say they want to spend less at the chain are brewing at home.) There were franchisees who continued to complain about the high costs associated with full implementation of the beverage program along with the in-store remodeling. McDonald’s stated the program would cost about $100K per store. For many franchisees, this was just too much to spend at this time. And the pullback on loans to franchisees complicated financing. McDonald’s argument focused on its perceived success of the beverage program: it was not only on track but doing very well. And McDonald's reminded everyone that its restaurants were not hurt by the economic downturn because of its cheap menu. “In many cases, consumers are coming for the beverages whereas before they were coming for the meal,” says Lee Renz, McDonald's vice president, national beverage strategy. McDonald’s was defensive when it came to the success of the espresso drinks: there were reports that the drinks were not selling as well as expected. In fact, internal documents revealed that espresso drinks sales peaked about 3 weeks after their introduction, and then these declined quite sharply. McDonald’s blamed the weather for the espresso declines, saying the weather in the entire U.S. was too hot for hot drinks. Was the pricing too high for customers who were impacted by the sliding economy? Ms. Fields agreed that perhaps people were brewing coffee at home, but she said that “at home cup” was their first cup. After that, they were buying away-from-home coffee, and there was nothing to worry about.
In June, a Canadian newspaper wrote that McDonald’s was becoming a “beverage destination” for thirsty North Americans. The journalist pointed out that this was going way beyond just offering beverages as does Starbucks. “Not only has the restaurant chain’s launch of its premium coffee been a success on the back of rave reviews from taste-testers, but it is adding many more specialty coffee drinks at McCafé locations later this year, including vanilla lattes, cafe mochas and caramel cappuccinos.” Additionally, McDonald’s would be adding to the beverage menu with new iced coffee and iced tea drinks. Further, there were “reports” that McDonald’s would be offering smoothies and energy drinks. Believing that fair trade coffee would attract more customers, McDonald’s pledged that all of its beans would be grown in “environmentally friendly conditions” by 2009. UBS Securities reported that fast food burger restaurants serve only 5% of the nation’s beverages. UBS “estimated that carbonated soft drinks represent 60% of the beverages sold by fast-food chains, but suggested that McDonald’s is seizing the size and growth opportunities in other beverage categories.” UBS commented that adding beverages was similar to adding more chicken. “Like chicken, beverages are relatively higher margin and can be introduced in many forms.” UBS analysts estimated that McDonald’s could add 5% in earnings per share growth over the next two years with its drink strategy. And it said that these were conservative estimates. UBS also stated that McDonald’s could take market share from restaurants other than Starbucks, as well as convenience stores and even Coca-Cola.138

The Wall Street Journal reviewed internal data showing at least two or three months of sagging sales of lattes, cappuccinos, and other espresso drinks. Don Thompson stated that this was only part of the story. He indicated that some consumers were switching from premium coffee drinks to lower priced beverages ($1.89 iced coffee, $1 fountain drink, and sweet tea...under the $2 to $3 espresso drinks). Mr. Thompson said this switching was unanticipated. However, he did remark that the goal of having beverages adding $125,000 per store is on track to, and may even exceed, these incremental per restaurant sales.139

New Products
On May 14, McDonald’s announced that in New York Tri-State Area restaurants two new products would be added to its menu on May 15: Southern Style Chicken Biscuit, McDonald’s first-ever chicken breakfast menu item, and Southern Style Chicken Sandwich. The announcement was to alert customers about a sampling event on May 15: they could try the Southern Style Chicken Biscuit for free from 7:00 AM to 10:30 AM, or they could try a Southern Style Chicken Sandwich beginning after breakfast hours until 7:00 PM, with the purchase of any medium or large beverage at participating restaurants (while supplies lasted). Ken Ebo, marketing director for McDonald’s New York Tri-State Area, said, “With the introduction of the Southern Style Chicken Biscuit and Sandwich, our customers are getting the chance to have our new juicy chicken options morning and night. And for many, that’s an entirely new experience.”140
**Innovation: Dan Coudreaut, Executive Chef and Director of Culinary Innovation of McDonald’s USA**

In August, after the introduction of the Southern Style Chicken breakfast sandwich, Dan Coudreaut, the head of innovation at McDonald’s, sat for an interview with a trade publication. He said the Southern-Style Chicken Sandwich was an idea that bubbled up from the Southern franchisee group. Mr. Coudreaut credited McDonald’s owner-operators for moving the idea forward. He believed that an idea from the owner-operators group “is a very positive thing.” He noted that this created an aligned system working in an aligned manner. Mr. Coudreaut added that he personally believed good ideas could come from anywhere. Additionally, Mr. Coudreaut addressed the alignment between supply chain and his culinary innovation team. He said, “We’re open, and that’s a powerful culture within McDonald’s. It’s very much an entrepreneurial company that’s open to innovation. The fact that we introduced breakfast or introduced drive-thru or are open to ideas coming from the franchise community, that culture is translated throughout our department. I try to foster it, knowing I don’t have all the answers, and the same with the supply chain knowing that they don’t have all the answers. So there’s collaboration within our owner-operator community, our supplier community and internal team.” Mr. Coudreaut did include the fact that he and his team are good listeners and observers and spend time outside of the four walls in Oakbrook, Illinois.141

**MENU BOARD AND PRICES**

In March, *The Chicago Sun Times* ran a story disclosing that McDonald’s customers might not find their favorite items on the menu board. McDonald’s menus had expanded so much that there was no more room for the entire menu. Quoting Darren Tristano, executive vice president of Technomic Information Services, the article pointed out that with all the new items, McDonald’s and its franchisees were having trouble finding room on the display. “For example, some McDonald’s stores don’t list regular milk shakes on the menu, although they are still offered.” Richard Adams, of Franchise Equity Group, a California-based franchise consultancy, said that McDonald’s is currently in the process of creating a new menu board to accommodate the growing number of items. The problem is severe: McDonald’s has added premium salads, Chicken Snack Wraps, and specialty coffees to the menu over the past couple of years. And it will only become worse as franchisees prepare for more additions such as Southern Style Chicken sandwiches and possibly Angus hamburgers. The article did tell Chicago-area customers that if they noted missing price information they should call 311 so the Department of Consumer Affairs could investigate.142

**COMPETITION: BURGER KING**

As McDonald’s entered 2008, it faced a stronger competitive set with Burger King performing well. During the 2002–2005 turnaround, it helped that Burger King was in disarray. In February, Burger King CEO John Chidsey said that after 16 quarters of same-store sales growth, Burger King had proven its turnaround was genuine. He recognized that his next challenge would be to prove this to investors and analysts. He made these comments at the first Burger King Investor Day since going public. “Now that we’re hitting on all cylinders, we think this is a growth story going forward,” Chidsey told analysts. “There’s quite a runway in front of us in all regions of the world,
even in the United States.” Burger King’s growth derived from opening new restaurants, remodeling outdated restaurants, introducing new products, and asking existing restaurants to stay open longer. Burger King implied that it would increase the number of U.S. stores even though 80% of its growth is international. Mr. Chidsey cited a statistic: there are 3,500 U.S. McDonald’s restaurants that do not have a Burger King within a three-mile radius. Again, Mr. Chidsey reinforced that the Burger King pipeline was full with more than 50 new products in development. For example, since 2005, Burger King introduced a series of new products such as Breakfast Value Menu, Chicken Fries, and Angus Burger. All generated significant sales ($5 billion). This year, Burger King plans to introduce a Steakhouse Burger and BK Wrapper for breakfast, followed by apple-shaped French fries and grilled chicken tenders for kids. For a tie-in with the new Indiana Jones movies, Burger King will launch an Indy Whopper featuring pepper jack cheese and bacon. “What you see is a very broad-shouldered menu,” said Russ Klein, Burger King’s president of global marketing and innovation. As for pricing, Burger King now has a system that allows its franchisees to adjust prices using neighborhood demographics to competition.143

As 2008 continued, Miami-based Burger King offered more positive news that cheered the investor community. Burger King’s extremely aggressive rebuilding of the business depended in large part on marketing. Analysts commented that Burger King showed increasing “same-store sales gains of 5.4% in its fiscal third quarter, well ahead of even McDonald’s, which reported a comparatively anemic 2.9%.” Wendy’s, now in the middle of a difficult ownership change, experienced declining same-store sales. “They’re (Burger King) doing a super job on the advertising front. They’re clearly connecting with the super fan that is the young, hungry male,” said UBS analyst David Palmer. Burger King CEO, John Chidsey, said that the recession did not negatively affect the brand’s top-line performance because of Burger King’s “quality, convenience and affordability. As for pricing, Burger King defined its approach as a “barbell menu strategy,” with value-menu offerings such as the Whopper Jr. and the crispy-chicken sandwich at one end and premium items such as the new BBQ Bacon Tendercrisp on the other.” In spite of its internal struggles, Burger King had a fourth consecutive year of positive same-store sales growth. It had some breathing room as well because McDonald’s momentum was slowing. McDonald’s recently blamed the economy. However, UBS’s Mr. Palmer said he expected Burger King to grow even stronger through the summer despite a shaky economy, in part because Burger King had a full and innovative pipeline in various stages of development. Mr. Palmer also said that because Burger King stores have fewer sales than McDonald’s, it would be easier to increase same-store sales by an extra $100,000 per store. McDonald’s would need a lift of a greater magnitude to show the same kind of growth.144

**COMPETITION: WENDY’S**

In September, Wendy’s announced the addition of a 99-cent Double Stack cheeseburger to its value menu. This reflected the enlargement of a value sandwich line that already included its Junior Bacon Cheeseburger and Crispy Chicken Sandwich. Wendy’s said this rollout of the Double Stack would compete with the $1 Double Cheeseburger featured by McDonald’s. Other news was that McDonald’s was reassessing the Double Cheeseburger because of rising commodities costs’ effects on margins. Wendy’s Double
Stack was described as two junior hamburger patties with a slice of cheese and ketchup, onion, mustard, and pickles. It replaced the current value menu’s Stack Attack burger. In the announcement, Wendy’s stated that it considered McDonald’s its biggest competitor.\textsuperscript{145}

**FRANCHISEES**

In April, *Nation’s Restaurant News*, the big restaurant trade press, reported the results of a survey of 32 domestic McDonald’s franchisees representing about 241 restaurants. The franchisees said that they would see year-to-year increases in same-store sales for March and April 2008 of less than 1%. The negative report of the franchisee survey represented the lowest results in the three-year history of the study. Although conducted among a small sample of the McDonald’s franchisee community, the study had become a bellwether of franchisee sentiment. Independent stock analyst Mark Kalinowski conducted it and continues to conduct it. “He (Kalinowski) said the franchisees’ aggregate same-store sales forecasts have been within 1 percentage point of McDonald’s actual same-store results for 22 of the past 31 surveys. The surveyed franchisees reported an aggregate same-store increase of 0.9% for March and expect to post a collective 0.8% uptick for April.”\textsuperscript{146}

**Bank Loans**

As part of the realignment during the financial crisis, Bank of America merged Merrill Lynch into its operation. Due to the Merrill Lynch purchase and other financial problems, Bank of America stated that it would not increase lending on existing loans to McDonald’s franchisees. In the context of the poor economy, the Bank of America McDonald’s-specific loan program (named Eagle) experienced great demand, quickly exceeding historical norms. This caused the program to reach funding limits faster than ordinarily expected. McDonald’s franchisees did not believe there would be a lot of fallout from this.\textsuperscript{147}

The September 29 issue of *Advertising Age* ran a story about a potential problem with McDonald’s coffee rollout: finding funding to cover the costs of the new equipment and remodeling. The journalist commented that tightening credit conditions prompted Bank of America to halt loans to McDonald’s franchisees. To build the needed McCafés for what was supposed to be an April 2009 coffee introduction, franchisees would need money now. But Ralph Alvarez, chief operating officer, said during a Bank of America conference that the specialty-coffee rollout should be complete by mid-2009. Was McDonald’s backpedaling on the rollout date even though the spokespeople continued to say everything was on track? Rumors were that the franchisee credit crunch would probably delay the national rollout until next summer. Many felt that summer would not be the best time for introducing hot-beverages. And, if the rollout were delayed, McDonald’s would possibly need to reconfigure the planned marketing effort. (To have national advertising, McDonald’s must have 60% of its stores with McCafés.) Bank of America did not anticipate that its loan program for McDonald’s franchisees would be depleted so quickly. To fund the McCafés, Bank of America asked franchisees to find new lenders. Franchisees would need approximately $100,000 per store for the McCafés. Most franchisees were seeking loans. “As money remains tight, it’s going to be more difficult to get the loans to remodel for the combined beverage strategy. Obviously
we don’t know what the situation is going to be in another three to six months,” said a franchisee. McDonald’s advised in an internal memo, “franchisees should consider using cash on hand to cover new-equipment costs.”

**Raising Prices**

The new beverages McDonald’s wanted to sell required new equipment. Some of this equipment would be costly and take up precious space. McDonald’s U.S. operators complained about the larger than expected incremental fees McDonald’s now demanded each operator install. Franchisees were told they would have to pay for nearly half the upgrade’s architectural and engineering fees, items McDonald’s used to cover. According to franchisees, those “beverage equipment and space costs can be several thousand dollars.” Additionally, franchisees say that McDonald’s has not yet demonstrated that this project is cost-justified.

Addressing U.S. franchisee concerns, in November, McDonald’s announced that it would raise the price of the Double Cheeseburger, moving it off of the Dollar Menu. McDonald’s recommended to franchisees that they price the burger at $1.19. On the Dollar Menu, McDonald’s replaced the Double Cheeseburger with a McDouble burger. The McDouble had two patties and a single piece of cheese. Analysts calculated that this change would save 6 cents a burger. McDonald’s also announced that it was testing recipe modifications to the Double Cheeseburger to cover costs that were higher for beef and cheese.

**PLAN TO WIN**

The positive and powerful momentum created by the 2003 Plan to Win was continuing to contribute to McDonald’s performance. When remarking on the strong third-quarter 2008 results, CEO Jim Skinner said, “The strength of McDonald’s ongoing results is a testament to our multi-dimensional Plan to Win.”

*Investors’ Business Daily* remarked that McDonald’s strong November sales demonstrated how the chain had managed to succeed during the economic downturn. While the world was experiencing an economic downspin, McDonald’s increased its quarterly dividend by 33%. Other restaurants were showing signs of struggles, but McDonald’s had sales increases of 7.7%. In the U.S., sales rose 4.5 percent in November, boosted by breakfast foods, chicken items, and the appeal of the chain’s value-oriented menu to customers looking for a good deal in the down economy. The numbers beat some analysts’ estimates. However, some analysts said the negative impact of currency translations could hurt the company’s earnings. Shares fell. Along with Wal-Mart, McDonald’s had low prices and was benefiting from the new frugality of trading down. McDonald’s said its success was based on its six-year-old Plan to Win focused on improving results at existing locations, after Jim Cantalupo tamped down on opening new stores.

**UK TURNAROUND AND JILL MCDONALD**

Steve Easterbrook hired Jill McDonald from British Airways in 2006. As senior vice president and chief marketing officer, Ms. McDonald’s job went beyond marketing. “Ms. McDonald’s role at the company is a layered one that goes beyond the brand and its
reputation. As well as leading the revamp of its outlets, her job includes food development. The chain’s offering is now focused on three tiers—the value end, which includes the Pound Saver menu, comprising core favourites such as the bacon cheeseburger; more premium items such as recently introduced Chicken Legend; and the return to the menu of the limited-edition deluxe burger as well as a fresh chicken variant.” And, as Ms. McDonald commented, the battle for breakfast was not just a U.S. occurrence: in the UK, McDonald’s breakfast sales increased 10% in 2007, and coffee climbed 22%. In an interview, Ms. McDonald talked about the first major promotion of 2008 focusing on a “return to quality” in its breakfast. McDonald’s changed to “back bacon” and better-quality bread in its breakfast sandwich.153

MARKETING
In October 2008, McDonald’s introduced new global packaging. During the 2003–2005 turnaround there was the first-ever complete redo of packaging worldwide. The new packaging celebrated McDonald’s food quality story. “Our new packaging is a fresh way of sharing McDonald’s food quality story with our customers,” said Mary Dillon, McDonald’s global chief marketing officer at a press briefing. “The more people know about our food the more they’ll love it.” The new packaging will illustrate the high-quality ingredients and food prepared at McDonald’s. The packaging can accommodate “21 languages while sharing stories about the quality of McDonald’s ingredients in a way that is locally relevant for customers around the world.” It will take two years to have full global coverage with this packaging.154
FINANCIALS

The year began with great financial news: McDonald's had experienced a robust 2008. CEO Jim Skinner's statement that McDonald's was recession resistant became vernacular. McDonald's announced that its 2008 net profit soared 80% relative to a year ago. McDonald's attributed this success to customers seeking economic relief with low-cost meals as the global recession worsened. Against the context of powerful annual results was the 23% drop in fourth-quarter 2008 net profit to $985 million from $1.273 billion in the 2007 fourth quarter. As Mr. Skinner said, “Through our strategic focus on menu choice, food quality and value, the average number of customers served per day increased to more than 58 million in 2008.” In 2008, sales and customer counts grew across all segments for every quarter. Global comparable sales lifted 6.9%. Observers indicated that McDonald’s results reflected trading down to cheaper food as one of the most important contributing factors.155

Fourth-quarter 2008 results indicated solid growth despite the global recession, as McDonald's reported stronger-than-expected fourth-quarter profit. However, McDonald's net income declined by nearly 23%. McDonald's earnings exceeded analyst expectations by 4 cents a share. Reinforcing the recession-resistant character of the McDonald's brand, Mr. Skinner said, “While we clearly prefer a more robust environment, today’s market conditions play to our strengths. Consumers are feeling the pinch almost everywhere else in their daily lives. We believe that McDonald's broad-based global sales momentum continues partly due to the recession-resistant nature of brand McDonald’s.”156 Analysts agreed with Mr. Skinner. As “Stifel Nicolaus analyst Steve West said in a January 21 note to clients, fast food chains like McDonald's have been able to capture more dollars from consumers looking to cut back on purchases because they offer cheaper and more convenient food than sit-down chains.”157

As The New York Times reported in January, McDonald’s had strong profits in spite of the fact that in previous years the brand was the poster child for obesity. The journalist noted that after six years since the famed turnaround, McDonald’s had assuaged some of its most vocal and aggressive critics. This did not mean that the skeptics had stepped back; the dietary experts pointed out that McDonald's still had serious faults regarding its food, including the fact that come of the salads have fried chicken. McDonald’s managed to stay profitable during the recession even though other restaurant chains had not been able to do so. Both in the U.S. and overseas, the brand flourished. By November 2008, McDonald's achieved 55 consecutive months of positive global results. CEO Jim Skinner stated that McDonald’s was recession resistant, and this appears to be the case. Since the turnaround began in 2002, chicken sales had doubled. The 2009 focus would be on beverages. Mr. Skinner gave credit to the Plan to Win for the “alignment of the organization” that had been the galvanizing force for the enterprise. Mr. Skinner was a strong believer in the Plan to Win. It was noted that during Mr. Skinner’s tenure, McDonald’s posted the best financial results in its history.158
In March, McDonald’s warned investors and analysts that the first quarter of 2009 would not be as rosy as originally expected. Even with strong sales performances, McDonald’s said that first-quarter results would be negatively affected by foreign-currency exchange rates and higher commodity costs. Nevertheless, for February, McDonald’s said global same-store sales lifted 1.4% and U.S. same-store sales increased 2.8%.159

In April, McDonald’s said first-quarter profit climbed by 4% to $979 million. This was in spite of a 10% decline in worldwide sales. McDonald’s received a boost from a one-time gain related to the sale of a stake in the Redbox DVD rental unit. Revenues fell 10% from a year earlier, but same-store sales increased by 4.3%, with increasing numbers of customers seeking “value.” “McDonald’s continues to deliver a relevant restaurant experience that provides consumers with a broad range of quality menu choices, affordable prices and unmatched convenience,” said CEO Jim Skinner. In the U.S., operating profits increased 6.0%. Around the world, McDonald’s had good results in Europe. APMEA region saw operating profit rise 11%. “Our well-known value proposition and unparalleled convenience continue to resonate with customers,” Mr. Skinner said.160

McDonald’s reported that global same-store sales rose 5.1% in May, with a U.S. 2.8% rise. European same-store sales climbed 7.6% with a 6.4% in APMEA. McDonald’s said that its May performance fell short of its results in April, when it posted a 6.9% boost in global same-store sales. April results showed increases of 6.1% in the United States, 8.4% in Europe, and 6.5% in APMEA.161

Profit for the second-quarter 2008 (ending June 30) was down 8% versus year-ago earnings. McDonald’s blamed the global currency translations. Second-quarter corporate revenue fell 7%. However, quarterly U.S. same-store sales rose 3.5% and 4.8% globally. McDonald’s attributed this news to the chain’s new McCafé premium-coffee drinks.162

McDonald’s had a strong third quarter (ending September 30, 2009), that was attributed to positive comparable sales across all geographies. CEO Jim Skinner said, “Alignment behind McDonald’s long-term business strategy, the Plan to Win, is clear as our growth continues to be a systemwide effort with each area of the world contributing. McDonald’s global results demonstrate the resilience of our strategies and our ability to execute successfully.” Global comparable sales increased 3.8%, with the U.S. up 2.5%, Europe up 5.8%, and APMEA up 2.2%. McDonald’s increased its quarterly cash dividend 10%. The core menu, the premium Angus Third Pounders, and McCafé espresso-based coffees drove U.S. sales. Europe had strong third-quarter comparable sales as well due to “locally relevant premium products, promotions, and perceived customer value.” APMEA had strong results, too, due to its “positioning around convenience, value, operations excellence and core menu offers.”163

February results showed the effects of unstable foreign exchange currency rates. McDonald’s said that these fluctuations would reduce earnings by at least $600 million. “Sales in US rose 6.8% while adjusted sales in Europe and APMEA rose 4%. However
global sales in dollar terms declined 4.6% for the month.” In the U.S., strong demand for chicken items and breakfast offerings continued to provide a sales lift.164

First-quarter 2009 results stated the following: profits rose 4% as same-store-sales climbed 4.3% worldwide. McDonald’s reported that the results depended on sales of its core menu items: Quarter Pounder and McNuggets, which were attracting new customers. McDonald’s emphasized that its three-tiered pricing strategy was also a factor. A report from Morgan Stanley indicated that the business model of fast food restaurants was now a “zero sum industry” as brands fought for the same customers. Mr. Skinner said that McDonald’s intended to stay with its three-tiered pricing strategy “even if competitors use declining food prices to offer better deals. I don’t see us dictating any change in strategy around that,” he said.165

Analysts and investors were pleased with April 2009 results. Global sales climbed 6.9%, exceeding estimates. In April, data showed that customers purchased the brand’s coffee drinks and Chicken Snack Wraps. In the U.S., core items improved sales. Chicken Wraps and McCafé espresso-based drinks also improved U.S. sales. U.S. stores had same-store sales increases of 6%, whereas Europe’s same-store sales increased 8.4%. APMEA gained 6.5%.166

May 2009 was yet another great month for McDonald’s, as low pricing in the United States and Europe continued to attract budget-conscious customers. Financial Times reported that low costs motivated customers to frequent McDonald’s. The low costs helped achieve strong results. McDonald’s was incredibly strong in spite of the economic downturn. It said its success was a result of customers demanding low-cost fast food, taking business away from those restaurants that were more expensive. While family restaurants were struggling, McDonald’s had a 5.1% rise in global comp sales.167

With the continuing positive results, CEO Jim Skinner said in July that McDonald’s success echoed McDonald’s ability to match its brand with customer needs, in this case, being more cash strapped and time challenged.168

June results indicated that perhaps McDonald’s was not recession resistant. The weakening economy affected customer behavior. As customers lost their jobs, they cooked more at home. McDonald’s revenue fell 7%. It appeared as if McDonald’s was facing slowing momentum around the world: McDonald’s June results did not meet analyst expectations, with global same-store sales showing a lift of only 2.6%, with a 1.8% increase in the U.S. As a reminder, in April, global same-store sales were up 7%. It was possible that the laser focus on premium-priced products such as the McCafé specialty coffees and the launch of a $4 Angus burger worked against McDonald’s value perception. The latest franchisee survey of 35 franchisees conducted by independent analyst Mark Kalinowski showed that there were franchisees who questioned how much the espresso-based mochas and lattes were contributing to sales.169

Same-store sales rose in July with a 4.3% increase. The reporting indicated that McDonald’s was now the brand for low prices and cheap food: customers were trading down to McDonald’s “cheaper” items, so McDonald’s attracted the “budget conscious.”
European sales climbed by 7.2%, whereas APMEA had rising sales as well at +2%. However, profit declined 8% in the second quarter.\textsuperscript{170}

The August reporting on McDonald’s showed that its momentum was slowing. In fact, McDonald’s missed all analysts’ expectations. Same-store sales did rise globally in August but missed analysts’ targets. Global same-store sales increased 2.2%, but it appeared that Europe’s strength was not enough to overcome U.S. and APMEA weaknesses. In the U.S., the same-store sales rise was 1.7%. McDonald’s credited the small gains to intense competition. McDonald’s tried to put a spin on the results saying that U.S. sales showed the positive impact of the new premium Angus Third Pounder burger and new McCafé drinks.\textsuperscript{171}

Third-quarter 2009 reported a total picture of three months of positive news. Earnings were up 5.9% helped by strong September sales. U.S. operations delivered 6% earnings growth aided by Angus burger and McCafé espresso drinks.\textsuperscript{172}

**MARKETING**

**Promotions**

With the economy in a downturn, fast food chains tried to avoid offering deep price cuts. Franchisees had to protect margins. However, McDonald’s, along with its competition, used more promotions (deals) for attracting customers to increase traffic. For example, in July 2008, McDonald’s ran a promotion for one of its premium-priced coffees. “Mocha Mondays” offered customers a free sample of iced or hot mocha over the course of 4 weeks.\textsuperscript{173}

**Research**

In April, *The New York Times* reported on a survey indicating how the presence of salads on a menu gave diners permission to eat less healthy options. The report said that the percentage of people who order fries from a no-salad menu is 10%. However, the percentage of people who order fries from a menu that includes a salad is 33%. The research was from *The Journal of Consumer Research*. It alluded to the possibility that the presence of healthy options on a menu can persuade people to buy options that are less healthy for them. Apparently, a person’s guard comes down when choices are available. This leads “to self-indulgent behavior.”\textsuperscript{174}

**GROWTH**

**Europe**

Denis Hennequin, president of McDonald’s Europe, announced the plan to create 12,000 jobs and open 240 restaurants across Europe. This reflected an alteration to the Jim Cantalupo strategy of making money by making existing stores better. Not since 2002 had McDonald’s increased stores and jobs by this much in Europe. McDonald’s focus on low prices was attracting customers. And the redesigned stores with new food and beverage options attracted more customers. McDonald’s top management continued to say that eating out at McDonald’s was a “better deal than eating at home.”\textsuperscript{175}
Store Openings: Global
After reporting strong 2008 fourth-quarter results, McDonald's announced that it would have 650 more outlets by year-end. The increase in store openings was based on customer demand for low prices along with McDonald's efforts in offering new chicken items, beverage, and breakfast.176

China
The April news from McDonald's indicated that it would cut back on its planned China growth because of falling sales. CEO Jim Skinner said this decision could impact as many as 35 sites in China as factories in these locations had been shuttered. Additionally, as Ralph Alvarez declared, China had many eating-out alternatives that were substantially cheaper and more convenient than McDonald's.177

India
June brought an announcement that McDonald's would introduce the Chicken Maharaja Mac to “more of India.” As with the rest of the world, where other competitors were struggling, McDonald's was succeeding. “McDonald’s has been largely unaffected. Chicken burgers and vegetables patties have led to monthly traffic increases of 10% to 15%.”178

Slowing Growth: Beginning of Fourth-Quarter 2009
In October, the business journalists and analysts as well as investors started to question McDonald's slowing growth. Some surmised that customers were going to the casual-dining sector. If that were the case, did investing in fast food, specifically McDonald’s, make sense? In an oft-quoted statement, Jeffrey Bernstein at Barclays Capital said, “Would you rather invest in a company that has stronger but decelerating same-store sales or invest in a company with weaker same-store sales but the prospect of modest reacceleration over time?” Data showed that unemployment rose while McDonald's growth ebbed. It was possible that eating out was now considered to be a very special occasion and not a McDonald’s occasion. Mr. Bernstein stated that the investor community was concerned about the potential for negative McDonald's numbers. The insight provided by the analysts and the articles was that McDonald’s could have strong earnings but miss expectations on same-store sales. This would be a negative in analysts’ eyes. Even though McDonald’s had said many times over many months and quarters that the brand satisfied customers’ desires for lower-priced items, a McDonald's spokesperson Heidi Barker said, “There’s this myth that we’re doing well because of the recession but the momentum began in 2003.” Jim Skinner had said many times that the brand was recession resistant.179 In a report on Europe, the brand was described as a low-cost alternative to Starbucks.180

BusinessWeek began an article with the phrase, “Incredible but true: McDonald’s missed this year’s robust stock market rally.” The writer pointed out that even though there was a rally on Wall Street with the three indicators showing increases (Dow +11%, S&P +15% and Nasdaq +30%), McDonald's was down 3%.181
CHALLENGES FOR 2009
Analysts and investors commented on challenges for the brand in 2009. The strength of the U.S. dollar was one of these challenges, as a strong dollar would adversely affect overseas benefits. Additionally, there was a global recession. And no matter how recession resistant the brand was, the introduction of premium-priced beverages in the U.S. was a concern. The questions continued to be: was this the time to add expensive lattes, cappuccinos, and other upscale coffee drinks? All data showed that budget-conscious consumers were cutting back on these small “luxury” items. However, CEO Jim Skinner said, “The coffee program is on track.”

An article in Barron’s detailed a report by Jefferies & Co. that highlighted 2009 challenges for McDonald’s. The report reminded readers that McDonald’s “shares are up 200% over the past 6 years” since the 2002–2005 turnaround. The questions remained: how can and will McDonald’s continue to post such amazing results? Jefferies & Co. believed that the momentum from the “remodeling, extended hours and convenience” was in “the rearview mirror,” making any “US outperformance more difficult.” In Europe and APMEA, the brand was building momentum around remodeling, extended hours, and breakfast, which might drive continued same-store sales outperformance. Jefferies & Co. expected strong same-store sales in 2009 but believed the increased costs for commodities along with increased labor costs and issues would “likely offset the majority of sales leverage benefit on return on invested capital.” Additionally, McDonald’s increased Capex “and is unlikely to provide a valuation premium tailwind in 2009.” The report stated that investors should “expect a slower pace of net-income growth and a gradual increase in capital intensity to prevent McDonald’s from increasing the amount of cash returned to shareholders in 2009 and 2010.” Jefferies & Co. stated that it believed McDonald’s earnings per share would “be more difficult to achieve in 2009.”

RALPH ALVAREZ, COO
Ralph Alvarez, McDonald’s COO, understood that European and Asian customers have different perspectives than Americans. So while U.S. customers were seeing McDonald’s as “a cheap alternative to sit-down meals that was not the case in some parts of Europe and Asia.” The Wall Street Journal credited Mr. Alvarez as being an essential player in McDonald’s lengthening its 6-year success path. Mr. Alvarez focused on improving restaurant operations, making price adjustments, and maintaining a low-cost structure. He stated that the sorry global economy had not been a good thing for McDonald’s even though the press reported that cheap prices entice guests to frequent the chain. McDonald’s recent strategy focused on premium-priced offerings. However, with the downward-spiraling economy, McDonald’s marketed lower priced items in response to customer needs. In speaking the UK, which was a robust place for McDonald’s, the journalist said that it is Mr. Alvarez who has been directing the UK changes, and not Mr. Easterbrook. To quote The Wall Street Journal, “Mr. Alvarez directed management to examine a broad set of data measuring changes in consumer buying patterns, customer traffic for competitors and general economic data. McDonald’s executives say that promoting lower priced items and products perceived as a good value will be a top priority this year and restaurants may have to settle for lower margins.”
In December, McDonald’s announced Mr. Alvarez’ resignation, saying it was for health reasons. Mr. Alvarez also resigned from the McDonald’s Board of Directors. *The New York Times* reported that the resignation was “unexpected.” Also reported was that after the resignation of Mike Roberts, this was the second significant top management resignation in just a few years. Both Mr. Roberts and Mr. Alvarez were supposed to be successors to Jim Skinner. The number-two job at McDonald’s had extra importance, as the deaths of Jim Cantalupo and Charlie Bell demonstrated. Now Mr. Skinner had to find a successor. *The New York Times* continued, “When Mr. Roberts left, he was said to be frustrated that Mr. Skinner was not stepping down as quickly as expected. Mr. Alvarez said his departure was prompted solely by health concerns. But he also said he was aware that Mr. Skinner was not planning to retire soon, and so he did not expect the top job to come open in the short term.” There were other issues surrounding Mr. Alvarez’s departure. *The New York Times* reported, “This is not the first time Mr. Alvarez has made an abrupt exit from McDonald’s. He was forced out in 1998, when he was a regional executive in California, for having an affair with a woman who was his subordinate. The woman’s husband also worked for McDonald’s and complained to the company about the affair. At the time, Mr. Alvarez’s departure was explained to top company officials in a letter from the chief executive, Jack M. Greenberg. People who saw the letter said that Mr. Greenberg made an example of Mr. Alvarez, saying that the company would not tolerate such behavior. But two years later, Mr. Alvarez was rehired as a McDonald’s executive in Mexico. Mr. Greenberg sent another letter saying Mr. Alvarez deserved a second chance. Mr. Alvarez quickly rose through the ranks and was given the No. 2 job in 2006, when Mr. Roberts quit. He was named to the board in 2008. Described by colleagues as a brilliant operations manager, Mr. Alvarez was widely viewed as first in line to be the next chief executive.” An unfortunate story, Mr. Alvarez was once again involved in another alleged affair with an employee. A lawsuit filed in 2003 in Federal District Court in New Jersey alleged that Mr. Alvarez had an affair with the wife of a McDonald’s manager who also worked at McDonald’s. “The man, Patrick W. Moss, said that his wife, Kath Moss, had also had affairs with two local McDonald’s managers. Mr. Moss claimed that his attempts to be promoted within the company had been thwarted by Mr. Alvarez and others. Mr. Alvarez and Ms. Moss denied under oath, in court papers, that they had had an affair. Ms. Moss also denied the other affairs alleged by her husband. The Moseses divorced in 2004. Ms. Moss now owns two McDonald’s franchises in New Jersey. Mr. Riker said McDonald’s agreed to pay Mr. Moss $80,000 as part of a settlement that included “no acknowledgment of any wrongdoing.”

**STEVE EASTERBROOK, UK CEO**

In March 2009, Mr. Easterbrook gave an interview with *Financial Times*. He talked about his idea—now implemented—for online transparency for McDonald’s, “the website he established, www.makeyourownmindup.co.uk. The website set out the company’s philosophy, accepted questions to which it promptly supplied answers, and allowed members of the general public, referred to as ‘quality scouts’ behind the scenes.” (NB: This was adopted by McDonald’s Canada and then McDonald’s US, where it was a failure. In the chapters you have just read, it appeared that this UK Easterbrook initiative was a disaster for the brand.) Additionally, Mr. Easterbrook described his vision for McDonald’s UK as “the modern, progressive burger company.”
**BEVERAGES**

A May article stated that in Europe, McDonald’s wanted to beat Starbucks. McDonald’s aim was to be the biggest European coffee chain. McDonald’s planned to open several hundred European McCafé stores that will sell baked goods and upscale coffee beverages in 2009. Jerome Tafani, chief financial officer for McDonald’s Europe said, “We can become the biggest seller of coffee in Europe,” Mr. Tafani added that McCafés did attract new customers. The space creates a “cozy” atmosphere within the stores. The audience is people looking for breakfast on their way to work.\(^{187}\)

In fact, by July 2009, the earnings reports cited beverages as one of the main reasons McDonald’s showed increases. One journalist covering McDonald’s titled the earnings report: “move into mochas lifts figures by 4.3% in July.”\(^{188}\)

**FRANCHISEES**

An interesting article appeared in *The Wall Street Journal* in August. Written by long-time McDonald’s journalist, Richard Gibson, the article pointed out that franchisees in the U.S. were finding a saturated marketplace. The franchisees who were able to afford a change were looking overseas for McDonald’s restaurants, where the saturation was less and the outlook was rosier.\(^{189}\)

**PLAN TO WIN**

In June, at an analyst meeting, credit for McDonald’s continuing success was attributed to the Plan to Win, which by this point in 2009 was slightly over six years old. The analyst moderating the meeting stated the following: “This dominant position in the quick service market reflects the success of McDonald’s worldwide revitalization plan that was launched in 2003, a plan that turned the Company around and refocused on customer strategies, business disciplines, and close global alignments.”\(^{190}\)
FINANCIALS

The 2009 McDonald’s results showed great strength for the fourth quarter and for the year ended December 31, 2009. McDonald’s attributed this growth to increased global comparable sales. CEO Jim Skinner reported that McDonald’s was serving 60 million global customers each day. This was an increase of 2 million per day over the past 12 months. Mr. Skinner added that McDonald’s profitability increased for the sixth year around the world. In 2009, sales increased 3.8%, including a 2.6% rise in the United States, a 5.2% rise in Europe, and a boost of 3.4% in APMEA. In the fourth-quarter 2009, the January 2010 report indicated global comparable sales lifted 2.3%. McDonald’s reported that in 2009, U.S. sales “outpaced the overall quick-service restaurant industry.” McDonald’s said it gained U.S. market share. This was an indication that commodity costs had eased. McDonald’s did not say what the effect was on prices. Europe also experienced strong fourth-quarter 2009 sales. Again, there was increased market share in Europe. APMEA had increased “double-digit operating income growth.” Jim Skinner announced that McDonald’s would continue to give back to investors in terms of increased dividends.

March 2010 results were impressive. January and February had been slightly depressing months, so the good March numbers made first-quarter 2010 a positive overall, rising 11% worldwide. First-quarter international sales were good, but the news was the March 4.2% lift in U.S. sales. McDonald’s offered a variety of “value” products such as low-price drinks and a new Dollar Menu at breakfast. First-quarter global sales climbed 4.2%. As for global performance, there was a 5.2% rise in Europe and a 5.7% climb in APMEA.

McDonald’s addition of “snack-focused” items such as the Snack Wrap and its beverage lines lifted May 2010 same-store global sales. Analyst estimates were exceeded, with global same-store sales increasing 4.8%. Emily Bryson York of Advertising Age commented that McDonald’s was doing more than selling burgers: the restaurant chain was giving Starbucks a run for its money. McDonald’s success was now generated by its image as a beverage destination. Sales seemed to support this.

Second-quarter 2010 benefited not only from beverages but also from lower prices that satisfied customers in a still shaky economic environment. Lower prices led to +3.7% in U.S. second-quarter, year-to-year, same-store sales. Individual tickets showed a decline close to 6% in the quarter compared with a year ago. There was growth in Europe and APMEA, with same-store sales rising 5.2% and 4.6%, respectively. Don Thompson, McDonald’s president and COO, stated that the lower prices with lower average checks had increased the guest counts globally. He made it clear that lower prices with lower check totals were a “very deliberate approach based on the economy.” However, McDonald’s did warn the analyst community that future European results would be affected due to the wave of implemented austerity measures. And McDonald’s warned that even with beverage sales helping second-quarter sales, future performance would
show the effects of the poor economy. Lower-priced food and beverages were helping McDonald’s resist the recession because beverages are higher margin. These higher margins counterbalanced the $1 breakfast menu promotions. Mr. Thompson was positive about the beverage line, especially the smoothie sales, saying that sales of smoothies exceeded McDonald’s highest estimates. However, August in Europe was a disappointment for analysts as sales did not meet their expectations. In fact, the Europe numbers were well below what they had expected.195

In August, online financial website Motley Fool created a SWOT (strengths, weaknesses, opportunities, and threats) analysis for McDonald’s based on McDonald’s impressive market performance and its all-time high share price. Motley Fool noted that McDonald’s strengths were its new products, including the beverage line and the Angus burger. Because of these new offerings, Motley Fool said McDonald’s would get through the “recession” with strong same-store sales. Additionally, it was noted that McDonald’s dividends were “sizzling,” rising from 55 cents per share in 2005 to $2.20 in 2010. As for weaknesses, Motley Fool mentioned that the U.S. geography was now “oversaturated.” (Franchisees had complained that there were no longer prime locations for investment.) Also, Motley Fool noted that although it seemed as if McDonald’s would continue to deliver dividends, the rate of the dividend growth was slowing and would probably level off. As for opportunities, the report stated, the opportunity for growth was outside the U.S., especially in China. Motley Fool stated that there was limited “imagination” in the food innovation process at McDonald’s and that this would hurt them. Finally, the threats were the wide variety of governmental regulations and restrictions for fast food, sugar and calories, and marketing to children. Another threat was the fact that worldwide the competitors were growing, strengthening with new categories appearing.196

And in September, McDonald’s did raise its goal of returning $5 billion to shareholders.197

October same-store sales climbed 6.5%. McDonald’s said this was due to continued growth in Europe. The sales climb was also attributable to sales of core menu items such as Chicken McNuggets and McCafé beverages.198

McDonald’s November sales picture did not meet analysts’ expectations. Growth seemed to be slowing globally: same-store sales rose 4.8%. In the U.S., McDonald’s said the rise was due to the LTO (Limited Time Offer) of the McRib sandwich (a cult favorite) and to McCafé beverages. McDonald’s focus had been on “driving more customer traffic.” The less-than-stellar performance was blamed on APMEA: the 2.4% same-store sales gain was well below analysts’ estimate of 6.4% growth. U.S. and European same-store sales increased 4.9% in both regions.199

**RESTAURANT REIMAGING**

In March, McDonald’s announced that it would allocate $1 billion to reimage the company-owned stores using one of the available designs under the aegis of “urban redesign” aesthetic.200
**Pricing**

McDonald’s decided in March that it should price all of its U.S. soft drinks at $1 regardless of the size of the beverage, hoping this pricing would help make McDonald’s a destination for beverages, not just burgers. However, McDonald’s did not consider this $1 beverage pricing to be a permanent part of its menu: it would be an LTO ending right after Memorial Day. Soft drinks were a moneymaker for franchisees. They expressed concern that $1 beverages could hurt their profits...especially if the customer buys off the Dollar Menu.”

In September, McDonald’s found itself in a position in which it had no choice but to raise prices. McDonald’s had not raised prices in over a year.

**Growth**

**China**

In March, Tim Fenton, president APMEA, announced plans to increase the number of restaurants in China. Additionally, to emphasize the importance of China to McDonald’s, Mr. Fenton stated that McDonald’s had started a Hamburger University in Shanghai. He said, “China is our fastest growing market from the income standpoint and from the revenue standpoint.”

**Europe**

In advance of March 2010 results, McDonald’s indicated that it would be more dependent on Europe. One journalist stated that McDonald’s received most of its good ideas from outside of the U.S. This journalist indicated that Europe carried the chain in the previous year and that McDonald’s had a much more sophisticated perception in Europe than in the U.S. In the opinion of the writer, McDonald’s was demonstrating that it could be more of a European chain with stores in the U.S. than the other way around when it came to ideas, products, and image.

**New Product Proliferation; Menu Expansion**

At the end of the year, Julie Jargon of The Wall Street Journal reported on the number of new products now available at McDonald’s. Many observers and analysts attributed the brand’s recession success to the variety of new items available for purchase. During the economic downspin, McDonald’s was still able to post increases in same-store sales. Observers said that the variety of products offered at both high and low prices allowed McDonald’s to maintain its profit margins. The rise in beef and other commodity prices affected the prices of core menu options, making the hamburgers such as Big Mac out of range for the young adults who used to be the “heavy users.” Profits were also due to the increased hours a restaurant stayed open. McDonald’s had many “open-24-hours locations” in the hopes of increasing guest counts. Additionally, there was major reimaging, the installation of double-lane drive-thrus, and free Wi-Fi. But with so many changes, some franchisees and analysts worried about the chain’s ability to sustain growth. As an example, Ms. Jargon focused on one restaurant with more than 100 items on the menu board: Egg McMuffins and fruit smoothies, recently added oatmeal and caramel-mocha beverages, and possibly a new frozen strawberry lemonade to name a
few. Some U.S. franchisees were said to be testing flatbread sandwiches and a new version of the very popular Snack Wrap. There were so many new items on the menu board that McDonald’s ran reminder advertising around the Big Mac and Quarter Pounder sandwiches, as people were no longer buying these.

Ms. Jargon remarked on an internal email detailing that McDonald’s main business day-part segment, the lunch-hour business, had been flat for five years. (A McDonald’s spokeswoman declined to comment on the content of the memo.) Jeffrey Bernstein, restaurant analyst at Barclays Capital, said that leading in size did not necessarily mean that you were the industry leader. (Think IBM when Apple was a big hit; IBM may have been bigger, but users felt Apple was the leader because it was so innovative.) Ms. Jargon described the changing fast food environment. She stated that the driver behind McDonald’s burst of new items was to keep up with all the changes in the eating-out business. McDonald’s and its competitors such as Burger King, KFC, and Wendy’s were no longer the only choices when it came to fast food.

She cited examples such as 7-Eleven, Starbucks, Jamba Juice, and gas stations that carried prepared food. Perimeter grocery stores also offered prepared meals. McDonald’s franchisees represented close to 90% of the U.S. 14,000 U.S. stores; they were responsible for all the upgrades, equipment changes, and expansion costs. With more and more new items, the complexity of the kitchen and the complexity of preparation increased. Surveys showed that franchisees were complaining about slower service and inaccurate orders. Ms. Jargon interviewed some franchisees who expressed their concerns about the brand’s direction and the costs for implementing this direction. One franchisee concern was, “What is the profitable benefit to these remodel investments?” This was expressed in the franchisee October survey conducted by Janney Montgomery Scott analyst Mark Kalinowski. Contrary to the party line emanating from McDonald’s management, especially Don Thompson, president and COO, and Jan Fields, U.S. president, there was franchisee opinion that the McCafé beverages were selling so poorly that the drinks were not even paying for the electricity needed to run the espresso machines. The Ray Kroc system was simple. Now that there was so much complexity, the system was sagging under the weight of delivering. The article cited the example of McDonald’s Snack Wrap, which represented such a major preparation challenge that crewmembers needed extensive training. The article also revealed that the required equipment for preparing the frozen drinks cost $13,000 per machine. Ms. Fields rejected the franchisee statements. She was vocal that the coffee beverages were totally successful. Although in the article she insisted that the new items were not meant to put any burden on the franchisee, the fact was the brand must stay relevant at all costs. There were some savvy investors who compared the frenzy of new item introduction in the Jim Skinner tenure to the frenzy of opening new stores in the years before Mr. Cantalupo. Mr. Cantalupo strongly moved to have the brand be bigger by being better.

PUBLIC RELATIONS

April, May, and June 2010 were unsettling months in terms of negative PR. Unfortunate events hit McDonald’s on all sides. In April, the trade presses picked up a report showing that when respondents were shown fast food restaurant logos, they became
“impatient” and were more inclined to spend money. The study was conducted in Canada. In May, CEO Jim Skinner found himself on the defensive regarding the brand’s icon, Ronald McDonald. Ronald McDonald had become a divisive social and marketing force. Kids loved the clown, and he was recognizable worldwide. However, critics believed that he was promoting eating at McDonald’s, a provider of high-fat, high-sodium, and genuinely “bad-for-you” foods. Now a group called Corporate Accountability called upon Mr. Skinner to retire Ronald McDonald. The group’s statements indicated that Ronald McDonald lured children to a haven of caloric, obesity-causing, diabetes-causing foods. They said that Ronald McDonald sent “insidious” messages to children. Mr. Skinner was publically adamant that Ronald McDonald was part of the brand and therefore needed to stay. Ronald McDonald did not “shill” for the brand. He promoted important messages such as wearing seatbelts and bike helmets, for example. He also promoted exercise. In June, McDonald’s had to recall 12 million Shrek glasses as the cadmium levels in the paint were well beyond the government safety levels. The CSPC (the U.S. government Consumer Products Safety Commission) jumped on the issue. The following month, Mr. Skinner found himself on the defensive again, this time fighting criticism of Happy Meals. Long-time McDonald’s nutritional and dietary critic, the CSPI (Center for Science in the Public Interest), forced Jim Skinner to publically defend the use of toys in its Happy Meals. The CSPI was threatening to sue McDonald’s on the grounds that toys were a “deceptive and illegal marketing practice to lure children into its restaurants.”

**HAPPY MEALS**

Happy Meals in 2010 represented 10% of the McDonald’s business, which was worth $30.9 billion in the U.S. as systemwide sales. This made it bigger than IHOP and Panera, for example. McDonald’s said that 87% of 6- and 7-year olds and 80% of 8- and 9-year-olds said they enjoyed getting a toy with their Happy Meals.

In December, the city of San Francisco banned restaurants having a toy-with-a-meal offering. CEO Jim Skinner faced the possibility that this regulation could pop up in other municipalities. Mr. Skinner referred to this California city’s civic leaders as “food police.” He argued that these municipal leaders had taken personal choice away from families. One consultant compared toys with meals to selling Hummers and cigarettes. Eventually, a company needs to rethink how and what it sells.

Two days after the San Francisco announcement, the consumer watchdog group CSPI (Center for Science in the Public Interest) entered a lawsuit against McDonald’s use of toys with a meal. CSPI stated that it was a way to seduce children into begging their parents for McDonald’s food just to get the toy. CSPI used the calorie, fat, and sodium levels against McDonald’s in the suit, stating that all of these were well above normal levels for children under 8 years old. *Financial Times* reported that although the city of San Francisco and the CSPI were challenging McDonald’s, other consultants for other groups were jumping into the fray. One group’s spokesperson said, “When it comes to undermining parental authority by targeting children directly, McDonald’s is the worst of the worst.”
Year 2011

Financials
The year-end report for 2010, announced in January 2011, was an upbeat picture for McDonald's. Fourth-quarter 2010 global sales were up 5%. The United States had a 4.4% increase; Europe climbed 3.4%; and APMEA rose 5.5%. McDonald's said the U.S. growth was due to attracting more customers using new items and value. U.S. sales benefited from the LTO McRib cult sandwich, a new caramel mocha coffee, and its yearly Monopoly promotion. Bad weather in the U.S. was blamed for some drops in sales during December 2010. Yet McDonald's said the poor weather did not have a big enough effect to weaken momentum. European comparable sales grew, as did comparable sales in APMEA. In reviewing 2010, McDonald’s stated that global comparable sales increased 5%. CEO Jim Skinner repeated the now-familiar goal of the original Cantalupo/Bell/Light Plan to Win (now 9 years old) by saying the following: “During 2010, we continued our efforts toward becoming our customers’ favorite place and way to eat and drink—and customers rewarded us by visiting our restaurants more often. As a result, we generated strong sales and delivered profitable market share growth, along with higher global revenues, operating income and earnings per share.” Mr. Skinner added that McDonald’s Plan to Win had positioned the company to continue turning in positive performances for 2011.

Although U.S. same-store sales climbed 2.6% in December 2010, the reports from analysts were not positive. Analysts were expecting more impressive results, and the numbers for December were a major disappointment.

March numbers were outstanding. Earnings were well above analysts’ estimates. The April report from CEO Jim Skinner acknowledged challenges because of the shaky economic landscape and the customer who was seeking value when eating out. He said, “Our dedication to building the McDonald's business by optimizing our menu, modernizing the restaurant experience and broadening accessibility continues to drive our global performance.” For the quarter, McDonald’s delivered double-digit earnings per share growth led by higher comparable sales and guest counts across all geographic segments and strong franchise margin performance.” Global comparable sales climbed 4.2%. This included a 2.9% rise in the U.S., a 5.7% rise in Europe, and a 3.2% rise in APMEA. McDonald’s announced that it had “returned $2.0 billion to shareholders through share repurchases and dividends.”

First-full-quarter reporting indicated that McDonald’s profit rose 11%. Global same-store sales rose 4.2%, including a 2.9% lift in the U.S. However, McDonald’s also announced that it would raise prices again. CFO Pete Bensen did not give a schedule for the price hikes, but he reported that McDonald’s was monitoring the price changes at grocery outlets and would make every attempt to follow their price rises. Mr. Bensen said that commodity costs were going to be double what McDonald’s anticipated in January. Costs for essentials such as bread, cheese, and beef were estimated to increase 4%–4.5%. Regardless of the price changes, analysts were vocal that if any fast food
chain could weather such price hikes, it would be McDonald’s. McDonald’s said it would introduce some new beverage offerings and would be bringing back the Asian salad. Second-quarter 2011 performance was very good for McDonald’s. Even though customers were experiencing difficulties making ends meet, McDonald’s sold a lot of frozen drinks and breakfast meals. Share price rose. Mr. Skinner agreed that these new offerings were spurring sales, but he also attributed the growth to the store remodeling. He stated that in spite of struggling customers, McDonald’s was not seeing a rise in sales of Dollar Menu. For the first time, Mr. Skinner admitted that there was new competition in the “better burger” category. To compete on that front, he said that McDonald’s was planning to import some of its European burger sandwiches. Second-quarter 2011 was not that stellar for the U.S. as it was the slowest growing region of the world. In fact, a blurb in Bloomberg BusinessWeek stated that McDonald’s was having difficulty growing, not meeting analysts’ expectations: same-store sales rose 3.1%, and analysts expected a heftier 3.6%.

In the U.S., for second quarter, McCafé beverages such as Frozen Strawberry Lemonade and Mango Pineapple Real Fruit Smoothie, along with new dipping sauces for McNuggets, helped the good results, as did sales of Big Mac. Don Thompson, president and COO said, “Our total McCafé sales were up 29 percent over the second quarter of 2010, and we’re still featuring dollar soft drinks and sweet tea.” Mr. Thompson also stated that McDonald’s would focus on “nutritional” items, too, such as oatmeal and whole grain buns for its chicken sandwiches.” In APMEA, results showed a 5.2% rise due to growth (store openings) and “added convenience initiatives” along with a “value initiative.” In Europe, second-quarter sales rose 5.9% based on new products and demand for breakfast. Store redesigns also improved performance. Mr. Thompson indicated that the strategy in Europe was to make McDonald’s a “compelling destination,” and it was working. He continued by saying, “Our premium products like the McWraps are available in 17 countries across Europe and, in 11 markets, the 1955 burger is available. It is also Germany’s best performing premium sandwich.”

The September reporting for August 2011 once again missed analyst estimates on same-store sales. This was a repeat of the June report when McDonald’s said the miss was a one-time event. Investors’ concerns focused on whether these missed expectations were part of some larger issue. The recent missed estimate was the second in two months, and analysts felt this might be a trend. Even though McDonald’s had sailed through the 2008 recession virtually unscathed, if it continued to miss estimates, the investor community might stop supporting the stock. McDonald’s reported same-store sales of 3.5%. This was far under analyst estimates of 4.3%. McDonald’s reported weakness in both APMEA and Europe as well as in the U.S. CEO Jim Skinner overlooked the concern of the financial community by focusing on another month of sales growth. He said, “August marks our 100th consecutive month of global comparable sales growth, demonstrating the ongoing customer appeal of McDonald’s great tasting food, offered at an outstanding value in our modern and convenient restaurants.” Wall Street acknowledged that McDonald’s had been the recipient of customer dollars as they “trade down” to the brand for its affordable items.

By November, with continued remarkable results, CFO Pete Bensen told analysts and investors that McDonald’s had a lot of cash, making it clear that now was the exact right
time for investment in reimagining and for opening new stores globally. He indicated that McDonald’s would be raising its levels of CAPEX to approximately $2.9 billion in the following year. Once the allocation to business reinvestment was made, Mr. Bensen stated that the remaining cash would be returned to shareholders through dividends and repurchases. He acknowledged that through October 2011, McDonald’s returned $5.1 billion and expected the full-year return to shareholders to be around $6 billion.219

The December announcement reporting November 2011 earnings continued the good news. November global same-store sales leaped 7.4%. McDonald’s said the global boosts were due to motivating products, which worked in both developed and emerging markets. The report did mention that in the U.S., McDonald’s prices were 3% higher in November than they were a year ago.220

**PLAN TO WIN**

In April, when reporting March numbers, CEO Jim Skinner reminded the analyst and investor audience that having the Plan to Win was an essential part of the current success. He said, “Despite the challenges of the current economic environment, I am confident that McDonald’s can continue to grow by listening to our customers and remaining true to our proven Plan to Win strategy.”221

When announcing second-quarter 2011 results, CEO Jim Skinner stated that the results were due to continued implementation of the original 2002 Plan to Win. He said, “McDonald’s global results for the quarter demonstrate the resilience of our Plan to Win and our ability to execute successfully. Comparable sales and guest count increases across all segments, highlighted by June’s strong results, drove double-digit operating income and earnings per share growth.”222

In November, CEO Jim Skinner and his top management team made a public recommitment to the 2002 strategic (turnaround) plan—the Plan to Win. Mr. Skinner with his management support indicated that the Plan to Win was still the same strategic document for identifying “opportunities and investments to further modernize the Brand, enhance customer relevance and sustain the Company’s performance for the future.” Mr. Skinner said the following: “Over the past nine years the Plan to Win has been the right blueprint for McDonald’s and remains relevant today. It has enabled us to perform well in both robust and challenging economic environments. Most importantly, the Plan is supported by our unparalleled competitive advantages in size and scale, our financial strength and our System alignment.” Mr. Skinner summed up his remarks by saying, “McDonald’s unwavering commitment to and outstanding execution of the Plan to Win has created significant brand differentiation and strong business momentum.”223

Don Thompson, president and COO, added: “We are intensifying our efforts behind three global priorities that represent our greatest opportunities under the Plan to Win: 1) optimizing and evolving our menu, 2) modernizing the customer experience and 3) broadening accessibility to our Brand. I am confident in our strategies and the ability of our talented System to execute against these priorities as we drive toward our mission to become our customers’ favorite place and way to eat and drink.”224
PRICES
In late January 2011, McDonald’s announced the strong possibility that it would need to raise prices in 2011 as commodity costs continued their rise. McDonald’s estimated that its costs would increase by approximately 2.5% in the U.S. and approximately 4.5% in Europe. In Des Moines, Iowa, *The Register* reported that corn and livestock prices were sharply climbing. Observers noticed that McDonald’s appeared to be moving in a “rebranding effort” by refurbishing the stores, selling more non-coffee beverages such as smoothies, offering premium coffee drinks, and providing a wider variety of healthy food options. Along with a new breakfast menu and a more convenient drive-thru, these elements were part of a strategy to bolster growth. In 2011, analysts interpreted McDonald’s potential price increases as being a way of growing the brand globally as the December 2010 numbers disappointed.²²⁵

By April, the announcements for price increases had become expected news. McDonald’s had raised prices 1% in March. *The New York Times* said that McDonald’s was expected to increase the price of its beef sandwiches. Other commodities were also expected to reflect price increases. (The news sent McDonald’s shares tumbling down.) The franchisee community worried about the new price increases. Some franchisees voiced their concern that McDonald’s was investing money into the reimaging of restaurants while the franchisees were stuck for the increased costs of essential ingredients.²²⁶ Readers of *The Wall Street Journal* learned that there was a concern from Wall Street about McDonald’s rising prices: continuing to charge more in the still-fragile economy was making McDonald’s vulnerable. Its *Heard on the Street* column reinforced the anxieties of franchisees: remodeling restaurants was now the key to increased sales. Newly redesigned stores were showing 5%–6% sales rises. The journalist also pointed out that competitors such as Burger King were not in a financial position to make redesigns and at such a global level.²²⁷

In reporting second-quarter 2011 results, CFO Pete Bensen discussed commodity prices, saying that food inflation rates were increasing by as much as 4% to 4.5%. However, he reinforced that any cost increases were offset by increased guest traffic. In China, Mr. Bensen said the current increased prices were not affecting “the guest counts or the bottom line.” He added, “The key to keeping the guest count movement strong is everyday value offered in a high inflation market.” At the same time, with input costs rising, we have to do something to maintain profitability. In July we looked at adjusting prices, but we’re not seeing impact from that in these early days.” Mr. Bensen said that McDonald’s did not believe the commodity costs would lessen over the next year. Yet, this would not stop McDonald’s from implementing against the top priority, the ongoing reinvestment in the company.²²⁸

LOSS OF FOCUS
The “LEX” column in *Financial Times* pointed to Jim Cantalupo’s strategy for doing fewer things better—part of the “be bigger by being better.” It stated that McDonald’s under Jim Skinner had become just like Mickey Mouse: an “instantly recognizable mascot but one that no longer drives growth.” LEX said that McDonald’s abandoned burgers to focus on breakfast. And, for those of us who look to burgers, we should “expect a
McDonald’s Case History

breakfast focus to continue.” Multiplying breakfast options and multiple coffee and non-coffee beverages was the catalyst for increasing sales since 2006. “All this appears to consign to history former CEO Cantalupo’s promise to do fewer things and do them better.” 229

**RONALD MCDONALD**

The public discussions around marketing to children continued into 2011. Again, there was controversy over the role of Ronald McDonald. CEO Jim Skinner was once more in the hot seat defending the brand’s iconic spokesperson. Mr. Skinner was adamant that McDonald’s was not “firing” Ronald McDonald, making it clear that Ronald McDonald’s role was not to advertise unhealthy food to children. Many critics questioned McDonald’s continued use of the clown. They wondered if Ronald McDonald was still a real connection to children and whether the brand with its new foods and beverages had “left the clown in the dust.” To counter this argument that Ronald McDonald was irrelevant in the current world of children, Mr. Skinner pointed out that next to Santa Claus, Ronald McDonald was the most recognized figure among U.S. consumers at 99% of those sampled. However, as the opposition was quick to show, knowing the clown did not mean liking or trusting the clown. The Marketing Arm, an OMNICOM agency, ran a yearly survey of celebrities that rated them on likeability. In their recent survey, Ronald McDonald ranked 2,109 out of more than 2,800 celebrities. Mr. Skinner faced yet another watchdog group demanding that Ronald McDonald stop marketing to children when more than 600 health-care professionals and organizations gathered signatures to stop the clown.230

**HAPPY MEALS**

After over a year of vocal, unrelenting criticism, McDonald’s announced that it would make changes to the Happy Meal composition. Watchdog groups, consumers, lawmakers, and municipalities were vociferous when it came to the connection between fast food, toys, Happy Meals, children’s marketing, and childhood obesity. The press referred to McDonald’s announcement as “bowing to pressure.” The new Happy Meal would have half the number of French fries and would add fruit, specifically apple slices. The number of apple slices would be fewer than the number in a serving of Apple Dippers. (Coincidentally, McDonald’s said it was eliminating the Apple Dippers caramel sauce, so the offering was being renamed.) Additionally, McDonald’s said that it would reduce the salt content of all foods by 15% (except those over which it had no control, such as carbonated beverages and desserts). NYU nutritionist, McDonald’s skeptic, and author Marion Nestle was unimpressed by the announcement. As she expressed it, offering fewer French fries was not the answer to problems that McDonald’s had wrought with its children’s offerings.231

Feeling confident about their new Happy Meal configuration, McDonald’s took a full-page ad in *The New York Times* in December 2011, titled, “Have You Heard About Our New Happy Meals?”232
CHALLENGES

In January, a guest commentator for *TheStreet.com* commented on McDonald's. The commentator reflected on the rise in commodity prices but saw this as a short-term blip. What was challenging, in the author's opinion, was the frequent inclusion of new products on the McDonald's menu. He saw the constant addition of new products as more threatening to the brand, although the author acknowledged that these new products were a main reason for the spectacular earnings reports, quarter after quarter.233

*TheStreet.com* discussion continued. McDonald’s quarterly comparable store sales numbers recorded 30 consecutive year-over-year increases dating back to 2003. The success was largely due to product offerings as well as operations. For example, McDonald’s increased its healthy food offerings to attract health-conscious customers while adding on-the-go type meals for consumers eating at nonconventional hours and keeping many of its restaurants operating 24/7 to cater to these customers. Why was the frequent addition of menu items such a potential problem? Adding additional items to the menu board 1) increased operational complexity and 2) increased operating costs that franchisees were asked to pay for out of their own pockets. Stores were open 24 hours and needed to have free Wi-Fi and flat-screen TVs, thus increasing labor costs with the need for a larger staff. The new equipment was not cheap; the frozen drink machines alone could cost a franchisee $13,000 per store. McCafé units were approximately $100,000 per store, and McDonald’s would pay for only a third of this cost. Furthermore, according to this commentary, many of the new items, including many of the new McCafé drinks, were selling poorly. As the writer stated, “McDonald’s’ propensity to diversify and adapt in order to drive sales improvement could indirectly hinder profit margins at many of its franchises, as franchisees often bear the brunt of expansion and upgrade costs resulting from the new initiatives. Could this downside to profitability make potential owners think twice about opening new McDonald’s franchises?”234

At a shareholder meeting in May, CEO Jim Skinner and his top management were stunned to face an angry crowd of investors. After so many quarters and years of fabulous success, it was a surprise to deal with people who blamed McDonald’s for social issues such as marketing to children, sellers of fattening, salt-laden foods, and using Ronald McDonald as a lure to persuade children to eat things that were bad for them. Votes that were scheduled for the meeting became “referendums” on public policy and corporate social responsibility. Against a backdrop of negative shareholder comments, McDonald’s CEO Jim Skinner replied forcefully. First, he made the issues a question of American freedom of choice. He tried to turn the questioning of his positions into a democracy issue. Second, he told investors that they did not have to eat at McDonald’s if they did not want to. He said, “If you don’t like McDonald’s, don’t eat there.” He did not buy into the thinking that McDonald’s had a role to play in the nation’s soaring childhood obesity rates: data from the CDC showed that around 17% of children and adolescents were obese. But the discussions of irate investors did not end with this issue or with Mr. Skinner’s aggressiveness. Marketing to children was high on the agenda as well. A spokesperson for Corporate Accountability International stated that as investors, McDonald’s had to “clean up its act.” “McDonald’s marketing is really
designed to get around parents and get to kids directly. For nearly 50 years, McDonald's has been working to hook kids on unhealthy foods.... Parents are exercising parental responsibility. That alone won't stop the problem." This avenue led to a discussion of Ronald McDonald. Investors believe that McDonald's uses the clown to get around parents even while Jim Skinner says it is up to parents.235

The authors of a Chicago Tribune report asked: Why bully McDonald's at an investor meeting? McDonald’s critics said it was because going after the leader was the best tactic. Then the other smaller chains would follow. McDonald’s executives said it planned to be part of the solution. Saying that McDonald’s offered a great deal of choice did not appear to satisfy the skeptics. The objectors stated that McDonald's said these things to “nutra-wash” the brand. Corporate Accountability International raised these facts to support their point of view: “This year, the corporation debuted oatmeal with the nutritional value of a Snicker's bar, strawberry lemonade that has more sugar than Coca-Cola, and smoothies that rival a medium fries for calories—focusing its promotions for such items on their supposed healthfulness,” says Corporate Accountability International. The anti-McDonald's crowd even had a group of nuns who “asked the company to assess its impact on the childhood obesity epidemic and disclose its lobbying against governmental regulation.” McDonald's investors rejected the proposal. To calm angry shareholders, McDonald’s offered to purchase 1 million cage-free eggs and 1 million eggs raised by enriched-housing methods that allowed hens more freedom of movement.236

A November report in the online version of QSR Magazine articulated the new challenges McDonald's faced with its direct competition. The article focused on the revitalizations of both Burger King and Wendy's. The journalist praised both brands for focusing on selling their products rather than selling silly icons, such as the Funky Chicken and the Redheads, respectively. Now both of the brands were actually giving McDonald's a run for its money. Although the article spent a lot of time on the ad campaigns, the author did point out that finally both Burger King and Wendy’s were managed by “people with their feet on the ground,” including Wendy's new CEO Emil Brolick, who was jettisoned at YUM! And, although the results at Burger King were great, it was true that the new management was not as well known. As the journalist remarked, “Both management teams understand what motivates consumers, and won't be taken in by slick, entertaining-but-not-selling communications. They may not have the budgets, ubiquity and experienced army of marketers that is behind the Golden Arches, but they are finally on what looks like a better competitive path, both strategically and creatively." So the reporter said that in his opinion, “within the next six months we will hear reports of gains by Wendy's and Burger King, and some flattening at McDonald’s.” Partly this remark was based on the fact that McDonald’s abandoned burgers, per se, for a wider, non-burger menu.237

DON THOMPSON

On January 28, 2011, McDonald’s elected Don Thompson to its Board of Directors.238

In October, journalist Kate MacArthur wrote about Mr. Thompson's position as “CEO-in-waiting.” She pointed out that CEO Jim Skinner saw both of his choices for number-2
executive leave. He was watching Don Thompson, who was known for his patience. Those who knew him said that Mr. Thompson would wait no matter how long it took, and for now, he was focused on carrying out his current responsibilities in a quality manner. Mr. Thompson was (at the time) the “heir-apparent.” But (again as reported) he had some areas where he needed to prove he was the right person for the job. Most important was that Mr. Thompson had never been posted outside the U.S., yet two-thirds of McDonald’s sales come from non-U.S. markets. Mr. Thompson was very good at operations, however, and operations are critical at McDonald’s, which does business in every corner of the world. The fact that Mr. Thompson did not have an MBA or any advanced degree was not what observers saw as a handicap at McDonald’s. What they were watching and thinking about was whether Mr. Thompson could continue the stellar performance that the financial community had come to expect. Some of Mr. Thompson’s other challenges were: 1) McDonald’s performance in China was behind it competitors; 2) McDonald’s was pressured for its continuous, persuasive children’s marketing that was seen as being a main contributor to childhood obesity and diabetes; 3) McDonald’s drinks were not innovations. There had not been an innovation from McDonald’s since the Snack Wrap in 2006, and that was considered just a way of getting rid of already in-house ingredients.239

**KEVIN NEWELL**

On the same day as his election to the McDonald’s Board of Directors, Don Thompson, McDonald’s president and COO, promoted Kevin Newell to the role of executive vice president and global chief brand officer, reporting directly to Mr. Thompson, effective February 1, 2011. Mr. Newell was the senior vice president and restaurant support officer (for USA West division). Steve Easterbrook had the previous global chief brand officer position prior to Mr. Easterbrook’s promotion to Europe president. A 20-year McDonald’s veteran, Mr. Newell had worked with advertising agencies Burrell Advertising and Leo Burnett, USA. In 2001, after varying positions within McDonald’s, Mr. Newell was promoted to marketing division officer for the Central Division in the U.S.240

**STEVE EASTERBROOK**

In August, Steve Easterbrook announced his resignation, eight months after Don Thompson was elected to the McDonald’s Board of Directors and Kevin Newell’s promotion. After 18 years, Mr. Easterbrook was leaving McDonald’s on September 30, 2011. He was joining the privately owned Gondola Group. His new position would be CEO of international restaurant brand Pizza Express. McDonald’s immediately elected Doug Goare, current executive vice president of McDonald’s global supply chain and real estate development, as president of McDonald’s Europe, effective October 1, 2011. Mr. Goare continued to report to Don Thompson. With Steve Easterbrook’s leaving, other management changes were put into effect. Jose Armario, current group president of McDonald’s Canada and Latin America, succeeded Doug Goare as executive vice president of global supply chain, real estate development, and franchising. Mr. Armario continued to report to Don Thompson. CEO Jim Skinner once again gave credit to the Plan to Win. He said, “Doug’s and Jose’s appointments reflect our solid succession planning process and the global alignment around McDonald’s business strategy, the Plan to Win.”241
RESTAURANT REIMAGING

At the beginning of July 2011, Don Thompson, in an analyst call, reported on the restaurant reimaging program. He said that McDonald’s good results were in part based on modernization of the stores’ interior and generating faster service via the drive-thru with the introduction of double-lane, side-by-side drive-thrus. With 2,200 double-lane drive-thrus in the U.S., along with handheld order takers, McDonald’s had been increasing drive-thru “throughput.” Mr. Thompson added that modernizing the restaurant experience also included “a new POS system.” In the rollout stage (currently in 10,000 U.S. stores), this new POS system would allow improved accuracy. Don Thompson acknowledged that Europe was the leader in restaurant modernization, using “contactless payment and self-service kiosks.” According to McDonald’s, these European additions had improved and simplified the entire McDonald’s experience. In China, 1,700 dessert kiosks with quick sweet snacks simplified the in-store experience.

The service changes such as the double-lane drive-thrus were not inexpensive. McDonald’s estimated that the cost per restaurant was about $600,000 per store. Franchisees would pay much of the bill. And based on McDonald’s own calculations, it would take about a year or more for franchisees to break even and find out whether the investment would pay out what had been paid into executing these “time-saving” redesigns. As for the new POS system, it would cost $12,000–$17,000 for an upgrade to this newer system, or anywhere from $40,000–$46,000 for a completely new installation. McDonald’s was not clear on whether it would help franchisees with the costs. In the meantime, franchisees had been paying out of their own pockets for more than half of the remodeling costs, including the double-lane drive-thrus.

A guest contributor to the TheStreet.com offered insight into the enormous amount of money McDonald’s was putting into reimaging. The May 2011 story focused on the fact that McDonald’s believed the state of some of its restaurants made it more difficult to compete with Burger King, KFC, as well as Chipotle and Panera Bread. (As newer brands, Chipotle and Panera had newer looking stores. However, KFC and Burger King did have older stores that were in need of renovations.) McDonald’s announced that it would reimagine 14,000 U.S. restaurants. Aside from interior color changes, the new designs showed a dining area as well as double-lane drive-thrus. McDonald’s had to speed up service. The continuous addition of new premium items to the menu board hurt speed. Additionally, McDonald’s said the reimaging would be a catalyst for increasing “average-spend-per-customer visit.” The guest contributor thought these changes could potentially alienate some current customers.

GROWTH

New Stores

CFO Pete Benson told analysts during a report on second-quarter 2011 results that there would be a massive reinvestment of cash into the business—specifically the opening of new restaurants. He said that McDonald’s performance had generated quite a bit of cash. Half of the cash would be allocated to improving established stores, and
half would go to new store openings. He indicated that the goal would be to fix 600 stores by the end of 2011 and that the plan for new store openings would total approximately 1,100 stores. This program for new stores was tentatively identified as 150 in the United States; 225 in Europe; 90-plus in Latin America, and 650 in APMEA (450 in China).245

**New Global Customers and Competition**

The research firm Technomic reported that although global customers were feeling the effects of an uncertain economic landscape, U.S. fast food restaurants were flourishing as customers were "trading down from sit-down family style restaurants." Why? In the U.S., fast food restaurants were familiar, offering a variety of hunger-satisfying, affordable items, so everyone in the family would be happy. However, as Technomic pointed out, the U.S. was a saturated market with fast food stores everywhere. The Technomic data showed that in South America and in China, a newly emerged middle class was behind fast food growth. For example, KFC and Pizza Hut enlarged their presence in China. This required a new perspective, analysts at Technomic said: the thinking about fast food restaurants at U.S. companies would have to change. These companies were becoming increasingly global and were catering to diverse global tastes.246

**Breakfast and Lunch**

In November, journalist Kate MacArthur reported that McDonald’s sales volume had peaked at the breakfast and lunch hours. She reported that to maximize and grow these sales, McDonald’s was in the process of having franchisees connect the new computer system and build the extra drive-thru lanes. McDonald’s thought the changes would enable more capacity during these two critical hours. McDonald’s wanted its franchisees to add more crew members as well as add more expensive sandwiches. The company hoped that the addition of more registers and kitchen prep people, along with premium-priced items, would increase revenues while McDonald’s struggled to generate more sales in the already-at-capacity day-part: in other words, serve more customers more expensive items. Ms. MacArthur quoted Jim Johannesen, executive vice president and chief operating officer of McDonald’s USA, who spoke to the investor community earlier in November. He admitted that although McDonald’s experienced growth across all of its meal segments, it had not grown as much as desired during the “peak” breakfast and lunch hours. Ms. MacArthur noted that perhaps the expectations were too high considering that since the 2002 turnaround began, “average yearly sales across McDonald’s 14,000 U.S. restaurants have increased by 54%, or $875,000, to $2.5 million per restaurant.” Privy to an internal email, the journalist reported that McDonald’s lunch “rush” capacity had been “stalled for five years at 75 orders at the drive-up window and 55 at the counter.”247

**COMPETITION**

**Wendy’s**

In 2011, Wendy’s was part of a merged group called Wendy’s/Arby’s Group Inc. In January 2011, seeing the success of McDonald’s at enlarging breakfast with items and
coffee, Wendy’s decided to roll out a new U.S. and international breakfast program. The chairman of Wendy’s/Arby’s was Nelson Peltz, one of America’s most activist shareholders. “McDonald’s got it right,” Mr. Peltz told stock analysts and investors at the company’s annual investors meeting. Very impressed with the turnaround at McDonald’s and its post-turnaround activities, Mr. Peltz said that after selling its “partner brands,” McDonald’s focused on menu improvement, the McDonald’s brand, and restaurant reimaging. “Since they’ve done that, the stock has gone up over five-fold,” he said. (Mr. Peltz gathered the votes of other shareholders to ensure that Wendy’s sold its “other” brands, losing Tim Hortons, Baja Fresh, Pasta Pomodoro, and Cafe Express. According to Mr. Peltz’s urging, these sales would allow Wendy’s, like McDonald’s, to focus on getting back to basics.) Not beyond being a fast follower, Mr. Peltz said that Wendy’s could imitate the McDonald’s breakfast approach. So he announced that Wendy’s/Arby’s would be selling the Arby’s chain while fixing Wendy’s menu and redesigning Wendy’s stores. The financial community loved this move. Historically, Wendy’s had not been successful with breakfast, having failed twice. However, the president of Wendy’s, David Karam, said the brand now had a winning plan, which it would roll out nationally for 2012 availability. On the new Wendy’s menu board would be “an artisan egg sandwich, Panini-grilled sourdough bread sandwiches, warm oatmeal bars and home-style potatoes.” CEO Roland Smith stated that Wendy’s must go beyond mere trial. He said the breakfast program would “add $140,000 to $150,000 in incremental sales to average unit sales of $1.4 million.” The sale of Arby’s happened at a time when other companies were considering sales of “other” brands. YUM! Brands stated that it was selling fish-based restaurant chain Long John Silver’s and its A&W All-American Food businesses. Analysts said that Nelson Peltz had no interest in buying other brands under the Wendy’s aegis. Mr. Peltz’s Trian Fund Management LP at the time owned 23.5% of Wendy’s/Arby’s Group. It had three board seats.248

By June, Mr. Peltz had his wish: the separation of Wendy’s and Arby’s was announced, allowing Wendy’s/Arby’s Group to focus on Wendy’s without being weighed down by its step-sibling roast beef chain. A private equity firm, Roark Capital Group, stated that it would buy 81.5% of Arby’s at a price of $430 million. There would now be an energized program to revitalize Wendy’s by improving its core products, entering into the breakfast day-part fray and reimaging its stores. A reporter for CNNmoney.com said, “Billionaire hedge fund manager Nelson Peltz, known for taking over and spinning off companies, has been one of Wendy’s largest shareholders and has sat on the Wendy’s/Arby’s Group board since 1993. In 2006, he pushed Wendy’s to spin off the Tim Horton’s coffee chain and sell Baja Fresh. Peltz’s firm, Trian Fund Management, also acquired a 9.7% stake in Domino’s Pizza Inc. last month.”249

The sale of Arby’s appeared to help Wendy’s almost immediately. The Columbus Dispatch near Wendy’s Dublin, Ohio, hometown reported in August (just two months later) that Wendy’s would soon be the number-2 hamburger chain in the U.S. The journalist used a report from Mark Kalinowski, an analyst with Janney Capital Markets, that Wendy’s would surpass Burger King. In his report, Mr. Kalinowski said he saw Wendy’s overtaking “privately held Burger King for the No. 2 market-share position within the limited-service hamburger sector, perhaps as soon as this year.” Kalinowski said he had a “buy” rating on Wendy’s. Specifically, he stated, “Strategically, Burger King seems like it wants to be a McDonald’s clone. But the path that Wendy’s wants to
position itself more is like something between McDonald’s and Panera Bread, which I believe is more realistic and defensible.” He added how impressed he was with Wendy’s innovation pipeline, including its new breakfast focus. Wendy’s management admitted that being a “standalone company again is a big plus for “pursuing its growth strategy, taking the Wendy’s brand into new markets worldwide, building more restaurants in the U.S., revitalizing its menu and continuing the rollout of its breakfast menu.”

Recognizing that it needed to improve its core menu, Wendy’s announced in mid-September that it had “remade” its signature burger. After a critical innovation process that even focused on the pickle, Wendy’s debuted the new Dave’s Hot ‘N Juicy.

Analysts and journalists pointed out that Wendy’s recent gains were not because the chain opened new restaurants. It had become “better” through organic growth.

By the end of the year, Mr. Kalinowski’s prediction came true: Wendy’s was ahead of Burger King. Journalists being journalists, the discussions revolved around questions such as: “Did something go wrong at Burger King? Did Wendy’s do something right? Will Burger King now be left in the dust?” Of course, Burger King had pipeline issues, target audiences issues, and the well-reported difficulties with franchisees. And, there were significant management changes and realignments at Burger King. In the meantime, Denny Lynch, Wendy’s SVP of communications, said in an August interview: “We’re not just improving our ingredients, we’re totally reengineering them. It’s not a product improvement; it’s a total reimaged product. It is part of a brand strategy that has been two years in the making.” The article pointed out that Burger King also had many things going for it, including the organizational changes, the new menu items, and a new marketing strategy. Additionally, 3G Capital dedicated a lot of time to fixing its problems with its franchisee base.

**Burger King**

March brought some interesting news for McDonald’s: its rival Burger King was going through some additional management changes. Burger King’s global chief marketing officer, Natalia Franco, left to go to IHOP. Ms. Franco was global VP of marketing and innovation at Coca-Cola prior to joining Burger King. She was just one of many “high profile marketers” to leave Burger King. (For example, UK marketing director Sarah Power left Burger King, as did Burger King’s most senior European marketer, David Kisilevsky.) Burger King, owned by 3G Capital, a Brazilian company, instituted changes to align the company’s global brand marketing and global operations team. The goal was to create a united global brand marketing and operations function.

In May, private equity firm 3G Capital (it bought Burger King in 2010 for $3.26 billion) made some executive changes. Burger King hired former McDonald’s marketing director Jo Blundell to manage Burger King marketing in the UK and Ireland to compete head-on with McDonald’s. The previous CMO left in January. Ms. Blundell reported directly to UK managing director Andrew Trounce and would work closely with EMEA marketing head, John Schaufelberger. In March, Burger King reorganized global marketing to better align marketing with operations and create a single global brand marketing and operations function.
In addition to reorganizing the marketing and operations functions, in May, Burger King’s management announced that it had “fired” the “King mascot” while stopping the $1 promotions, and it would add new, healthier items. And Burger King indicated that its stores would undergo what The Miami Herald described as a “dramatic” reimaging project. As with McDonald’s makeover, Burger King said it would take time to do this. However, it would jump-start sales that fell over the years. Newly appointed Burger King CEO Bernardo Hees said, “The power of this brand is amazing. What we have to do is build on that strength. Our approach is very pragmatic and straightforward. The turnaround is not going to happen overnight.” He indicated that 3G Capital had three priorities for Burger King: 1) Improve food quality; 2) Improve restaurant ambiance and operations; and 3) Let customers know there is a reason to return to Burger King. To succeed against these priorities, Burger King would refocus marketing to a broader audience and would offer food items for everyone. So the young adult eating machine would no longer be the brand’s target customer. The brand was especially sensitive to the female veto vote. So Burger King tested a wide range of non-beef options and new beverages, as well as a premium line of burgers. Jonathan Muhtar, vice president of global innovation, said, “In the past, there were compromises made with our food for ease of operation and to take costs out of the product. Food quality and taste has to come first. Consumers come to Burger King because we’ve traditionally stood out for having great tasting food.” Burger King reached out to the disgruntled franchisee community by asking a select group to input on the menu innovations. The brand wanted to ensure that the new menu was relevantly differentiated from McDonald’s. However, everyone admitted that there might be some “me-too” products on the menu board.256

**New Burger Restaurants**

New, premium, better-burger restaurants were the highlight of a segment on the national public radio Morning Show, indicating that even in 2011, the “eating-out” experience was undergoing many changes. In April 2011, National Public Radio discussed the appearance of these new hamburger restaurants on the fast-casual eating scene. NPR introduced the segment by saying that McDonald’s may be the biggest burger chain, but there was a “revolution” happening in burgers: Five Guys Burgers and Fries were causing McDonald’s to take notice. Five Guys saw its restaurant as competing not just with McDonald’s, Wendy’s, and Burger King but also with the sit-down, family places Applebee’s and Chili’s. NPR anchor Robert Sachs picked up the conversation with Five Guys CEO, Jerry Murrell. Mr. Sachs started by saying that at a McDonald’s he could order a McDouble for $1 and have it in hand very quickly, while at Five Guys a customer may have to wait five to ten minutes, paying around $4. The response from Five Guys was that their aim was to make a Five Guys burger just like a “mom-and-pop” local joint would do. NPR pointed out that Five Guys already had 700 restaurants in the U.S. Joining the conversation was Darren Tristano, the executive vice president with Technomic. The researcher indicated that the uncertainty of the recession was driving people to seek comfort. One of the most comforting types of comfort is found in eating “comfort foods.” Restaurants like Five Guys bring comfort. And because it is less expensive than a steak dinner, people feel better. Mr. Tristano said that the giant fast food chains were noticing the trend to “better (premium) burgers.” This is why we saw the introduction of Angus burgers and higher quality meat patties on menu boards, albeit at premium prices for fast food chains. The CEO of Elevation Burger (18 stores;
uses only free-range, grass-fed organic beef) indicated that their concept was to “elevate”
the burger above the patties served at most fast food chains.257

The St. Louis Post Dispatch reported in July that burgers were the new focus in casual
and fast food dining. Better burgers were now the big wave in casual dining because
these were “quintessential American classics.” As Technomic reported from its data, The
St. Louis Post Dispatch said the desire for fresh, premium burgers was an American way
to satisfy the need for beef while not feeling guilty: burgers are affordable. Even in St.
Louis, said the newspaper, new premium burger restaurants were appearing
everywhere. This was not just an east coast/west coast fad. To emphasize the point, the
reporter noted that Five Guys already had seven St. Louis locations. Smashburger, a
Denver concept created by Tom Ryan, the former innovation chief at McDonald’s, had
one St. Louis location and planned eleven more very soon. These brands were part of a
bigger wave that included many individual better burger restaurants as well. Mr. Ryan
believed that better burger brands allowed customers to eat delicious, fresh beef
burgers at affordable prices while not trading down on the restaurant experience.
“About half of Smashburger’s customers say if they hadn’t gone to Smashburger, they
would have eaten a burger somewhere else. But the other half say they would have
eaten something else altogether. To me, that says we are putting burgers back in the
choice set for consumers that wasn’t there before.”258

In the interview, Technomic researcher, Darren Tristano, executive vice president of the
food-consulting group, remarked to the reporter why he believed there was such
interest in better burgers. “Traditional burger chains have done a very poor job of
focusing on burgers—as surprising as that may sound. McDonald’s, Burger King and
Wendy’s have expanded breakfast, gone into salads, focused on kids’ meals and now
beverage.” In other words, the burger chains forgot about burgers. Citing Technomic
data again, Mr. Tristano said, “...better burger chains rang up $1.6 billion in sales in
2010, and represent the fastest-growing segment within the fast-growing $20 billion to
$25 billion fast-casual category, which includes the likes of Sunset Hills-based Panera
Bread Co. and Chipotle.” He said, “Technomic saw lots of room for growth, possibly up
to $4 billion.” Why? Because burger eating was expanding: Technomic research
indicated that almost half of current customers reported eating a burger at least once a
week.259

By September, Advertising Age jumped on the better burger bandwagon reporting on
the key brands that were shaking up the burger-eating environment. Repeating the
statements from Technomic on the desire to eat affordable comfort foods, Advertising
Age gave a précis of the top names in better burgers. The magazine highlighted Five
Guys, Smashburger, Umami Burger, Shake Shack, The Counter, and Fatburger.260

Starbucks
After a shaky period of declining sales and image, Howard Schultz’s return to Starbucks
was showing remarkable brand improvement. By May, Advertising Age reported that
Starbucks was now the number-3 restaurant chain, ahead of Burger King and Wendy’s,
with $9.07 billion (+8.7% relative to year ago) in U.S. 2010 sales. The journalist
remarked that aside from the closing of 600 stores, it was the menu innovation that
catapulted Starbucks to its current position. And Starbucks kept its price points even
though these were somewhat higher than the competition. This was considered amazing considering the ongoing recession. Darren Tristano, executive VP at research firm Technomic, said that Starbucks was very good at adding food items “that complement the beverages.” For example, it began offering breakfast sandwiches and oatmeal to go with their coffees. Additionally, Mr. Tristano said Starbucks had been very smart in ensuring that the products they added were, if possible, organic and, at least, not laden with added non-healthful ingredients.261

As for the premium prices, Mr. Tristano said, “…burger chains haven’t been as able to increase prices because of the competitiveness in the burger category. Starbucks has offered some value combo meals—such as a coffee and breakfast-sandwich meal—but nothing on the dollar-menu level fast feeders such as McDonald’s and Burger King offer.” Because Starbucks is known for coffee, it was already positioned well for breakfast growth. At UBS, analyst David Palmer indicated that not only is breakfast as a mealtime growing, coffee is growing. Starbucks was already competing not just with McDonald’s but also with Subway. Subway sells breakfast, too. In 2010, Subway started offering Seattle’s Best coffee. As for being competitive outside of the breakfast meal, Starbucks added snacks in March. The "petite-dessert program" was generating non-breakfast traffic.262
**FINANCIALS**

2011 ended with great results for McDonald’s. The strength of its 2011 results was due to global growth. McDonald’s announced higher revenues, operating income, and earnings per share compared with the prior year. The January report indicated that the key reason for the increased sales was the demand for McDonald’s breakfast, along with coffee and longer hours. McDonald’s noted its strongest U.S. same-store sales since 2006. The results were strong all around the world with U.S. fourth-quarter 2011 same-store sales rising 7.5% year over year, up 7.3% in Europe and plus 6.9% in APMEA.\(^{263}\) *The Wall Street Journal* said that the fourth quarter of strong earnings owed a lot to the extended midnight to 5 AM hours, which were showing double the “growth rate of its lunch and breakfast business.” As reported, here is a sample of the full-year results:

- Global comparable sales up 5.6%, with positive comparable sales across all geographic segments for every quarter
- Consolidated revenues up 12% to a record-high of $27 billion
- Combined operating margin increase of 60 basis points to 31.6%
- Consolidated operating income increase of 145
- Returned $6.0 billion to shareholders through share repurchases and dividends

During 2011, “the U.S. reinforced the Company’s dedication to everyday value, showcased core and new product offerings, increased convenience and further upgraded McDonald’s restaurant portfolio with fresh, modern designs that enhance brand relevance. Asia/Pacific, Middle East and Africa posted strong comparable sales for the quarter and year and delivered double-digit operating income growth for both periods, led by stronger results in many markets. Results across the segment were driven by robust value platforms, brand differentiating conveniences and locally-relevant menu options.”\(^{264}\)

January 2012 reporting highlighted global comparable sales growth of 6.7%. Performance by segment was as follows: U.S. +7.8%, Europe +4.0%, and APMEA +7.3%. In the U.S., comparable sales increased 7.8% due to breakfast, beverages, core items, and newly added LTO (Limited Time Offer) Chicken McBites, bite-sized pieces of premium chicken breast.\(^{265}\)

First-quarter 2012 saw McDonald’s trading higher. The company had another quarter of good results. (Although the share price gained $2.21 to put it at $97.49, McDonald’s stock was down 2.85% year to date.) The good quarter prompted CEO Jim Skinner to say, “McDonald’s continued momentum in first quarter drove market share gains and profitability across all geographic segments. The ongoing strength of McDonald’s results, amidst persistent economic headwinds, is a testament to our customer-focused plans and our proven business model. We remain committed to the global priorities that are most impactful to our customers—evolving our menu, modernizing the customer experience and broadening accessibility to our Brand. As we enter the second-quarter, global comparable sales growth for April is expected to be about 4%.”\(^{266}\)
Second-quarter 2012 net income was lower, with a 4.5% decline. McDonald’s revenue rose to $6.92 billion from $6.91 billion. Yet the financial community expected more. Globally, McDonald’s comparable-store sales increased 3.7%. Due to the estimate miss, shares fell. Additional reporting (online) confirmed that shares fell after the lower-than-expected profit announcement. It was also noted that its 2012 profit would come in lower than the previously announced target. Previously, McDonald’s stated, “its long-term goal was to increase its operating income 6%–7%, excluding currency fluctuations.”

McDonald’s announced that July 2012 global comparable sales were flat, with the U.S. down 0.1%, Europe down 0.6%, and APMEA down 1.5%. McDonald’s cited the weak economy as the reason. McDonald’s pointed to several strong elements, such as the demand for breakfast and the McCafé Frappe beverage line. However, McDonald’s admitted that these initiatives were not impactful enough to make the sales trends positive. Analysts, investors, and observers commented that since Jim Skinner’s retirement announcement, shares of McDonald’s declined more than 10%. In his comments, Mr. Thompson said the missed estimates were due to “persistent economic headwinds.” He forecast that McDonald’s would have positive global comparable sales for July. CEO Don Thompson (Mr. Thompson became CEO in July) said, “We are committed to driving the business over the long-term by executing our proven Plan to Win strategy, despite softer global comparable sales in July. Our leadership team has the experience to effectively manage through the challenging environment and build sales and market share.”

In September, Realmoney.com ran a page in which a contributor commented on McDonald’s stock. The writer noted that in the most recent quarter, second-quarter 2012, McDonald’s reported weaker-than-expected earnings. And July same-store sales were flat relative to expectations. Noting that the declines were due to problems in European and Asian economies, the writer said that McDonald’s stock experienced a 10% correction with this flat performance. He did remark that McDonald’s management was still presenting a positive view. He expected McDonald’s to continue raising its dividends as it has done so for the past ten years.

A page on flyonthewall.com, an online financial site, remarked on the possibility that McDonald’s third-quarter earnings report could be lower. The site noted a report from The Wall Street Journal that quoted a September 14 interview with CNBC, where McDonald’s USA President Jan Fields stated ongoing optimism about sales through the end of the year. She indicated that McDonald’s might be removing poor-selling menu items soon. She also said that McDonald’s used coupons and deals in Germany, France, and other countries due to the poor economies there. The financial paper Barron’s stated that it believed McDonald’s same-store sales numbers suggested a continuing struggle with many issues that were not going away anytime soon, such as economic uncertainty, lower same-store sales, increasing competition in the U.S., and few notable product launches. None of the other Wall Street reports were positive either.

As expected and predicted by flyonthewall.com, in October, McDonald’s posted weaker-than-expected earnings. McDonald’s blamed the global economy. And it blamed the increased quality of the competition. Same-store sales increased 1.9%, showing upbeat
performances in comparable sales across all geographic segments. In the U.S., comparable sales grew 1.2%, while European comparable sales lifted 1.8%. This was remarkable considering the number of guests in Europe had declined. APMEA same-store sales grew 1.4%. In fact, Reuters stated that it was possibly the “worst quarterly restaurant sales growth in nine years.” Reuters indicated that the entrenched and worsening economy was creating a much bleaker landscape that appeared to be slowing demand for hamburgers, salads, and smoothies. Furthermore, Reuters pointed out that previously McDonald’s competition was weakly battling the big brand. But now, brands such as Taco Bell, Wendy’s, and Burger King were fighting back with motivating, quality offers. The competition was more aggressive with new menus, celebrity endorsers, and a focus on low-priced food. “You have a scenario where the overall pie is shrinking, and companies are competing aggressively to take their piece of it,” Sara Senatore, a Bernstein Research analyst, said. CEO Don Thompson said the company was prepared for the tougher battle as customers and economic challenges in each of the company’s major regions affected McDonald’s sales. Mr. Thompson added that it was now clear that, “When the economic crisis began in 2008, few people thought the environment would still be as uncertain and fragile as it is today.”

**PLAN TO WIN**

CEO Jim Skinner discussed 2011 by reinforcing the original Plan to Win. He said, “The ongoing strength of McDonald’s results is rooted in our Plan to Win with a relentless focus on what matters most to our customers. We are enhancing the customer experience—from our menu and service to our value and convenience—while giving more people more reasons to visit McDonald’s more often.” And, Mr. Skinner added, “As we begin 2012, we are intensifying our efforts toward the global priorities that represent our greatest opportunities under the Plan to Win—optimizing and evolving our menu, modernizing the customer experience and broadening accessibility to our Brand.”

**GROWTH**

**Restaurant Locations**

A small blurb in Financial Times in January reported that McDonald’s made close to 60% of its profits from international restaurants. In fact, the paper noted that only a tenth of the new restaurants opened in 2011 were in the U.S.

**China**

Facing ongoing concerns about its food in China and to fight the negative publicity, McDonald’s decided to run an advertising campaign that would explain and emphasize McDonald’s food quality.

**MARKETING**

**Online**

McDonald’s decided to use a new advertising system promoted by Twitter. The system, named “promoted tweets,” was meant for sharing of “positive, happy McDonald’s
McDonald’s Case History

stories.” However, the clickable hashtag was hacked within two hours and instead of happy stories, McDonald’s read about “food poisoning and allegations of low standards of employees and animal welfare.” The number of negative, scary tweets was so large that McDonald’s yanked the hashtag immediately. In Canada, following the U.S., the #McStories campaign had a more positive reception. Called “Our Food. Your Questions,” the social media site took questions from customers, which were then answered by real people in the McDonald’s Canada office. Why was the program working there? Some observers said McDonald’s Canada had more control over the management of the site. This may have meant that negative comments were taken down faster. The word fiasco was used internally to describe the U.S. version of #McStories.

Localization
As part of its focus on localizing products for different areas of the country and for different countries, in April McDonald’s announced that it would offer a limited six-week promotion in France using French ingredients. Called McBaguette, the sandwich was a burger “made from France’s famed Charolais beef and topped with French-made Emmental cheese.”

In March, an online financial website published an article by Sasha Cekeravac called “Why McDonald’s Is Brilliant.” It focused on the author’s view that McDonald’s had a very innovative investment strategy that continued to drive earnings. Published in the financial e newsletter Profit Confidential, Cekeravac said that the continued innovation at McDonald’s was responsible for the rise in stock price beginning in 2003 at $13 and now in 2012 at close to $100. The article cited McDonald’s focus on localization of products such as the McBagette in France that with varying elements appeared in 14 European countries. The author said that McDonald’s had more than twenty different menu possibilities that changed by locale. Additionally, these local products were priced at a slight premium. So, McDonald’s winning investment strategy was creating innovative ideas adapted by local market. Although not a new idea, the author claimed that successful strategies focused on longevity and innovation, which were the only means of increasing corporate earnings.

McRib
Advertising Age revealed an internal memo from September indicating that the October McRib LTO would be moved to the fourth-quarter 2012 calendar. Former franchisee Richard Adams expressed concern that fourth-quarter sales must be under great stress for this to happen. It was extremely unusual to have the calendar changed so close to the event date. Rather than use the McRib for October, Mr. Adams said the new calendar would promote two new, higher priced, premium items. Observers said that it was possible the McRib would save the fourth quarter. However, they pointed out that in February of 2012 McDonald’s experienced an 11% sales increase: what would the brand do to fix that if sales in 2013 were falling?

CHALLENGES
The online Twitter clickable hashtag #McStories was not supposed to be a horror story. It was actually supposed to be a companion site to the McDonald’s social media site #MeetTheFarmers. #MeetTheFarmers showed videos showcasing the McDonald’s
farmers and ranchers who supplied McDonald's with its ingredients. The idea was to build authenticity among Millennials using Twitter. The online videos were supposed to show that McDonald’s used real food from real farmers who grew and real ranchers who bred real foods. The #McStories site was where watchers of the videos could continue the conversation about the goodness of McDonald’s foods. But it all went wrong. Instead of sharing good stories, the site became a PR nightmare of people venting about McDonald’s food, service, atmosphere, and just about everything else. McDonald’s protested that the press overemphasized the volume of negative comments. However, the negative commentary was reflective of the ongoing, long-standing, seemingly ingrained negative perception of McDonald’s, its food, and its role in the ever-growing dilemma of obesity and juvenile diabetes. Even McDonald’s admitted that its practices and its foods had been the target of the “food police” for many years. However, the Internet allowed for quicker, more broad-based dissemination of the perceptions. Critics believed that McDonald’s refused to accept any role in the physical crises affecting children. They said that McDonald’s used aggressive marketing to children and that children then used that information to coerce their parents, such as the Happy Meal with toy and Ronald McDonald. Additionally, the “pink slime” issue surrounding the composition of the hamburger patty caused McDonald’s to agree to stop using this procedure in its manufacturing. This only reinforced the fact that McDonald’s was not honest with its customers. The use of the Twitter sites was supposed to be one of the major salvos in the fight against these negative perceptions.282

Global CMO Neil Golden admitted that the perceptions of McDonald’s foods among customers and critics were “not where we want it to be.” The company believed that reimaged restaurants were a way to change food quality perceptions. Using “moms who blog” was yet one more way to steer perceptions away from the negative. Jan Fields, the president of McDonald’s U.S., was a big promoter of the blogger-moms strategy. She was open to speaking with McDonald’s moms, especially those with blogs who could alter parental perceptions. For McDonald’s, blogger moms were influencers. To the outside detractors, blogger moms were PR hacks who “spun” the news. McDonald’s did compensate these blogger moms not only monetarily (as much as U.S. $20,000) but also with an assortment of perks. It remained to be seen if any of these online approaches would work to alter the way people perceived the brand.283

DON THOMPSON

In March, the McDonald’s Board of Directors announced that Don Thompson would succeed Jim Skinner, who would retire on July 1. Mr. Thompson would become McDonald’s first Afro-American chief executive. In their praise of Jim Skinner, the Board of Directors said that Mr. Skinner had “an unwavering focus on the Plan to Win.” The Board acknowledged that Mr. Skinner led McDonald’s through nine years of increased global sales.284

STEVE EASTERBROOK

Shortly after Don Thompson was elected to the McDonald’s Board of Directors and became the number-two person in the organization, Steve Easterbrook left McDonald’s
for Pizza Express. In August, not even a year after leaving McDonald’s for the CEO role at Pizza Express, Steve Easterbrook left to become CEO of noodle chain Wagamama. Wagamama announced that it would be significantly expanding its international footprint. While CEO of Pizza Express, Mr. Easterbrook rebranded the restaurant chain. Copying the Starbucks approach of promoting their baristas, Mr. Easterbrook started promoting the Pizza Express “pizzaiolos.”

JAN FIELDS

In November, McDonald’s fired Jan Fields, McDonald’s USA president. Chicago Business Journal writer Lewis Lazare wrote that the lackluster sales in the U.S. and the brand’s weakening relative to competition were what doomed Ms. Fields. (Taco Bell, Wendy’s, and Burger King had recently woken up and become highly aggressive competitors with many compelling, high-quality new food products.) Mr. Lazare said the latest figures showed same-store sales facing a 2.2% decline, the first U.S. decline since 2003. Ms. Fields worked her way up the ladder over 35 years. She was responsible for the “blogger moms” initiative designed to improve customer perceptions of McDonald’s among mothers. Insiders said that her competency was irrelevant as those above her looked for someone to shoulder the blame for the declining sales. Additionally, sources told Mr. Lazare that the recently installed global chief operating officer, Tim Fenton, might have considered it was time for new management for the U.S. Ms. Fields happened to have the COO job when the English Pub Burger failed and as McDonald’s had to return to the “Dollar Menu” when the more expensive “Extra Value Menu” did not attract customers. Interestingly, Jan Fields had a long friendship and many years of collaborative working with CEO Don Thompson. (Ms. Fields had previously reported to Mr. Thompson when she was the USA chief operating officer and Thompson was president of McDonald’s USA. McDonald’s promoted her to his job when he became COO of McDonald’s.) Jeff Stratton, the global chief restaurant officer, would succeed Ms. Fields on December 1, giving her approximately two weeks to clear out.

REIMAGING

A January article by Emily Bryson York discussed in detail the McDonald’s reimagining project. The reimagining of restaurants was a huge, multibillion-dollar undertaking. (McDonald’s growth plans indicated that in 2012 the company would open 1,300 new restaurants. And, McDonald’s stated intention was to redo 2,400 restaurants, spending about $2.9 billion.) Ms. Bryson York reported that McDonald’s believed the global renovations would stimulate sales, boost traffic, and change overall customer-perceived brand image. In fact, McDonald’s was so confident that it told franchisees a renovated store would “increase sales by 6% to 7% immediately upon opening the remodeled doors, regardless of location.” McDonald’s added that the customer-perceived brand image would change once a specific locale had anywhere from 40% to 60% reimaged restaurants. McDonald’s stated that the more upscale look of the new designs would be in sync with the new premium products, such as the Angus burger and the specialized premium beverages. A remodeling was not cheap. Franchisees learned that a renovation could cost on average U.S. $600,000. McDonald’s said it would pay for 40%–45% of the cost for each restaurant reimaged. Still, if a franchisee owned three stores, the cost could be over $1 million at the low end. One franchisee said that her remodels were
ranging in cost between U.S. $350,000 to U.S. $700,000 per store. One of the exterior redesigns was the double-lane drive-thru to speed up service.287

**FOOD**

**Chicken McBites**
During the last week of January, McDonald's offered its Chicken McBites as a Limited Time Offer nationwide. These were “pop-able” chicken pieces with seasoned breading accompanied by a choice of seven dipping sauces. There were also three sizes of Chicken McBites: a $1 snack size, regular, and “shareable.” The launch was supported by a social media campaign.288

**Happy Meal**
In addition to the Chicken McBites introduction, McDonald's began 2012 with a change to the Happy Meal components. First offered in the Philadelphia region, the new Happy Meal with an “automatic” serving of Apple Slices would roll out nationally in March. The Apple slices came in two sizes: ¼ cup or ½ cup serving. The meal would also include a smaller 1.1-ounce serving of French fries. The choice of main meal would be a hamburger, a cheeseburger, or Chicken McNuggets. Happy Meal offered a choice of beverage: 1% milk or fat-free chocolate milk. If parents preferred no fries, there was the option of an additional bag of Apple slices. McDonald's said this reconfiguration of Happy Meal was part of an ongoing menu evolution encouraging children to eat more fresh produce. The new Happy Meal was the latest example of McDonald's “ongoing menu evolution.” By adding fruit in every Happy Meal, McDonald's hoped to help children meet the recommended daily consumption of produce. In Canada, the offer differed slightly and had a strawberry yogurt option instead of fries or Apple Slices.289
FRED L. TURNER

2013 began with sad news. Early in January, Fred Turner, Ray Kroc’s right-hand person and the organizational whiz to Mr. Kroc’s vision, died. Mr. Turner was 80 years old and held the title of McDonald’s honorary chairman and former CEO. Mr. Turner was heralded as the architect of the “quality, service, and cleanliness” restaurant operations model (QSC) that launched McDonald’s global presence and unparalleled industry leadership. Fred Turner was one of Ray Kroc’s first employees in 1956. His operational and logistical mind built the McDonald’s system. CEO Don Thompson said, “For more than fifty years, he (Fred) was dedicated to operations excellence, training and developing a great tasting menu. He worked side by side with Ray to open clean, welcoming restaurants where families could enjoy a high quality meal and a special time together. Our more than 34,000 restaurants around the world serve as a testament to Fred’s business genius and his strong commitment to our customers. Fred was a dedicated family man, a savvy business leader, and a loyal friend. We will miss him tremendously.” Press releases noted that while working at McDonald’s, Fred Turner was president and chief administrative officer in 1968, then McDonald’s president and CEO in 1974. In 1977, he was chairman and CEO, holding that position until 1987. He remained chairman of the board until 1990 when he was named senior chairman. He continued in that role until 2004 when he retired and became honorary chairman.

During the 2002–2005 turnaround, Fred Turner was a passionate participant ensuring that the core menu items be restored to their quality platforms, rejecting the years of incremental product quality degradation. McDonald’s stated that one of Mr. Turner’s most notable achievements was expansion in the U.S. and around the world. While under Mr. Turner’s leadership, “McDonald’s more than tripled the number of restaurants and opened dozens of new markets worldwide. He loved the restaurant business and loved working with crewmembers. In 1958, he put his ideas and learning into a compendium called the Operations and Training Manual that still continues as the restaurant operations handbook. Following this, in 1961, he led the development of Hamburger University, a “rigorous training curriculum for managers, franchisees and company employees.” In addition to sitting on Boards, he devoted himself to charity and was “a co-founder and life trustee of Ronald McDonald House Charities, dedicated to serving families of critically ill children and providing care to children in underserved communities.”

FINANCIALS

In January 2013, McDonald’s reported its fourth-quarter 2012 earnings, which exceeded expectations. And, adding to this positive news, McDonald’s reported that same-store sales exceeded fourth-quarter expectations. Moreover, for December 2012, results were in line with analysts’ estimates. McDonald’s noted that there was an unexpected slow month for same-store sales in October 2012. However, that was an anomaly because November was strong. The analyst community said that the great results were due to the reintroduction of the McRib sandwich. Don Thompson, CEO, remarked, “Throughout 2012, we concentrated our efforts behind the global priorities...”
that represent our greatest opportunities under the Plan to Win—optimizing our menu, modernizing the customer experience and broadening accessibility to our Brand. McDonald’s continued to grow by remaining focused on what matters most to our customers, although our results reflect the impact of the challenging global operating, economic and competitive environment. Our overall performance is a testament to the underlying strength of our business and our dedicated System of franchisees, suppliers and employees who continue to drive toward our mission to become our customers’ favorite place and way to eat and drink.292

January 2013 results reflected a 1.9% decline in comparable sales. CEO Don Thompson said the landscape was “challenging.” However, he did express his view that McDonald’s was too strong to collapse in the face of this challenge. In the USA, same-store sales lifted 0.9%. McDonald’s said this was due to the new Grilled Onion Cheddar burger and the Dollar Menu. Also, the reimaged restaurants and the efforts behind “convenience” made for an enhanced brand experience that led to increased sales. European same-store sales fell 2.1%. The APMEA region had same-store sales decline by 9.5%.293

First-quarter 2013 results announced in April showed a profit that fell short of expectations. McDonald’s said it was due to sales at U.S. restaurants where the fall was 1.2%. McDonald’s also reported that global comparable sales showed weakness. Specifically, McDonald’s noted that global comparable sales were down 1% in the first quarter. McDonald’s said March U.S. same-store sales U.S. fell 1.2%. CEO Don Thompson mentioned again that the brand was fighting in a challenging environment.294

Second-quarter earnings announced in July were a disappointment as well, missing the analyst estimates. McDonald’s continued to note that it faced a trying (CEO Don Thompson frequently said “challenging”) economic landscape, affecting customers in all regions. McDonald’s made it clear that it expected earnings to be flat over the remainder of the year. Second-quarter same-store sales increased 1% globally. (Analysts were looking for 1.5%) The U.S. region was the only one with a positive same-store sales performance with an increase of 1%. Europe and APMEA both had same-store sales declines. McDonald’s indicated that although the rise was only 1% in the U.S., this “outpaced” the competition. However, analysts were skeptical because they understood the small rise was due almost entirely to promotional, deal activity.295

Although there was a positive blip in third-quarter earnings, the numbers missed slightly on revenue figures. The company’s third-quarter revenue totaled $7.32 billion, below expectations for revenue of $7.34 billion. McDonald’s noted that comparable sales increased 0.7%, and the expectation was 0.9%. Shares dropped 1.9%.296

**SERVICE**

In 2013, there was a serious decline in McDonald’s service quality. Not only did the brand face an earnings slide, but also McDonald’s customers were grumbling about frequent discourteous and unfriendly service. Customer complaints increased, especially about rude employees. An internal webcast addressed the poor service issue head-on. Executives reported that, “one in five customer complaints was related to friendliness issues.” The number of “unfriendly” complaints increased every day. The top complaint was “rude or unprofessional employees.” Executives added that “speed of
service” complaints had significant increases for at least six months. Jeff Stratton, who took over from Jan Fields in December 2012, put a lot of effort into attempting to fix the service problem, franchisees were quoted as saying. To understand the depth of the problem, the industry trade press, *QSR Magazine*, ran a survey each year on drive-thru. (McDonald’s installed double-lane drive-thrus to speed up service as part of the reimaging program.) Last year's survey indicated “other chains have consistently outperformed McDonald’s.” This study showed that “the average service time at the McDonald’s drive-thru was 188.83 seconds compared with 129.75 for industry leader Wendy’s. Chick-fil-A had the top friendliness rankings. Out of 7 chains in the study, McDonald’s was the second to last in the “very friendly” ranking, just above Burger King.”

**MARKETING**

**Advertising Agencies**

By November, the unhappy sales reports forced McDonald’s to review all brand-based actions, including a review of the advertising agencies. *Advertising Age* reported that McDonald’s was becoming increasingly concerned that its agencies were not doing enough to save the brand even with its $1.4 billion in U.S. marketing spending. At the November analyst conference, CEO Don Thompson said the company was “leaning” on its agencies to do more to increase sales. Mark Kalinowski, the Janney analyst who also ran the franchisee survey and therefore had insight into the mood of the franchisee community, said that some of the agencies’ output over the past several quarters had not been very well received and had not generated sales. Mr. Kalinowski did say McDonald’s had some other challenges, but advertising was certainly on the list and in need of addressing. He indicated that from his perspective, this could include personnel changes as well as agency changes. A McDonald’s spokesperson denied there were any agency changes on the agenda. Franchisees put part of the blame on the marketing calendar and the difficulty that multiple menu item introductions were causing. They felt the number of items introduced one right after another contributed to the customer service ratings that were well below acceptable. McDonald’s executives admitted that the introduction of McWraps, blueberry-pomegranate smoothies, Egg White Delight McMuffins, and its new line of Quarter Pounders between March and July was too much too soon, making operations complicated. This exacerbated customer problems, most particularly slow service.

**Neil Golden**

In September, with sales still sagging and few ideas helping to generate sales, McDonald’s fired Neil Golden, the chief marketing officer for McDonald’s USA since 2008. The code word was retired. Mr. Golden was not able to change the trajectory of the brand with his “deal, price promotions, convenience” message. One analyst said that finally McDonald’s may be taking a harder look at marketing because clearly what had been going on was unsatisfactory. Although analysts, investors, and observers recognized the uncertain economic environment with its emergence of a new frugality, it was clear that McDonald’s had several marketing missteps under Mr. Golden. First, the pipeline was empty in 2012. There was some hope that new ideas under test might address this. Second, Dollar Menu was compromised. It had been a major driver for
restaurant traffic, but somehow McDonald’s lost its way with Dollar Menu and “strayed too far” from its core reason for being. Third, Mr. Golden was behind the introduction of the Angus Burger, which was a disaster eventually discontinued. Fourth, the franchisee community saw the reliance on deals as debasing the brand and deflating their margins. They also believed that the constant introduction of varieties, most particularly in beverages, complicated service and slowed order-to-delivery to unacceptable levels. They were angry because the satisfaction surveys put McDonald’s in the lower ranks. This was not the “marketing excellence” they were used to coming out of the 2002–2005 turnaround.299

**FOOD**

**Fish McBites**
In February 2011, Southern California restaurants offered a limited time offer (LTO), of a new and innovative fish item called Fish McBites. It would be available until March. McDonald’s press announcement described Fish McBites as “crispy, tender pieces of poppable flaky wild-caught Alaska Pollock responsibly-sourced from a Marine Stewardship Council (MSC) certified sustainable fishery.” The item came in a package for eating on the go and was available in three sizes: Snack (3 oz.), Regular (5 oz.), and Shareable (10 oz.). It was also an option for inclusion in a Happy Meal. Southern California franchisees cited research indicating that fish was an item parents wanted to see on the McDonald’s menu board. Chef “Dan” Coudreaut saw the item as a great way to gain the commitment of parents by offering an item they could feel good about feeding their children. McDonald’s also believed that it was a very good way to highlight its continuing commitment to sustainable fishing and sourcing.300

**McWrap**
In July, *Bloomberg Businessweek* ran a long Susan Berfield story on the McWrap and its importance to McDonald’s. McWrap was more than just another sandwich offering: it was a sandwich that offered fresh vegetables. The McWrap, which was made to order, was designed to grab the attention of people who were abandoning McDonald’s for fresher options perceived to be healthier, such as Five Guys, Chipotle, and Subway. McWrap also had the role of attracting the Millennial cohort, the 18–32 year olds who were choosing to go elsewhere. Ms. Berfield referred to an article in *Advertising Age*; having obtained an internal memo, *Advertising Age* noted the serious problem that McDonald’s was having with this huge group of potential customers. *Advertising Age* said, “McDonald’s didn’t even rank in the Millennial generation’s top 10 favorite restaurant chains.” The internal memo stated that the McWrap was the way to the hearts, minds, and stomachs of Millennials: it was McDonald’s “Subway buster,” said the memo’s author. Ms. Berfield singled out the new head chef, Dan Coudreaut, as the inventor and visionary behind the McWrap and other new ideas. Chef Dan, as he was called, was lauded on several pages of the article. Just a week later, Mr. Coudreaut was a guest on NPR, where he described the addition of cucumber in the McWrap, a new ingredient for McDonald’s, as “magical.” Ms. Berfield followed him on NPR and discussed her article in more detail. She reminded the interviewer that McDonald’s believed that having choice on the menu was great even if people did not order the healthier, fresher item. And she said that the success of McWrap would depend on the
McDonald's Case History

drive-thru. McDonald's had many items that were easier and faster to assemble. The McWrap took about 60 seconds at best.301

Breakfast Sandwich: Egg White McMuffin
In April, McDonald’s announced a new breakfast McMuffin: the new Egg White Delight McMuffin. Described as a wholesome option, the new sandwich was an example of McDonald’s “Commitments to Offer Improved Nutrition Choices,” announced in 2011. The Egg White McMuffin has 250 calories. The original Egg McMuffin, the Fruit & Maple Oatmeal, and McDonald’s Fruit N’ Yogurt Parfait are all under 300 calories. McDonald’s introduced the new sandwich using an event with Olympic star Gabrielle Douglas in New York City.302

“From Fast Food to Good Food Served Fast.”
The press was curious in September when an announcement came from McDonald’s regarding a culinary event at a fancy New York City restaurant. The event featured three well-known, award-winning chefs. In addition, Greg Watson, SVP of menu innovation, and Dan Coudreaut, executive chef and VP of culinary innovation, were attending. The chefs would create some “unexpected” recipes and transform McDonald’s ingredients into 5-star meals. Intrigued readers of the press release wondered if this were a sign that McDonald’s was changing its stripes. Reviewing the past year, outsiders noted that global sales fell for the first time in nine years. There were management changes, not the least of which was the firing of Jan Fields, U.S. president, and the “retirement” of marketing chief Neil Golden. There were failed initiatives such as Angus Burger and problems with the Dollar Menu. McDonald’s also faced a different eating-out landscape, not just with Chipotle and Panera Bread but with the increased strength of Wendy’s and Burger King as well as the growth of the “better burger” brands that had been doing well in a shaky economic world. With varied, quality options to choose from, McDonald's was losing interest among Millennials. Further, what these various competitors had in common was a focus on the quality of the food for its core menus. As with 2002, the press wondered in headlines whether there were problems at McDonald’s that could not be solved with yet another coffee beverage or smoothie.303

Millennial Burgers: New Quarter Pounders
McDonald’s introduced a new series of Quarter Pounder burgers to attract Millennials who were flocking to fast food competitors and also to better burger restaurants. In place of Neil Golden’s failed Angus Third Pounders, McDonald’s now offered a new expanded series of Quarter Pounder burgers.304

Emily Bryson York of the Chicago Tribune reported that the new Quarter Pounder burgers would be called Royales with Cheese Quarter Pounders and would come in three flavors: bacon and cheddar; a more basic lettuce, tomato, and onion; and a spicy version with habañero ranch sauce. She noted as well that McDonald’s said it would change the type of bacon it currently used for a thicker-cut Applewood smoked bacon. The thicker bacon would provide offer a sandwich with more texture than usual McDonald’s burgers. Neil Golden, CMO, stated with some apparent surprise that customers seemed to want a higher quality offering from McDonald’s. The new bacon would hopefully deliver that and meet customer quality expectations. Ms. Bryson York wondered in her column if the only reason McDonald’s would replace Third Pounders
with Quarter Pounders was cost. But McDonald’s said no: it was just about getting back to basics. Spokesperson Danya Proud said that sales increased when McDonald’s marketed its core items. So why not give customers a new Quarter Pounder that had not been changed in 40 years.305

FRANCHISEES

April brought news of franchisee frustration. Emily Bryson York reported that the McDonald’s franchisees were at their wits’ end due to the now strong emphasis on the Dollar Menu; the increasing quality and aggressiveness of the competition; and the downward spiral of the brand. According to the Janney Capital Markets survey, McDonald’s franchisees were extremely concerned about the brand’s same-store sales results. The researchers said that franchisees were vocally bitter and angry, especially in relation to the Dollar Menu. One franchisee was distraught over the “couponing like there is no tomorrow.” Another complained about the fact that the menu was not being sold at its needed price but sold with deals, destroying any possible franchisee profitability. Although the franchisees said the McWrap was popular, it was truly “an operational nightmare” that slowed down service, generating customer complaints about speed. McDonald’s declined to comment. With recession behaviors still holding with customers, sources said that McDonald’s U.S. president Jeff Stratton focused only on deals and Dollar Menu.306

The franchisee survey in July provided a clear picture of franchisee emotions regarding the brand’s performance and its actions. As described by Emily Bryson York, franchisees worried about the next earnings report as they recognized the much-improved offerings and more assertive competitive behaviors from Burger King and Wendy’s. For McDonald’s, there would be more additional promotions during the summer months. Franchisees believed discounting was bad for the brand and bad for their bottom line. They said the brand lacked creative thinking and only seemed to focus on deals and discounting to drive traffic. On the five-point scale, McDonald’s franchisees rated McDonald’s a 2.39, between “fair” and “good” relative to how they felt McDonald’s would perform over the next six months. This compared to a 2.40 from three months ago and below the norm of 3.0.307

DOLLAR MENU

In March, Ms. Bryson York, who followed the fast food category, interviewed a McDonald’s customer who was on a lunch break. The man ordered two McDouble cheeseburgers, fries, and a large Coke. He said that the $1 price was a real motivator even though price was not the only factor. He told Ms. Bryson York, “I noticed that Wendy’s (burgers) went to $1.19. And I noticed I went there less often.” McDonald’s knows that it cannot lose these customers, so it is in the middle of a strong marketing push behind the Dollar Menu. As Ms. Bryson York noted: “Dollar Menu is a ten-year-old feature that became the linchpin of the last turnaround in its U.S. business.” McDonald’s wants to keep the Dollar Menu as a compelling factor for customers to choose McDonald’s in these trying economic times. The analyst community believed that supporting the Dollar Menu was slowing the more rapid decline the brand had been facing. And not only were customers more frugal, they now had two revitalized competitors offering both value and quality: Burger King and Wendy’s. Neil Golden,
CMO, always supported McDonald's being a low-price option. He said customers might be slightly “unsettled” at this point in time, so offering great low prices was what McDonald's must do. Of course, if the draw was Dollar Menu, the hope was that a customer would see another more premium product on the menu and buy that instead or in addition. Pushing Dollar Menu also gave McDonald's some breathing room because there were new products being introduced in 2013. Everyone agreed that 2012 was a year with a relatively empty pipeline and this impacted sales, leading to sales decline. Dollar Menu was perceived internally as a “traffic driver.” One franchisee said that Dollar Menu did have a caché as, “There really is magic in the dollar price point. When you go away from it, it’s harder to communicate, because it’s no longer as simple as saying we’ve got Dollar Menu every day.”

Observers noted that demand for items off Dollar Menu was slowing. For a while, Dollar Menu helped McDonald’s be “recession resistant,” as former CEO Jim Skinner would always say. However, it appeared that Dollar Menu was not that compelling, and its less frequent use might be affecting McDonald’s earnings. (July reports noted that McDonald’s stock was down 9%.) As pundits reviewed the brand, one focus was coming into perspective: McDonald’s core customer base might not be eating out in the same way as they did previously. Frugality might be an issue with a group that had been caught in the down draft of the recession. Instead of being able to eat out, the more frugal choice was eating something at home. And McDonald's menu was skewed between newer, more interesting items that were premium priced and Dollar Menu, which had fewer items. McDonald's did not put much effort into marketing the core products.

Those reading between the lines were saying that CEO Don Thompson’s remarks at earnings and analyst calls were signals that things were not going well for McDonald’s customers. For example, “We don’t have as much pricing power. And as long as inflationary rates are lower and GDP growth and consumer discretionary spending is softer we’re not going to move forward and take a lot of price because it would mean guest count erosion longer term.” One journalist “decoded” these statements as indications that McDonald’s could not raise prices anymore. The result would be even less traffic and decreased guest visits. For those who could afford a little bit more, Chipotle and Panera were more popular options. McDonald’s continued to say during Jim Skinner’s tenure that the brand was doing well because “our customer base can trade down to cheaper items. Now, observers say those customers can no longer afford to trade down and are eating in.”

In October, the press announced that McDonald’s would end Dollar Menu and replace it with something called “Dollar Menu & More.” At the time, Dollar Menu accounted for approximately 14% of sales. Dollar Menu & More would include items costing more than $1. McDonald's said that the “More” part of the menu would replace the Extra Value Menu. On the Extra Value Menu there were $2 items, but these did not generate sales. After the demise of Extra Value Menu, McDonald’s began to aggressively market Dollar Menu. Interestingly and sadly, Neil Golden actually said that he and McDonald’s were surprised at the brand attachment and power that Dollar Menu had with customers. McDonald’s said its goal was to take advantage of the demand for Dollar Menu while hoping customers would buy the pricier items. The McDouble and the
McChicken sandwiches would remain as $1 items. The “More” part of the menu might possibly include a 20-piece McNuggets and some of McDonald’s deluxe sandwiches. The Extra Value Menu was a confusing option, not generating the hoped-for sales. Prior to his “retirement” from his job as CMO, Neil Golden said, “We didn’t deliver on simplicity and clarity” in selling the Extra Value Menu. McDonald’s indicated that Dollar Menu & More had already been test-marketed in five U.S. cities. The press reported that Dollar Menu & More from the five test markets had three price points: $1, $2, and $5 or “shareable” items such as 20-piece McNuggets. However, McDonald’s did test an alternative pricing scheme with prices of $1, $1.79, and $4.99. The menu included more chicken items, as well as versions of its burgers that came with an extra beef patty or toppings such as bacon. As reported in 2012, commodity costs did cause McDonald’s to change some of its offerings on Dollar Menu because it became impossible for franchisees to hold their margins and make money. Originally, Dollar Menu had a core item called the Big ’N Tasty, made with a quarter pound beef patty. The heartiest burger on Dollar Menu in 2013 was the McDouble that took the place of the Double Cheeseburger. (Cheese costs killed the Double Cheeseburger’s place on Dollar Menu.) With Dollar Menu & More, the price of the McDouble would rise to $1.19 in some places.311
YEAR 2014

FINANCIALS
January 2014 reporting for December 2013 earnings showed that McDonald’s did not meet analyst expectations once again. With fewer customers visiting its restaurants quarterly sales declined 0.1% for the fourth quarter. McDonald’s blamed the U.S. weather. Observers wrote that the negative results created a pattern: five consecutive quarters of weakness. And these observers said the reasons for the declines were “self-inflicted.” Although the brand experienced slower service and other operational issues due to menu complexity along with diminishing traffic, analysts reported that McDonald’s did not seem prepared for the fierceness and the quality of the competition, most specifically Wendy’s and Burger King. The Chicago Tribune wrote that CEO Don Thompson did not seem to have the right strategies for making progress as it appeared that nothing he had implemented (menu changes, organizational changes, for example) had generated positive results. The switch from Dollar Menu to the new Dollar Menu & More was not generating sales either. Analysts did not see his tenure as having much time left. One analyst predicted that Mr. Thompson had until December of this year to pull it together and change the brand’s trajectory. Analysts concerns were that senior management had said many times that they are paring the menu to ease the complexity, which would lead to faster service. However, McDonald’s management continued to say that they were testing customizable meals and introducing new beverages and sandwiches that took more time to deliver. As for January sales, analysts said whatever McDonald’s turned out would look good compared to a year ago, so these results might mislead stakeholders as to the health of the business.

First-quarter 2014 was not a happy quarter either. McDonald’s net income declined by 5%, and total sales increased by 1%. Global comparable sales rose 0.5%, which analysts said was due to a higher average check. The APMEA and U.S. experienced “negative” traffic in the first quarter.

Happiness did not extend into second-quarter results. In July, the reporting indicated that profit at McDonald’s fell more than expected due in main part to the sagging results in the U.S., which accounted for about 30% of revenue. However, Europe noted declines as well. As observed in previous monthly and quarterly reporting, McDonald’s seemed to be ill prepared for the quality competition from Wendy’s and Burger King, and now Chick-fil-A was siphoning off customers from McDonald’s.

In August, McDonald’s reported on the food quality scandal in China after an undercover reporter shot video of Shanghai Husi Food Company using expired meat while changing expiration dates on packaging. McDonald’s said that its restaurants had pulled meat items from the menus while it focused on getting to the bottom of the problems. Sales were impacted, as well as trust in the brand. Shanghai Husi Food Company was part of a long-time McDonald’s supplier, OSI Group. McDonald’s warned of future results as the scandal was affecting traffic not only at McDonald’s but at other western rivals such as KFC as well.
September announcements were depressing; McDonald’s reported that it suffered its worst same-store sales decline in more than 10 years. The company blamed weakened U.S. traffic and the scandal in China that it described as a “health scare.” August sales declined 3.7%, a number that exceeded the negative 3.1% analysts estimated. In the U.S., McDonald’s guest traffic declines were so acute that the brand resorted to heavy emphasis on deals, discounts, and limited time offers (LTOs) to rejuvenate the brand. Apparently, the deal mentality did not generate profit as U.S. same-store sales fell 2.8%—a fourth straight monthly decline. APMEA same-store sales fell 14.5%, a much larger drop than analyst expectations of –10%. The drop in APMEA was due to the food quality issue that spilled over from China to Japan, where customers assumed the brand had bad Japanese food-quality practices even if it was not true.316

McDonald’s third-quarter earnings nosedived by 30%, due in part to the food-quality issue in China and a series of challenges that were perceived to be bigger and more difficult than earlier thought. CEO Don Thompson promised significant changes, acknowledging that McDonald’s continued to lose relevance with customers. He also promised to fix the menu issues. Mr. Thompson appeared to analysts as someone who was not able to harness the whirlwind of daunting issues facing the brand in the US and abroad. Mr. Thompson continued to state that the challenges needed significant strategies, yet none of these fixes were detailed for the investor community. The current approach of more staff at rush hours and the emphasis on the breakfast day part with coffees was just not attracting customers, especially Millennials. McDonald’s had also been rehiring ex-McDonald’s executives in the hopes of rekindling past successes. He admitted that McDonald’s expected October to deliver negative same-store sales also.317

In November, as the year of depressed sales continued, McDonald’s announced that global sales declined 0.5% in October. This beat analysts’ estimates of a 2.2% decline. October’s drop-off followed a 3.8% decline in September same-store sales. The APMEA region experienced the steepest drop in same-store sales at –4.2%. The good news here was that the analyst community thought the decline would be 6.1%. U.S. reports focused on the complex menu with its complicated preparations, both of which slowed service times. Additionally, U.S. sales suffered from the defections of the core customer, young adult base. U.S. same-store sales dropped 1% in the U.S. in October, but again this was ahead of the expectation that sales would fall 1.9%. Apparently analyst opinions were much more pessimistic that reality.318

The December reporting showed McDonald’s steepest monthly decline in U.S. same-store sales in more than 14 years. Analysts felt a sense of urgency and looked for McDonald’s to behave in an urgent manner. For analysts and shareholders, fixing the US was the most important, most needed-now issue for CEO Don Thompson. All divisions stated that the November sales declines were more acute than expected. However, in the U.S., the downward trend was the worst, with sales declining 4.6%—far greater than the 1.9% the financial community projected. November’s drop was more than September’s 4.1% sales decline, which was McDonald’s largest decline since early 2003. McDonald’s stated that the competitive environment was to blame. Management indicated that there were plans for improved marketing, menu, and organizational structure. Many of the changes McDonald’s had made to be competitive were difficult for operations, slowing service. Increasingly, the menu additions confused customers.
CEO Don Thompson said that McDonald’s had made many changes already, including a reorganization of senior executives. He also said that McDonald’s was planning a number of initiatives aimed at improving results across geographies, for near-term and long-term performance. A part of this was an initiative called the McDonald’s Experience of the Future. Previously mentioned in October, Mr. Thompson stated that this would “better deliver against consumers’ evolving expectations for more choice, convenience and value.” APMEA experienced sales declines of 4%, more than the 3.8% expected by analysts. McDonald’s said the accusations of expired meat product negatively affected customers, and the brand was only now seeing the situation abate. McDonald’s did report that it had a plan for rebuilding trust in those markets affected by the meat quality scandal. Europe’s declines were blamed on repercussions from the political situation with Russia and the Ukraine. Europe sales declined 2%; analysts had predicted a fall of 1.9%.319

The financial ratings firm, Fitch Ratings, looked at McDonald’s in late December as the brand continued to slide. Fitch stated that McDonald’s had confirmed that it was taking necessary steps to change the brand’s negative customer-perceived image. Additionally, McDonald’s confirmed that it was “going local” to be more relevant while putting more accountability in the regions and by giving franchisees more say in promotions. Fitch indicated that these were positive actions. Fitch did weigh the consistent declines in sales, especially in the U.S. However, it believed the announcement of the customizable burger system was a positive. Fitch reiterated the good steps in returning the three-year goal of U.S. $18–$20 billion in cash to shareholders. “Full implementation of McDonald’s initiatives will take time, given the size of the company's U.S. operations and the need to collaborate with franchisees. However, an urgent and customer-centric approach to increasing traffic combined with an improving U.S. economy and the potential for slightly higher disposable income for lower-income consumers should result in gradual sales improvement in 2015.” Fitch was particularly impressed that McDonald's continued to generate cash and had a strategy in place whereby that cash was given back to investors as well as a program for reinvestment (as it did with the remodeling). After a detailed and lengthy discussion of McDonald’s future, Fitch ended by saying, “(McDonald’s) lack of near-term evidence that sales trends can improve and/or material additional debt would place downward pressure on ratings.”320

STEVE EASTERBROOK

In April, McDonald’s announced that it was bringing back Steve Easterbrook. Mr. Easterbrook left McDonald’s shortly after Don Thompson was elected to McDonald’s Board of Directors and had been given the nod as heir apparent to Jim Skinner. Steve Easterbrook returned to McDonald’s as global brand officer overseeing global marketing, menu development, and insights. In December 2010, Mr. Easterbrook had been chosen to be president of McDonald’s Europe. But, unexpectedly, in September 2011, he left to be CEO of Pizza Express. Less than a year later, he left Pizza Express to become CEO of Wagamama. Kevin Newell replaced Mr. Easterbrook in January 2011, after Mr. Easterbrook became president of McDonald’s Europe. In his new role located in Oakbrook, Illinois, Mr. Easterbrook reported directly to Don Thompson.321
ORGANIZATIONAL CHANGES

Mike Andres
After experiencing its largest monthly decline in same-store sales since 2003 earlier this August, McDonald’s replaced its head of the U.S. division for the second time in less than two years with Mike Andres. It was noted in the press that McDonald’s same-store sales had been falling or at best flat for at least a year.322

New Organizational Structure
By October, with a 4.1% slip in same-store sales in September, McDonald’s announced a structural change that would get rid of several management layers in the hopes of becoming a more agile and responsive enterprise in the U.S. It was hoped that the leaner structure would help with sales. The idea came from the new U.S. president Mike Andres. He said, “The reality is that our current U.S. structure is not optimized for the customer.” So McDonald’s would now have four regional zones: Northeast, South, Central, and West. These would reflect local consumer tastes and preferences.323

Going Local
“Local, local, local” is what QSRweb titled its discussion of the new organization at McDonald’s that created four U.S. regions. The aim of the reorganization was to give the regions more control over menu promotions and allow regional franchisee groups to have more say in what was offered to their customers. Localization can make a brand seem more relevant. Mike Andres, president, indicated that there would be greater emphasis on local insights: “The real work, the real impact is what our local markets can do to drive a plan that will address the diversity of the marketplace. This idea—of how we plan locally to supplement our national marketing—is really starting to ignite the entrepreneurial spirit.” The new structure placed accountability in the locales, which are closer to the customer than Oakbrook, Illinois. A key part of the new “insight” formation is the use of moms (emphasized by ousted Jan Fields).324

MARKETING

Millennials
One thing in this world is certain: short of an apocalypse, demographic changes will happen. The Millennial cohort is larger than the Baby Boom generation, and its wants and needs are driving behaviors and attitudes. McDonald’s was seeing that it had a problem attracting Millennials who grew up in a more widely ethnic, sophisticated, and assertive food landscape. Millennials appeared to be leaving McDonald’s for competitors offering fresher, healthier food with values that mimicked their own. McDonald’s noted that the numbers of people age 19–21 in the U.S. visiting McDonald’s on a monthly basis fell by 12.9 percentage points since the beginning of 2011. This data was from research company Technomic. The number of customers 22–37 years old visiting McDonald’s on a monthly basis during that same time frame was flat. Mr. Easterbrook focused on Millennials. “The Millennial generation has a wider range of choices than any generation before them. They are promiscuous in their brand loyalty. It makes it harder for all of us to earn loyalty of the Millennial generation.” With his
constant focus on Chipotle, he set up a learning lab in southern California to work on customizable procedures. He seemed to believe that what made Chipotle so popular was the customizable system rather than the brand values, the employee development, and the delicious, quality food sourced and served with integrity. Turning McDonald’s into Chipotle would increase prices, and using McDonald’s system would increase service times. Customizing food that customers did not like would not build brand preference. Mr. Easterbrook commented that, “Millennials want to buy into a brand not just buy from it.” He said that McDonald’s was developing mobile apps that would enable people to access information about the company’s social responsibility. “What we’ve got to do is find interesting ways to share that information with Millennials, not old-fashioned corporate lecturing.”

As Financial Times pointed out, both McDonald’s and Coca-Cola were having similar problems with this Millennial cohort. Part of the problem was health related because this group of individuals was raised on an organic, local, foodie culture. But Financial Times said also that relevance or lack of it was an even bigger issue. McDonald’s and Coca-Cola both have portfolios with profitable core products where replacement of any of these would immediately affect cash flow.

QSRweb reported in December that the latest YouGov poll indicated that Jimmy John’s, Chipotle, Chick-fil-A and Whataburger had achieved the highest loyalty among Millennials among the entire key “limited-service brands” over the past six months. Based on purchase consideration rates for nearly 30 limited-service brands, YouGov calculated scores among each brand’s current user base, defined as a past-30-day patron of that brand. YouGov scores indicated that of those Millennials who were already customers of Jimmy Johns, “83% say they would consider eating there again the next time they are looking to dine out.” Among their own current customers, the next highest ranked brands were, “Chipotle (82 %), Chick-fil-A (78%) and Whataburger (76%). Both Subway and Wendy’s scored 70% or higher among their millennial customers.” A review of other brands shows the following ranking among Millennial preferences:

- Arby’s, 69%
- Long John Silver’s, 69%
- Popeye’s, 66%
- Hardee’s, 65%
- Taco Bell, 64%
- Jack in the Box, 64%
- KFC, 64%
- Burger King, 63%
- McDonald’s, 62%

### Customer Preferences

Mike Andres, McDonald’s president, said that decisions would now be made based on customer insights. Mr. Andres said customers had changed the way they defined quality and had a newfound interest in wellness and health. McDonald’s had allowed the lead in these areas to be taken by the fast casual competitors that had overall perceptions of
quality and fresh: McDonald’s, he said, was playing “catch-up.” “The pace of change outside of McDonald’s has moved faster than it has internally,” But if we can eliminate the perceptions of quality questions we get compared to our new competitors, then we win on easy and value. People always are going to look for value and what makes their life easier. Value isn’t a trend; it’s here to stay. Those are the things we’ve fallen behind on and we’ll catch up quickly.”

COMPETITION

Hamburger Restaurants
In one of the least observant articles on the restaurant business, Bloomberg Businessweek noted that the hamburger category was in its final throes of decline. Yet the trend for better burger restaurants was growing at a rapid pace. The move toward quality beef at McDonald’s competitors had taken off with both Burger King and Wendy’s becoming more astute marketers of hamburgers. Against this factual background, the magazine reported: “America’s once insatiable appetite for hamburger joints may finally be satisfied. Slower sales growth has many industry watchers forecasting the once unthinkable: the peaking of burger joint growth in the U.S.”

How Can McDonald’s Compete?
Steve Ells, founder of Chipotle, told Financial Times in October that, “The traditional fast food sector traded food quality and taste for low cost and ease of preparation.” This had always been his voiced opinion of the industry and of McDonald’s in particular. Since Chipotle was once owned by McDonald’s, Mr. Ells saw firsthand how McDonald’s food was prepared and the “quality” of the ingredients that went into the preparation. However, as Financial Times pointed out, CEO Don Thompson’s comments agree with Mr. Ells. McDonald’s said it would take “decisive action to fundamentally change” its business in ways that would better position it to compete with Chipotle and other fast casual restaurants. Reports indicated that the new team led by Mr. Easterbrook had plans for a “radical departure from the basic McDonald’s formula, with changes to its menus, stores, customer service and technology.” Additionally, McDonald’s challenged those who had negative ideas about the quality of its ingredients. Mr. Easterbrook believed that McDonald’s core customers were fleeing to Chipotle and other fast-casual chains. However, based on demographics including income, there were questions outside of McDonald’s as to whether the Chipotle customer was in fact a McDonald’s lapsed customer.

Whatever the case, Mr. Skinner’s leave was timed brilliantly. Already by June 2012, it was becoming clear that McDonald’s was not continuing the stellar growth that was based on living off the momentum of the 2002–2005 turnaround. That took the brand far, but not far enough into Mr. Thompson’s tenure. Some see Mr. Thompson taking over at a tipping point—unfortunately a downward-pointing tipping point. The growth of the menu began during Mr. Skinner’s tenure, when McDonald’s began throwing a lot of things into the marketplace hoping something would help. Too many new items and LTOs confused customers. A complex menu hurt operations. The core menus and the core customer were ignored. Items like wraps and specialty beverages hurt service. Customer service times increased. Food quality was cut to save costs. Dollar Menu lost
relevance. Heavy deals and promotional discounts ate away at the brand’s image while infuriating the franchisee community. For several years prior to his departure, Mr. Skinner said that the brand was doing well because it offered cheap food to those trading down. The deals and discounts reinforced the McDonald's image as a brand for cheap, low-quality food for those who could not afford to eat elsewhere. As mentioned earlier, the emergence of the better burger joints had also eaten at McDonald’s, a company that avoided fixing the quality of the core menu. As to becoming more like Chipotle: some outside observers said that what defined McDonald's around the world was its reliability and conformity. No matter where you went, the McDonald’s fry was the McDonald’s fry. Changing that would change logistics, operations, and image. And as Bob Goldin of research firm Technomic said relative to the transparency campaign called, Our food. Your questions: “I think there are a lot of questions about the integrity of the food and the quality of the ingredients on the part of consumers. So much of it is fried and heavily breaded and I think that almost goes against the perception of good quality.”

Wendy’s
In an interview with Betty Liu on Bloomberg News, Wendy’s CEO, Emil Brolick, discussed several topics including Wendy’s failed efforts at creating a motivating breakfast. The two also discussed the emergence of highly competitive fast casual restaurants that were taking customers away from fast food brands. Mr. Brolick, a former YUM! senior executive, said that Wendy's would be “new QSR quality at a competitive price.” In his definition, this inhabited a space and segment that addressed needs that Chipotle and McDonald's did not. He said, "We don’t charge premiums relative to the traditional QSR experience but we feel that we give them a premium experience. If you think of us in the context of the quick casuals or the new QSR, we are giving people a comparable experience as you can see here and the quality of this food, but a significantly lower price. Our average check is probably 40–45 percent lower than the average newer QSR.” The foray into breakfast was not the first. He discontinued the breakfast effort because it was not delivered consistently. However, Mr. Brolick did not say that Wendy’s was through with breakfast. He implied it would be possible, but only if Wendy’s could do it in a quality manner that would be profitable for the brand and its franchisees. His openness to do breakfast one more time, he said, was that he had a vision for breakfast that completely differentiated Wendy’s.

OPERATIONS
Menu Complexity
By the end of 2014, the McDonald’s menu contained 121 items. Over the years under Mr. Skinner, the menu became an overwhelming assortment of sandwiches, coffees, and other beverages. Some of these items took more than 60 seconds to prepare under the best of circumstances. An example was the new Premium McWrap. Designed to attract Millennials, franchisees referred to it as a “showstopper” behind the counter. “Our kitchen comes to a halt when we get an order for a McWrap,” said one franchisee. This franchisee added that the assemblers must continue to check the instructions as the prep has so many different steps. This pre-process takes about 85 seconds. This is a problem because the brand has a 90-second order-to-delivery-time objective at the
drive-thru, where about 70% of sales take place. He continued by saying that he sold about 1,000 cheeseburgers a week and only 140 Premium McWraps. Janney Montgomery Scott analyst Mark Kalinowski stated that the Premium McWrap had disappointed in terms of sales and operations. From his perspective, “The more complex products should get a closer look at being candidates for removal from the menu.”

For a brand known for easy-to-choose, speedy service, choosing an item was now a confusing experience for customers. And the wait times increased. All the lattes, snack wraps, oatmeal, and smoothies not only expanded the menu beyond reasonable limits but complicated operations. For example, as Julie Jargon pointed out in The Wall Street Journal, “McCafé drinks require a separate station behind the counter equipped with coffee grinders and blenders, causing longer waits. As a result, some customers have started going elsewhere for their fast-food fix.” Under Charlie Bell, the mantra was that for each item added to the menu board, an item should be taken off. Mr. Skinner went in an opposite direction: menu addition with no menu subtraction. But beyond complexity and longer wait times, there was another problem for McDonald’s, and it fell on CEO Don Thompson’s shoulders to find the solution: how to compete in a vastly different eating-out environment. While McDonald’s expanded its menu in a variety of different directions, better burger brands such as Five Guys and Smashburger; fast casual operations such as Chipotle and Panera Bread; cult-status brands like Chick-fil-A and In-N-Out Burger; and traditional QSR brands like Burger King, Wendy's, and Popeye’s were taking a page from Charlie Bell’s and Jim Cantalupo’s aim: do a few things really well. According to Ms. Jargon, Starbucks and Burger King work very hard to avoid “menu bloat.” Although McDonald’s management had stated many times that it would be addressing the menu issue, at the same time, it was adding items such as new sandwiches that had more customizability and new beverages. One firm that tracks menu items, Datassential, told Ms. Jargon that only seven years ago the McDonald’s menu had 85 items versus the 121 today. To put the complexity in more perspective, Ms. Jargon learned from the McDonald’s website that, “Between March and July 2013, the chain added Premium Mc Wraps, Egg White Delight McMuffins, blueberry pomegranate smoothies, and three new kinds of Quarter Pounders. In the U.S., McDonald's breakfast menu included 14 sandwich options, and for lunch, the Big Mac shared a menu board with 15 other burgers.”

Following the seriously negative November results, McDonald’s announced the changes it would make to the menu to address complexity and the related slow service. The plans outlined how McDonald’s would work to eliminate items it sold and how items were assembled. Mike Andres, U.S. president, said that new foods must be culinary inspired and have a much shorter, clearer ingredient list. He said, “Why do we need to have preservatives in our food?” McDonald’s said that it would pare the number of value meals to 11 from 16. But it would also provide customers with the opportunity to customize burgers. Mr. Thompson, repeating Steve Easterbrook’s chant from 2006, said McDonald’s would become a “modern progressive burger company.” “We have added over 100 SKUs in the past 10 years,” Mr. Andres said. These new items generated $770,000 in sales for the average restaurant. However, it complicated things both for crewmembers and customers. (He never said for franchisees.) “The future suggests we can continue to simplify our base menu, and we all recognize that about 80 percent of
our sales are coming from a small subset of the menu.” Mr. Thompson and Mr. Andres said they would move “carefully on this simplification effort” because they did not want to negatively impact the profitability of the franchisee community. McDonald’s added that it was in the process of paring the menu in its London and Germany restaurants. “We have a larger opportunity in the US because of the drive-thru. You don’t want the customer to be confused as they’re coming through the drive-thru,” Mr. Thompson said.335

The announcement of menu paring that it is hoped would shave time off of delivery times was coupled with the announcement about testing the “Create Your Taste” customized sandwich program. Create Your Taste was considered to be the way to beat Chipotle and Five Guys at their own game of more healthful meals self-designed and personalized. However, McDonald’s is a fast food brand. Create Your Taste delivery times are 8–10 minutes. This would be a brand experience challenge. CEO Don Thompson said that Create Your Taste would simplify the menu and be needed help for operations as it was a smaller menu. Create Your Taste is a signature program in McDonald’s move to being a “modern progressive burger and breakfast restaurant.” Create Your Taste could potentially be a motivating reason for Millennials to frequent McDonald’s. Darren Tristano, executive vice president at restaurant industry research firm Technomic, told USA Today that McDonald’s had a huge image problem with Millennials. Mike Andres, McDonald’s president, believed that Create Your Taste was a great step in making McDonald’s appear more “culinary-inspired” and that was how the brand would rebuild trust with this informed, more skeptical group of young people. He thought they were correct in their dislike of all the artificial and unknown ingredients in McDonald’s foods. He, too, wished they were not there.336

Service
The trade press, QSR Magazine, conducts research every year on fast food restaurant drive-thru performance. In its 2013 study, QSR noted that McDonald’s had its “slowest average speed of service in the study’s 15-year history: 189.49 seconds, more than twice the chain’s goal.” Customers complained that McDonald’s service was slow regardless of what was ordered. And, for some, just the sight of the car line at the drive-thru signals a do-not-drive-thru message. In 2013, McDonald’s told franchisees in a webcast that service times were a problem and it was their responsibility to fix this. But franchisees said it was the sheer number of items being served and the number of items needing customization that had slowed service; it was not the quality or quantity of crewmembers. To support the franchisee discontent about the service issues, the October version of Janney’s franchisee survey (run by Mark Kalinowski, Janney analyst) indicated that only one franchisee felt McDonald’s efforts to help with service had yielded success.337

Create Your Taste (CYT)
In December, as the dismal November results were announced, an article in USA Today reported on McDonald’s “Chipotle-busting” initiative called Create Your Taste (CYT) and its expansion of the test markets. The story in USA Today stated that McDonald’s would take the program currently in Southern California into 30 more locations in five additional states: Illinois, Wisconsin, Georgia, Missouri, and Pennsylvania—and then to 2,000 locations in 2015. As part of the McDonald’s Experience of the Future program,
CYT “allows customers to order from a kiosk and customize their burgers with a variety of toppings. The create-your-own burgers are then assembled in a separate area in the kitchen and delivered to the customer’s table.” Not only would McDonald’s take the program into new U.S. states, it would add the option of creating your own chicken sandwiches as well. There was concern that the CYT program took upwards of 7 minutes and cost around $8.29 with a medium drink and an order of fries. This fights the fast food at affordable prices for which McDonald’s was known. One franchisee favorable to the program said that in his stores CYT brought Millennials into the restaurant on the weekends.

**Multiple Order Point Strategies**
Analysts attending the December earnings meeting heard about several strategies for fixing the slumping brand. One of these strategies was around convenience and focused on how customers interact in an order/purchase experience. CEO Don Thompson indicated that analysts would soon see these changes to the service model. The idea was to give the customer “more memorable experiences around convenience.” Calling it “multiple order point strategies,” McDonald’s changes would include “self-order kiosks, table service, mobile ordering, web ordering and mobile payment.” Mr. Thompson and Mr. Andres envisioned a new interaction that would provide an overall easier and hopefully more desirable McDonald’s experience.

**Labor Relations**
At the end of 2014, McDonald’s found itself in another PR nightmare, and this time it had nothing to do with the quality of the food or its ingredients. Employees at McDonald’s restaurants filed complaints with the National Labor Relations Board (NLRB) stating that franchisees violated federal labor laws. The NLRB, after reviewing the claims, filed 13 complaints against McDonald’s. These federal complaints were in response to a total of 78 “alleged instances” of federal law violations. By filing the complaints, the NLRB jumped into an argument that would have repercussions across a wide swath of businesses. By supporting the decision, it meant that McDonald’s corporate was a “joint employer” with its franchisees making McDonald’s potentially liable for wage violations. In July, the NLRB threw out a request by McDonald’s that it was not directly responsible for its franchisees’ business. This situation did not just affect McDonald’s. But as the biggest, it was the easiest target especially since it had more employees worldwide than most businesses. Constituents were already taking sides, pitting pro-labor forces against small business entrepreneurs and a big corporate enterprise. On McDonald’s side were the National Restaurant Association and the International Franchise Association. The heart and soul of small business people were at stake. McDonald’s supported this by saying the franchisee system had made millionaires out of many people and was a fine way to achieve success on a business and personal level. McDonald’s also believed and had stated publically that it was the target of those who saw McDonald’s as anti-union.

**Menu Testing**
The *Daily Telegraph* in London stated that McDonald’s new approach to menu items was less like McDonald’s. So McDonald’s renamed a Sydney, Australia, McCafé as “The Corner.” There were limited instances of McDonald’s branding. The Corner reflected an output of the company’s “Customer Learning Labs.” Coming out of the Lab, *The Daily*
Pricing
Another announcement during the December analyst event dealt with new pricing strategies. Mike Andres, McDonald’s president, said that the three-tiered pricing strategy had expanded to the point where there was now “too much disparity between McDonald’s entry, core and premium offerings.” Mr. Andres said the price disparities were affecting McDonald’s overall perception. During Mr. Skinner’s tenure, McDonald’s said many times that it was surviving the recession due to the fact that people could trade down to its cheaper prices. Now Mr. Andres said that the price issues were the fault of the Dollar Menu. “The Dollar Menu has served us very well, but its pricing relationship has moved customers naturally to lower-priced items. This has contributed to some decline in quality perceptions. People are basing (those perceptions) on our value items and, while they’re great products, they’re not the Big Mac,” he said.

Fixing McDonald’s
Right before the Christmas holiday, and after the reporting on McDonald’s sales slump, Julie Jargon of The Wall Street Journal interviewed restaurant experts on how to fix McDonald’s. Observers said that McDonald’s plan to “fix” McDonald’s was “paradoxical” as it focused on slimming the menu board while adding customizable items. Chipotle was the main focus of the brand leaders; it was seen as being a restaurant of choice only because of its customizable burritos and salads. CEO Don Thompson admitted that McDonald’s was no longer relevant. This was why the brand intended to be more locally inspired. The brand already agreed to simplify the ingredient lists and change some of the cooking procedures. The hope was to improve perceived quality. From a marketing standpoint, the brand was using a website (a website that failed under Steve Easterbrook in the UK) called Our food. Your questions. The website was designed to address questions customers had about the food, the ingredients, and the sourcing.

Ms. Jargon interviewed one of the authors of this book, Larry Light. Mr. Light had been the global CMO working with Jim Cantalupo and Charlie Bell on the 2002–2005 turnaround. These three senior managers were responsible for the turnaround Plan to Win. An edited version of Mr. Light’s comments from the article were as follows:

“I think this is a good start. Both consumer and operational complexity need to be addressed. The menu needs much more focus and simplification. A big challenge is the perception of food quality. Andres is right in making this a priority. I do not think the “transparency” PR effort will work. They need to address actual improvement of the food itself. Telling me how food I don’t want to eat is made will not change my mind about the food.

“In the short term, the first priority is to love the customers you have. I am concerned that the McDonald’s strategy seems to be more focused on customers they would love to have. Attracting new customers is an imperative, but keeping current customers is the base upon which customer attraction yields
incremental growth. Protecting the base is about never sacrificing the core principles that made the brand successful, and one of those in fast food is speed. At Five Guys if you order a customized burger you have to stand around and wait for it. McDonald’s core customer wants fast service.

“McDonald’s has lost trust and trust is a multiplier, so if trust is zero, it doesn’t matter what else they do. What made Chipotle effective is not just customization, but trust—their tagline is ‘food with integrity.’ To Millennials, establishing trust in a brand is not as easy as it used to be. When we launched salads at McDonald’s, we used Paul Newman to establish trust. Saying “we make a delicious fresh salad” is not the same as when Paul Newman endorsed the salad and put his dressing on it. Third-party testimony is something they need to add. And it needs to be someone respected by Millennials but also relevant to the category—not just an actor or athlete.”

Ms. Jargon interviewed Carl Chang, founder and CEO of fast-casual pizza chain Pieology Pizzeria. His comments were that McDonald’s should accept what the brand was and stop trying to “reinvent” itself. Although Mr. Chang agreed that taking the brand and revisiting its relevance were a necessity, he disagreed with Mr. Thompson’s adoption of Mr. Easterbrook’s attempt to remake McDonald’s as a different type of restaurant completely (the modern progressive burger company). Right now, Mr. Chang noted that a large percentage of the brand’s profitability came through the drive-thru: McDonald’s needed to take that into account before remaking the brand. Additionally, Mr. Chang noted that McDonald’s had a great, iconic line of core products that were not being served well in the current McDonald’s restaurants. He ended his interview by saying in his opinion the brand needed to do what it had been doing but doing it better and making it more relevant. Ms. Jargon also spoke with Cheryl Berman, CEO of Unbundled, a branding agency, and former chief creative officer of McDonald’s long-time agency Leo Burnett USA. Ms. Berman had worked for many years on the McDonald’s business. She said to Ms. Jargon that McDonald’s “has lost its magic.” Ms. Berman said the work McDonald’s was doing was all about the food and not about the emotional experience. She said that McDonald’s had always been a part of people’s lives. Not including the emotional connection puts the brand at a disadvantage. McDonald’s was an experience.

**IS MCDONALD’S AN ACTIVIST TARGET?**

A Bloomberg journalist raised the issue of whether McDonald’s could become the target of some activist investor’s interest now that it seemed to be falling apart with declining sales and a CEO who appeared to have no good ideas for brand salvation. The reporter stated that McDonald’s appeared vulnerable especially since, according to Bloomberg data, its “valuation relative to its earnings had fallen well below its US peers.” Additionally, Bloomberg took into account the fact that McDonald’s had a lot of cash on hand (it returned U.S. $4.6 billion to shareholders so far in 2014) and very low debt—an appealing situation for an activist investor. If McDonald’s trajectory continued to move downward, and as the investor community vented its irritation, Morningstar believed one or more activists would appear on McDonald’s doorstep in Oakbrook, Illinois. McDonald’s real estate was highly prized by activists as well.
Year 2015

Don Thompson
At the end of January 2015, the news that many expected came across the wire: after presiding over two years of poor financial performance, CEO Don Thompson was leaving McDonald’s. The investor community received their wish: a new person to lift the brand out of its mire. Steve Easterbrook, recently rehired by McDonald’s after quitting to be CEO at two different restaurants in an 18-month period, would be the new CEO. Mr. Easterbrook appeared to have the support of many in the investment community. Many observers voiced their opinions that Mr. Thompson did not act with sufficient urgency to galvanize the organization around revitalization. They saw Mr. Easterbrook’s work in the UK as proof that he was ready to take up the challenges that were affecting customer traffic. Neil Munshi of Financial Times wrote that there were analysts who thought putting yet another McDonald’s veteran in charge was not the right thing to do. Could someone from within who had been around McDonald’s implement the necessary strategic changes?345

Mr. Thompson’s departure spurred Jenkins Holman, an opinion columnist for The Wall Street Journal, to comment that, “If there is a lesson for Don Thompson, it is that every organization keeps doing what works until it no longer works. McDonald’s problems are eminently fixable. The idea that McDonald’s is doomed because fast food is passé is silly. The easiest part is to stop doing what isn’t working.”346

One analyst was positively impressed that McDonald’s moved so quickly to change the CEO. After all, Don Thompson had been CEO for 2½ years. During that time, he had not been able to change the trajectory of the brand. He had the unfortunate position of taking over when Jim Skinner took retirement, the beginning of the McDonald’s downturn. McDonald’s had not recorded a rise in sales at established stores since October 2013.347

Financials
2015 began with a feeling of unhappy familiarity. It was 2002 when McDonald’s last reported a fourth-quarter loss. What followed was one of the most impressive turnarounds in business history. CEO Jack Greenberg was fired; a new senior management team of Cantalupo, Bell, and CFO Paull were joined by CMO Light in developing the turnaround Plan to Win; and the new brand campaign “I’m lovin’ it” launched. As 2015 started, the brand was troubled again. As The Wall Street Journal stated, “Things may have to get worse before it gets better.”348

With the start of 2015, McDonald’s seemed to agree that earnings would “remain under pressure for the next several months.” CEO Don Thompson repeated his 2014 statement that there would continue to be major challenges for the brand. He reiterated that the management team was forcefully attacking these challenges but that analysts and investors should understand that it would take time for the strategies to be effective and show results. He did mention that along with the slimmer menu and the customized options, CMO Deborah Wahl introduced a new ad campaign. It was very short lived. In
contrast to McDonald’s relatively good performance during the recession (Jim Skinner’s statement that the brand was “recession resistant”), Financial Times reported that now that the world’s economies were into recovery, McDonald’s was not attracting people back to the brand to the same degree as previously; in other words, McDonald’s was appearing to be recovery resistant.349

So, the news for January 2015 was not a surprise. McDonald’s continued on its downward trajectory. January global same-store sales decreased 1.8%. This was a larger fall than the –1.2% analysts had predicted. In the U.S., same-store sales were up a mere 0.4%. McDonald’s blamed the assertive actions of its competitors that took away from any sale gains McDonald’s made with its breakfast items. Analysts continued to point to the McDonald’s missteps of too many items, too much operational complexity that slowed sales, and too much standardization that fought the desired customization Millennials want. Some of the organizational changes that were just initiated were designed specifically to address Chipotle and others. However, as Mike Andres, McDonald’s president, commented, “There are pockets of success.” Although Don Thompson said the changes would take time to take hold, many in the financial community said these changes were not enough and not in time. There was concern among investors that if McDonald’s went for frequent deal behavior, discounting at an aggressive pace, the franchisees would fight back. In the meantime, Mr. Thompson was receiving no applause for his strategies, which many analysts saw as undifferentiated.350

February sales demonstrated how difficult the situation would be for the new management team. U.S. same-store sales dropped 4%. Analysts had expected the decline to be only –0.7%. February global same-store sales declined –1.7% versus the analysts’ estimates of a –0.3% fall. Observers were quick to point out that these figures were reflecting the last gasp of Don Thompson’s CEO tenure. But at the same time, the poor performance clearly showed the need for an immediate strategic shift. Steve Easterbrook replaced Don Thompson as CEO. Mr. Easterbrook, the CEO as of March 1, reiterated the brand’s need to morph into a “modern, progressive burger company.” McDonald’s issued a statement trying to explain the problems facing the brand. In a statement, McDonald’s said, “Consumer needs and preferences have changed and McDonald’s current performance reflects the urgent need to evolve with today’s customers, reset strategic priorities and restore business momentum.” However, as The New York Times remarked, McDonald’s tried to change customers’ minds with a marketing campaign “Pay with Lovin’” that was not successful.351 (See the later “Marketing” section to understand how unfortunate this campaign really was.)

March earnings were rather dismal, with McDonald’s providing a global warning that it had fewer customers frequenting its restaurants. In the United States, same-store sales dropped –2.6% in the first quarter. This included a March decline of –3.9%, much worse than analyst estimates. Total profit for the quarter plunged 32%, also worse than analyst estimates. However, new CEO Steve Easterbrook stated that he would be announcing significant strategies defining his plan for a McDonald’s turnaround. Mr. Easterbrook was quite clear that incremental steps would not be acceptable; he was a bold risk taker, and he would provide major strategies to immediately fix the “fundamentals.” Mr. Easterbrook believed that his first actions of “simplifying offerings, introducing premium sirloin burgers and promising to limit antibiotics in chicken” were
indications of the aggressiveness he would continue to display. He promised that a critical strategy would be finding the balance between adding new important items while reducing the complexity of an overstuffed menu. Janney Capital Markets analyst, Mark Kalinowski, indicated that Mr. Easterbrook must address the frustrations of the U.S. franchisees, who were becoming more and more irritated with the brand leaders.352

A March UBS investor event gave McDonald’s an opportunity to address some of the big issues that were plaguing the brand. In attendance were Pete Bensen, chief administrative officer; Kevin Ozan, CFO; Chris Stent, VP of investor relations; and Jennifer Heiser, senior director of investor relations. Mr. Keith Siegner of UBS was the moderator.

“Pete Bensen stated at the opening that 2014 was a “disappointing year.” All key indicators had declined. He told the audience that McDonald’s was in the process of filling the innovation pipeline while localizing items along with marketing efforts. All of these efforts were designed to make McDonald’s relevant to today’s customers regardless of geography. He also reiterated the goal of becoming a destination offering more personalized items right now specifically the efforts around the Create Your Taste menu. And, Mr. Bensen said that McDonald’s was becoming a much improved player in new technologies designed to make McDonald’s more contemporary and convenient. Mr. Bensen commented on brand trust. He said that McDonald’s took the loss of trust in its food quality very seriously. He said that McDonald’s would be moving to tackle food quality and global sustainability with targeted actions.

“New CFO, Kevin Ozan commented on the efforts Mike Andres and his teams were taking to redesign a new, more agile “organizational structure.” The aim of the new reorganization would be to place accountability in the regions and in the purview of McDonald’s local teams. So, Mr. Ozan said that Mike Andres was “empowering each of our 22 regions” to shoulder more accountability when it comes to developing new products and creating product promotions. The idea would be to generate products that are more relevant to different locales. Mr. Ozan also made a note of the new, simplified menu. Additionally, he spoke about the “Lovin’ campaign” that all articles said was a failure. But, Mr. Ozan said it was having major positive affect. He also said the ad campaign was a major factor in the plan to enhance McDonald’s quality: we will tell people that we are quality. Mr. Ozan did repeat the statement that Don Thompson, just fired-CEO, was reiterating: “turning the business around in the US will take time.” This has become Mr. Easterbrook’s mantra.

“Mr. Bensen explained the 3-pronged approach McDonald’s was taking to change customer perceived quality at McDonald’s. The program focused on 1) Education and that means being transparent; 2) antibiotic free, although just for chicken; and 3) innovating around what customers are telling us they want. Mr. Bensen also discussed the need for menu simplification, which has as its goal customer ease of ordering and crewmember ease of delivering. He did say that it was the intention to remove those items that are not selling well.”353
April was a better month for McDonald's earnings. Results reported in May indicated that it was the best monthly performance in 2015. U.S. sales declined 2.3%, which matched analyst estimates.354

News services reported in June that May sales were down.355 A Zacks Equity Research online piece in July discussed the viability of McDonald's shares: “Can McDonald’s (MCD) Keep the Earnings Streak Alive?” The writer stated that McDonald's had been showing “sluggish” comparable sales and had been hit very hard by the food quality crisis in China. However, the author believed that the strategies in place would be successful, including efforts to fill the pipeline with innovations, offer a value menu, use more promotional items as limited time offers, and further extending beverages. Also, the blogger said that reducing the items on the menu and testing the Create Your Tastes customized menu would help McDonald's compete with popular restaurants. However, even with all these initiatives, McDonald's did indicate that sales would continue to be weak.356

The second-quarter McDonald’s earnings call took place on July 23, 2015. CEO Steve Easterbrook and CFO Kevin Ozan answered questions after their opening remarks. Mr. Easterbrook identified all the initiatives, from menu trimming to customization to value initiatives to the fostering of great relationships with franchisees. Regardless of geography, Mr. Easterbrook said that there were many things ongoing and these were designed to turn around the brand. He said that fixing the brand was not his responsibility; the local franchisees and the regional teams were now completely responsible. In the U.S., which is 40% of the business, the situation was more severe than in the rest of the world. Mr. Easterbrook repeated that this was not his fault but was due to “three years of decline”... happening before he came on board; therefore, he was doing his best. He stated several time that he and the franchisees were completely aligned. He said in the U.S., fixing the brand meant going back to basics. On the other hand, he pushed customization and increased numbers of beverages. Mr. Easterbrook said, “There is no silver bullet” for the turnaround; it would take a long time. There was a discussion about the $2.50 value offer during the summer that failed. Mr. Easterbrook said its failure was due to other things franchisees wanted to do. Mr. Easterbrook used the word energy at least 20 times to describe how busy they were in trying different things to jump-start the brand in the U.S. In outlining the Create Your Tastes Australia test, it was clear that it was not working as planned. When asked how it was possible to reduce menu complexity while increasing complexity with drinks and customization, Mr. Easterbrook had no clear answer except that the team was very energetic.357

By July, the press reported that Mr. Easterbrook's initiatives were not having the desired effect. McDonald’s reported that results were “disappointing.” Sales in the U.S. were down 2% in the second quarter, while global sales fell 0.7%. McDonald’s net profit sank 13% in the second quarter. Financial Times stated that both “sales and profits sank.” And, the tumbling was worst in the brand’s home market. The New York Times reported that all the new products had not garnered the results everyone at McDonald’s expected. However, Steve Easterbrook continued to say that there was momentum. His message confused analysts as he stated that he was going for simplification while adding initiatives and products that created complexity. Furthermore, to the concern of the investor community, Mr. Easterbrook did not put a timeframe for success on the
programs. *The New York Times* also contrasted the feelings of franchisees, who had some skin in the game, with investors. Franchisees were beyond frustrated with Easterbrook’s initiatives, while investors were “more forgiving.” As Mr. Easterbrook continued to state, he was completely confident that the transformation to a different kind of burger place would happen.\(^{358}\)

On September 30, in the “Wall Street” column of *Financial Times*, there was a small blurb on a Credit Suisse report. Analysts at Credit Suisse upgraded McDonald’s stock to “outperform.” In advance of third-quarter reporting from McDonald’s, Credit Suisse said that in their opinion, CEO Steve Easterbrook’s turnaround was gaining traction. McDonald’s had said that it expected global comparable sales to be positive in third quarter, and Credit Suisse research checks supported Mr. Easterbrook’s promise.\(^{359}\)

However, *The Wall Street Journal*, in its “Ahead of the Tape” column on October 22, indicated that the current McDonald’s approach was not enough. McDonald’s had experienced the best same-store sales growth since 2012, the article reported. But it also indicated that there was no place to go but up. The All Day Breakfast initiative may not be enough, as investors were hoping for a REIT. Many, though, believed that McDonald’s would not create the REIT and instead would continue to sell restaurants to franchisees.\(^{360}\)

For third-quarter 2015, McDonald’s experienced a slight recovery, but the company-store employee wage raises negatively affected profits. In a review of the results, *Financial Times* reported that the increase in sales growth happened in spite of the fact that McDonald’s closed more U.S. restaurants in 2015 than it opened.\(^{361}\)

Investors did get their wish in regards to McDonald’s performance when third-quarter results were announced the next day. McDonald’s said that the improved results were due to changes to the menu and a new corporate structure designed to reenergize the brand’s image. However, with an improved share price, the possibility of the REIT seemed dimmer. In the third-quarter reporting, McDonald’s said that customer satisfaction scores were rising due to better operations. The interest now was in the success of All Day Breakfast.\(^{362}\) Foursquare, an app-based geo-location service, said, “…visits to McDonald’s stores around the country increased by 9% in each of the first two weeks the company began offering breakfast items all day—but by the third week, visits were on track to be roughly 2% higher.” Foursquare compared this customer behavior to the Taco Bell breakfast initiative, where visits leaped 25% for about three weeks. “After the novelty wore off, traffic went to 5% to 10% adding about 7% to sales.” In an investor call on October 22, CEO Steve Easterbrook said, “We’re focusing on fewer, bigger initiatives, and the progress we’ve made in a short amount of time gives me confidence that we are making the right moves.” Mr. Easterbrook continued, “Part of the bigger picture is running better restaurants, running better teams.” He also indicated that simplification was a critical focus at McDonald’s now and that simplification was more than just taking items off the menu board. “…menu is part of it but there is a lot more we can do to help simplify the restaurants on a day-to-day basis,” he said.\(^{363}\)

Investors and activists as well as the larger financial community were anticipating a strong third-quarter 2015 performance. After two years of declines, it was expected
that the changes initiated by CEO Steve Easterbrook would have a positive effect. The financial community was also anticipating more news on share buybacks as well as the answer on spinning off the real estate into a REIT. As reported in *Financial Times*, “investors were eagerly awaiting the investor meeting on November analysts meeting,” and although the share price was little changed, it did rise more than 20% for the year. While waiting for more detail on the effect of All Day Breakfast, CEO Steve Easterbrook provided “optimism” that it would be a profitable initiative and would be adding to same-store sales. *The New York Times* wrote, “Franchisees, who long lobbied for All Day Breakfast, are now complaining that while it has added incremental sales, it also has complicated operations.”

**REIT Spinoff**

During an investor meeting on November 10, McDonald’s quashed the idea of spinning off its real estate and creating a REIT as many activist shareholders had recommended. The CEO, Steve Easterbrook, said that McDonald’s would find other ways to financially satisfy shareholders. He said that after a detailed review, the company believed a REIT would be too risky as McDonald’s business model was based on rental income from franchisees; this was a big portion of McDonald’s revenues. And Mr. Easterbrook pointed out that REITs have generated enough concern that the Treasury Department and the IRS are investigating the REIT construct. McDonald’s was clear that the company would still reward investors with cash by accumulating debt even though this would harm its credit rating.

**STEVE EASTERBROOK**

Some believed that Steve Easterbrook might be the right person for the McDonald’s job because, although a McDonald’s veteran, he seemed to have an outsider’s point of view. As someone who came with overseas experience and was a CEO at two restaurant chains within the past two years, he was seen as having the ability to revive the brand. Mr. Easterbrook took control on March 1. There were some observers who said Mr. Easterbrook was the force behind McDonald’s UK revival, although this was not a consistent view. On the other side of the opinion equation, there were those who thought McDonald’s played it safe again by hiring an insider. Outside of the Cantalupo/Bell pairing, there had not been many risk takers in the McDonald’s CEO job. As someone who knew what a McDonald’s turnaround required, Larry Light, a consultant, former chief marketing officer for McDonald’s during 2002–2005, and co-author of this book, said, “Mr. Easterbrook will need to move more quickly than Mr. Thompson in addressing the company’s bloated menu, slowing customer service and other shortcomings. I don’t blame Don for the problems [at McDonald’s], but he didn’t act fast enough, dramatic enough and decisively enough.” Mr. Easterbrook had his work cut out for him: McDonald’s was experiencing a downward spiral of loss of customers, loss of trust, poor service, and complaints about the quality of the food. Mr. Light added that McDonald’s must “focus on its direct competitors, including Burger King and fast-growing burger chains like Five Guys and Shake Shack, and not worry so much about restaurant chains like Chipotle Mexican Grill Inc. and Panera Bread Co. that appeal to health-focused consumers. ‘In a turnaround, you have to focus on your direct competitive sets. You don’t have the luxury of focusing on the indirect set.’”
Upon taking control of McDonald’s, on March 2, Steve Easterbrook made sure that the business community understood his positions on saving McDonald’s, being the savior of the brand. He continued to use his 2006 vision for the UK brand as his new mantra for the global brand: modern, progressive burger company. Mr. Easterbrook described himself as an “internal activist” who would be bold and aggressive in changing the image of the brand. In his self-introduction, he said that he would speak of his ideas at an “internal turnaround” event scheduled for the following week. The Wall Street Journal wrote that it had viewed a “draft agenda” for this meeting. The agenda highlighted Mr. Easterbrook’s goals: “get the order right every time,” and “change the conversation about McDonald’s—counter attack brand disparagers with continuous positive news on food quality and employment image.”

Many believed that Mr. Easterbrook was the person to turn around McDonald’s. Whoever wrote the April 27 “Seeking Alpha” opinion piece under “The Specialist” column said he or she believed in Mr. Easterbrook. The writer said that it is a Ray Kroc type of goal to say that McDonald’s should be a burger company not an “everything” company. “Seeking Alpha” went on the line for Mr. Easterbrook.

On May 3, The Wall Street Journal reported that Mr. Easterbrook said he would be explaining his vision for McDonald’s shortly, and it would outline exactly how he would turn around the brand.

**STEVE EASTERBROOK’S McDoNAD’S TURNAROUND PLAN**

May 4, 2015, was the day many were waiting for: Mr. Easterbrook’s plan for revitalizing McDonald’s. His main focus would be a restructuring of McDonald’s worldwide business and financial updates. He said, “Today we are announcing the initial steps to reset and turn around our business. As we look to shape McDonald’s future as a modern, progressive burger company, our priorities are threefold—driving operational growth, returning excitement to our brand and unlocking financial value.” Mr. Easterbrook was quite clear that his vision for being a success had to begin with reorganization internally and externally with franchisees, changing the ownership mix. He explained the structure as follows:

1. United States (40% and more of the Company's 2014 operating income)
2. International Lead Markets (Australia, Canada, France, Germany, and the UK and +40% of the Company's 2014 operating income)
3. High-Growth Markets (China, Italy, Poland, Russia, South Korea, Spain, Switzerland, and the Netherlands; accounting for about 10% of the Company's 2014 operating income)
4. Foundational Markets (remaining markets in the McDonald’s system)

Mr. Easterbrook then indicated who would be in charge of leading each of these new regions.

- Mike Andres would continue as president of McDonald’s United States.
• Doug Goare, currently president of McDonald’s Europe, would now be president of International Lead Markets.
• Dave Hoffmann, currently president of McDonald’s Asia/Pacific, Middle East, and Africa (APMEA) would now be president of High-Growth Markets.
• Ian Borden, currently the chief financial officer of McDonald’s APMEA, would become president of Foundational Markets.

As for the possibility that McDonald’s would become an “asset light” organization, Mr. Easterbrook indicated that McDonald’s would refranchise 3,500 restaurants by the end of 2018. It was also his desire that McDonald’s continue to return cash to shareholders through increased dividends. He said McDonald’s planned to return “$8 to $9 billion to shareholders in 2015 and to reach the top end of its 3-year $18 to $20 billion cash return to shareholders target by the end of 2016.”372

The New York Times reported Mr. Easterbrook’s performance as “operational” when listeners were clearly expecting more. The reporter said that the investor community as well as franchisees were expecting huge, bold news but instead were provided with a straightforward video message detailing organizational restructuring and nothing inspirational or brand-focused. With the serious decline in all key performance numbers and the now negative brand perceptions among customers, those listening heard about the way the business would be managed, as if customers really thought about that. Mr. Easterbrook promised a morphing into a “modern, progressive burger company.” The New York Times said that Mr. Easterbrook “initially appeared to move quickly.” He described how McDonald’s would simplify the menu to aid in reducing complexity and shorten wait times, he promised a “personalized menu that allows customers to custom-build sandwiches from a menu of higher-quality meats, toppings and buns.” Reports were that the tests for the personalized menu, Create Your Taste, were not as positive as Mr. Easterbrook made it sound. He finally acknowledged that this project was “a work in progress.” The New York Times also said that it learned how “McDonald’s is also testing a downsized version of that program that is said to allow both store and drive-thru customers to choose a bun and one of four sandwich types.”

Mr. Easterbrook was somewhat opaque regarding how he would fix the food quality perceptions. When a journalist asked about food quality, “Mr. Easterbrook was noncommittal.”373

Susan Berfield, in Bloomberg Businessweek, reported that the discussion about the future of McDonald’s was, in fact, light on the element of the food. As she wrote, the video opened with promise but became an “underwhelming” talk focused solely on “McDonald’s operations and finances, not its food, while implicitly acknowledging that the burger giant reached its U.S. peak several years ago.” Mr. Easterbrook presented a very U.S.-centric view by saying, “the US stands alone.” To appease his activists, Mr. Easterbrook fell into line by saying that, “McDonald’s would sell some of the restaurants it operates to franchisees.” Here was how Ms. Berfield, who follows McDonald’s, stated the current situation after Mr. Easterbrook’ disappointing session: “The impression Easterbrook left is that McDonald’s hopes to keep shareholders happy by reducing expenses (around $300 million a year) and giving them back cash ($8 billion to $9
billion this year.) During a call with investors later in the morning, Pete Benson, the company’s chief administrative officer, insisted: ‘We’re not abandoning growth.’” Ms. Berfield ended by saying that people listening wanted to hear some exciting news about menu and “instead we got word of a new organizational chart.” Most reporters expressed dismay that Mr. Easterbrook, who said he would be bold, gave a new version of how the company would be organized instead of focusing on the key customer issues.

After months of doubts from the financial community, QSR Magazine reported on CEO Steve Easterbrook’s turnaround, encapsulating the positive responses from McDonald’s announcements. At an investor meeting on November 10, 2015, the management team provided this information:

- The expectation of positive fourth-quarter comparable sales in all segments
- Global refranchising of around 4,000 restaurants through 2018 with the goal of becoming 95% franchised
- An increase in the fourth-quarter dividend by 5%
- An optimization leading to increased cash returns to shareholders of around U.S. $30 billion for the three-year period ending 2016. The incremental cash would be acquired through debt.
- The decision to not pursue the REIT.

Mr. Easterbrook said, “The cornerstone of our system is our powerful and enduring brand. While we are still in the early stages of turning around the business, we are gaining momentum by focusing on our customers and what matters most to them—hot and fresh food, fast and friendly service, and a contemporary restaurant experience at the value of McDonald’s. My priorities for McDonald’s—as a modern, progressive burger company—are three-fold: driving operational growth, creating brand excitement and enhancing financial value. We are taking bold, urgent action to reset the business and prepare the company for the next chapter of its history.” He continued by adding that the company must run great restaurants.

Kevin Ozan

During the first week of February, Matt Paull’s successor as CFO was replaced by a Steve Easterbrook choice, Kevin Ozan. Mr. Benson was promoted to chief administrative officer. Analysts understood the new appointments as part of Steve Easterbrook’s beginning management shuffle.

Richard Gibbs

In June, McDonald’s hired former Obama press secretary Richard Gibbs. It was felt that with the labor issues and the food quality issues, a formidable PR person was needed.

Chris Kempczinski

Chris Kempczinski was previously the executive vice president of growth initiatives Kraft Foods Group, Inc. In his new McDonald’s role, Mr. Kempczinski, was now part of CEO Steve Easterbrook’s new team as executive vice president of strategy, business
McDonald’s Case History

development, and innovation. Mr. Kempczinski’s role was described as “overseeing strategy development, planning, innovation and new concepts.”

**ADAM KRIEGER**
As part of creating a new team to transform McDonald’s into a modern, progressive burger company, CEO Steve Easterbrook fired Adam Krieger, who had been the head of strategy at McDonald’s. Mr. Krieger rose to this position during the 2002–2005 turnaround. He was a 14-year McDonald’s veteran. Chris Kempczinski (see the previous section) filled his role.

**SILVIA LAGNADO**
CEO Steve Easterbrook hired a new global CMO, Silvia Lagnado. Ms. Lagnado came from executive marketing positions at Bacardi Ltd and Unilever PLC.

**RICH FLOERSCH**
As part of the 2003 turnaround team, Rich Floersch, McDonald’s head of HR, played a critical role in supporting the people P of the Plan to Win. He was responsible for helping galvanize the entire organization around “i’m lovin’ it” and the strategic concept of “Forever Young.” He worked to inspire and implement changes to the perception of McDonald’s positions as McJobs, including airing commercials with famous individuals whose first job was at McDonald’s. Mr. Floersch resigned on December 31.

**DAVID FAIRHURST**
Replacing Mr. Floersch was David Fairhurst, who came from McDonald’s UK. Handpicked by CEO Steve Easterbrook, Mr. Fairhurst took on Mr. Floersch’s responsibilities and oversight of global training on October 1, 2015.

**MARKETING**

**Chicken Nuggets**
January is the month for chicken wings and now chicken nuggets—think Super Bowl and college bowl games in the U.S. Burger King and McDonald’s were focused on chicken nuggets promotions rather than hamburgers. The difference in price was 15¢ versus 20¢. McDonald’s opened with its 50-piece order of nuggets for $9.99, or 20¢ per nugget. Not wanting to be the loser, Burger King countered with its 10-piece box of chicken nuggets for $1.49 (close to half the regular price). It was hoped by McDonald’s franchisees that the 50-piece box would be a big winner for Super Bowl viewing, raising sales that were in a serious slump (N.B.: Burger King ran the $1.49 nugget promotion again in December 2015 during the Holiday college football bowl season.)

“**You Get to Pay with Lovin’” Campaign**
In February, Kate Bachelder, a reporter who follows the restaurant business, stopped by the McDonald’s near her gate at O’Hare airport in Chicago. She described in excruciating detail the embarrassment of being caught in the output of a campaign she said, “...should never have left the conference room.” In her highlights of the experience, she
recounted: “I wanted an Egg McMuffin. Instead I found myself being urged to ask a stranger to dance.” From her perspective, this was a really unfortunate development for the brand. “McDonald's looks like it's trying too hard to look trendy. McDonald's should dump the “love” mantra and get back to the excellence mantra that made the Egg McMuffin a world phenomenon.”

**Chef Geoffrey Zakarian**

*The New York Times* decided to treat restaurateur and Food Network celebrity chef Geoffrey Zakarian (chef and owner of the Lambs Club and culinary director of the Plaza Hotel) to lunch at McDonald’s. Mr. Zakarian was a good sport. He said, “McDonald’s should do what it does well. You get the feeling that they're throwing things against the wall to see what sticks. You can't be all things to all people.”

**Our Food. Your Questions.**

*The Wall Street Journal* pointed out in March that the issues surrounding the “transparency” campaign from Deborah Wahl had not gone away. She appeared to be taking direction from Steve Easterbrook who, as the article pointed out, used something similar to this in the UK. (What the article neglected to say was that this Q&A approach failed in the UK and had to be yanked.) Stephanie Strom, the reporter, described “Our Food. Your Questions.” as a “marketing attempt” for McDonald’s to gain control over the food quality perceptions still plaguing the brand. Ms. Strom said, “Consumers can watch short videos that answer questions such as whether each Egg McMuffin is made from a freshly cracked egg – it is – and asking about the components of a Chicken McNugget (meat from the chicken breast, tenderloin and ribs ground with a small amount of chicken skin).” However, as happened in 2014 and was still happening was the fact that customers were not particularly happy with what they were learning about how McDonald’s created its offerings. The example used by marketers focused on McDonald’s French fries, its iconic core product. The example used by marketers focused on McDonald’s French fries, its iconic core product. When the question was posed on the website, the answer as to what is in a McDonald's French fry was that there are 19 ingredients, including dextrose and dimethylpolysiloxane. Worse yet, in the UK, the website listed only 5 ingredients. There are ways to deliver transparency and ways not to. Some of the graphic exposure appears to be working against McDonald’s as customers see “big slabs of beef being ground into hamburger.”

A reporter for Forbes.com said that although McDonald's was our familiar American icon with friendly staff and is everywhere we go, he has “no intention of eating French fries with 19 ingredients.”

**Deborah Wahl**

Lewis Lazare, the blunt reporter for the *Chicago Business Journal* in McDonald's hometown, reported that he sat through a very “scripted” and mechanical marketing vision from CMO Deborah Wahl. He stated that for 4 minutes, he was subjected to a Deborah Wahl video filled with “buzz words and phrases” to let everyone know that it was time for McDonald’s to change customer perceptions of the brand. Mr. Lazare said that it was Ms. Wahl's vision to move from “billions served to billions heard.”
McDonald’s Case History

McDonald’s Brand Perceptions
The research company YouGov reported in March that perceptions of McDonald’s had declined. However, it also stressed that because McDonald’s was so big, it had a bigger customer base and, therefore, McDonald’s should continue to be seen by its competition as a powerful competitor. The YouGov standardized BrandIndex report said that while McDonald’s customer perceptions had dropped over the past two years, “they still have more customers than other rivals.”\(^{390}\)

Migrant Aid
Working with other large organizations (DreamWorks, for example), McDonald’s was raising money to promote the UN’s World Food program. The New York Times wrote that McDonald’s saw this initiative as a way to reconnect with its younger customers as it tried to change its corporate image. The newspaper also pointed out that just recently CEO Steve Easterbrook rebuffed Burger King efforts for joint Corporate Social Responsibility, even though Burger King was also a participant in World Food Program.\(^{391}\)

LARRY LIGHT: “HOW TO REVIVE McDoNald’S”
As the former CMO of McDonald’s during the 2002–2005 turnaround, the press continued to ask Larry Light what he would do to turn around McDonald’s. In an opinion page article for The Wall Street Journal on February 11, 2015 three weeks before Steve Easterbrook’s official start date, Mr. Light listed 10 actions McDonald’s should take to rejuvenate the brand. (The full article is available at wsj.com.)

1. Stop the hemorrhaging.
2. Focus on the direct competition.
3. Fix the food.
4. Restore fast food service to fast food.
5. Focus is fundamental.
6. Restore relevance.
7. Re-energize the Plan to Win.
8. Adopt a disciplined new product process.
9. Internal marketing comes first.
10. Rebuild trust.

Response to the article across a broad swath of individuals was extremely positive. The online comments supported the ten actions and generated a highly focused list of current problems McDonald’s faces. With the caveat that the “sample” of 300 website responders were readers of The Wall Street Journal, all of the responders indicated familiarity with the brand and indicated that their experiences were relatively recent. The comments create a blueprint for “fixing” the brand: stating areas where McDonald’s must quickly reform.\(^{392}\) Here is a view of how these people felt about McDonald’s as of February 2015. (Please note that these “problems” are not in any particular order of importance.)\(^{393}\)
BREAKFAST
The hash brown ellipse is unhealthy.
The hash brown ellipse is gross.
There is no appealing breakfast side item.
You cannot have an Egg McMuffin all day.
The orange juice is too expensive.
They only offer margarine with the hotcakes.
Breakfast is not 24 hours.
My Egg McMuffin was frozen on the inside.
My Egg McMuffin was cooked in oil that turned rancid and bitter.
My Egg McMuffin was awful.

COFFEE
There are too many fancy coffee drinks.
The fancy coffee drinks slow down the drive-thru line.

FOOD
The food is not high quality.
The food is cold.
The burgers do not use fresh meat.
The fries are not made from fresh potatoes.
The food tastes awful.
They lowered the quality overall.
They microwave the burgers.
The burgers taste like cardboard.
The McRib is made from cow stomach.
The burgers are not ample.
The fries are not like they used to be.
The food quality has declined.
The food is inconsistent.
The food is room temperature.
The food is stale.
The fries are made from frozen potatoes.
The fries are inferior.
The food is too artificial.
The meat patty is not real.
It is bad food.
They use synthetic ingredients in the food.
The patties are made with fillers.
The patty is not recognizable as a burger.
The burger does not resemble a 100% beef patty.
They do not have fresh cut fries.
The quality of the beef is suspect.
The food is inconsistent.
They serve mystery meat.
The sandwiches are made with simulated meat disks.
The fries are soggy after 10 minutes.
The burger tastes like cardboard.
The McNuggets are made with processed chicken.  
The fries taste bland.  
The food is dried up.  
The original shake formula tasted better.

DYING BRAND/LOST ITS WAY  
The brand is in decline.  
The brand wandered away from its strengths.  
It is a brand that will not be around very much longer.  
They have changed the 1950s ambiance.  
The brand has no identity.  
They have changed from the classic McDonald's.  
They have forgotten Ray Kroc's rules.  
McDonald's is passé.  
McDonald’s forgot its original concept.

SERVICE  
The food is not served fast.  
The food is not served in a pleasant environment.  
There is sloppy service.  
They pay attention to the drive-thru customers first.  
They make me feel that I am a lower priority than a drive-thru customer.  
The lines are too long.  
I have to endure a long wait.  
I am totally put off by the wait.  
The service is not friendly.  
The service is not polite.  
I do not get my meal quickly.  
The service is inconsistent.  
You have to wait too long at the peak hours.  
The service is terrible.  
There are too many people taking too long to decide at the counter.  
If you order for more than two people, something is always missing in the bag.  
The service is not cheerful.  
There are too many order snafus.  
There are too many errors.  
They do not check the contents of the bag before they hand it to me.

VALUE  
The prices are no longer reasonable.  
I feel ripped off.  
They charge you for extra condiments.  
The prices are too high.  
The portions are not a good value.  
The burger patties are smaller than the buns.  
I can get the same meal but better at a competitor.
CLEAN
The floors are dirty.
The restaurants are filthy.
I cannot dry my hands.
The air dryer is unsanitary.
There are no paper towels.
The restaurants are not clean.
The restaurants are not bright.
There are dirty tables.
The bathrooms are nasty.
The PlayPlaces are a haven for staph infections.
They do not clean up the restaurants during the day.
The air dryers in the restrooms are nasty.
The cleanliness is inconsistent.
I cannot eat in such a dirty environment.
They have stopped cleaning the bathrooms.
A dirty front of store means a dirty back of store where they make the food.

OPERATIONS & FACILITIES MANAGEMENT
The stores are poorly operated.
The stores lack operational discipline.
There are homeless people outside.
Their restaurant practices are sloppy.
The facilities maintenance is inconsistent.
I dislike using the little ketchup packages.
The operations are inconsistent.
It is an unattractive place to be.
New stores are dull.
New stores are ugly.
They sacrificed product quality for low costs.
They sacrificed their processes for low costs.
New stores are designed for efficiency only.
The stores need fixing.

MENU
They became too tricky with the food offerings.
The menu board confuses me.
The menu is too extensive.
The menu is so busy that I cannot find what I want.
The restaurant panders to the food radicals.
They loaded up the menu with healthy stuff.
The menu is not well edited.
They gave in to the food police regarding the menu options.
The menu is a jumbled mess.

CREW
The staff behind the counter looks rather sad.
There is usually an uptight manager barking orders.
The staff has lost their dignity.
The staff cannot count money.
The staff is listless.
The employees are rude.
The employees are inattentive.
There are surly employees.
The staff is not well trained.
The staff does not speak English.
The employees do not engage the customers.
The staff is dimwitted.
No one who works there speaks properly.

**DRIVE-THRU**
The audio is bad at the drive-thru.
There are no high-quality audio speakers at the drive-thru.
The employees at the drive-thru do not speak English.
The employees at the drive-thru do not speak clearly.
The drive-thru takes too long.
I have to repeat myself at the drive-thru.
The staff at the drive-thru always asks me “is that all?”
No one listens at the drive-thru.
The drive-thru is an irritating experience.
At the drive-thru I am greeted by a commercial that ends with asking for my order.
There are so many errors at the drive-thru.

**HEALTH**
They promote poor health with their products.
They are a reason for chronic disease such as obesity.
The burgers have trans fats.
It is not healthy.

**EXPERIENCE**
It is not fun to go there anymore.
It is no longer a treat to go there.
The experience is inconsistent.
There is no warmth at McDonald’s.
You do not feel welcome.
It is no longer a simple place.
It is not a cheerful place.
You are like a cog in a production line: just order, pay, and stand aside.
It is a glorified vending machine experience.

**MARKETING**
The “pay it with love” marketing is asinine.
The marketing is stupid.
They focus on the marketing but not the food.
I do not like being educated about the synthetic ingredients in the food.
Ronald McDonald and his friends are no longer there.
INTERNATIONAL GROWTH

Several issues arose in February that affected McDonald’s international growth. In India, potential business at 185 restaurants came to a halt due to a legal battle with a franchisee, Vikram Bakshi. And in the UK, McDonald’s was scrutinized and accused of skipping payment of 1 billion Euros in taxes.\textsuperscript{394}

Even with the political issues in Russia and the Ukraine, McDonald’s announced in August 2015 that it was planning to open 20 new restaurants in Russia. \textit{Financial Times} reported that this was a bit of good news because McDonald’s has had to temporarily close 200 restaurants over ‘food safety” issues that may have been a result of geopolitical irritation on behalf of Russia.\textsuperscript{395}

FOOD

Additives

As part of Mr. Easterbrook’s agenda in the UK, he was supportive of ecological issues such as reusing cooking oil. In the U.S., with the food landscape changing right under the nose of McDonald’s, Mr. Easterbrook announced that McDonald’s would aim to eliminate all antibiotics in the chicken it uses. The announcement covered only antibiotics that were used for human medicine and did not cover antibiotics that were “non essential to human medicine.” Additionally, beef was not mentioned as a target for antibiotic elimination.\textsuperscript{396}

Angus Burger

Even though the Angus Burger was recently removed from McDonald’s menu board because it was considered to be too expensive at $4–$5, Mr. Easterbrook’s team said they were bringing back the premium burger line as a limited time offer. Once again, it would be a one-third pound patty, one with bacon, one with mushrooms, and one with lettuce and tomato. However, franchisees pointed out that the Angus burgers added complexity to the menu as there were three options, and the burger had to be served on a wooden board to connote the “freshness” associated with a cutting board.\textsuperscript{397}

Kale

Having advertised that McDonald’s would never have kale, a few months later McDonald's decided it, too, would have a kale offering. It was unclear whether customers who frequent the brand desire kale.\textsuperscript{398}

Cooking the Burger

Several news organizations reported in June that McDonald’s would “tinker’ with the way it cooked its burgers. McDonald’s said it would first focus on the bun by toasting it longer. Sandwiches would remain warmer. And McDonald’s would change its searing and grilling processes. It was unclear how franchisees would react: at the time of the articles, franchisees were quite frustrated with Mr. Easterbrook’s programs. In fact, their personal “disgust” may hinder his momentum.\textsuperscript{399}
Cage-Free Eggs
McDonald’s used about 4% of all shell eggs produced in the U.S. in 2014. For years, animal welfare groups had pressured McDonald’s to stop using caged hens for their eggs and move to cage-free hens. On September 10, McDonald’s announced that it would stop using caged chickens for its eggs. Because McDonald’s uses so many eggs, it would probably take its suppliers 10 years to meet the new McDonald’s pronouncement. Since 2011, about 10% of McDonald’s eggs have been from cage-free hens. The decision to go 100% cage free would have an enormous effect on the egg industry and on McDonald’s rivals. In November, Taco Bell announced that it would only use eggs from cage-free chickens and it would make the 100% switch in a year. Having faced criticism for moving too slowly, Taco Bell said it had been strategizing its egg policy and was confident it could transition in 12 months.

Germany Organic Burger
On September 26, The New York Times reported that McDonald’s would offer a 100% organic beef burger as a limited time offer in Germany. Reuters said, “It is part of CEO Steve Easterbrook’s transformation of McDonald’s into a modern progressive burger company.”

Premium Crispy Buttermilk Chicken Sandwich
In August, McDonald’s introduced a crispy buttermilk chicken sandwich that appeared to compete directly with Chick-fil-A sandwiches. The sandwich replaced the regular grilled chicken sandwich. This new sandwich was credited with helping modernize the menu offerings and contributing to the positive performance of same-store sales in third-quarter 2015.

Monster Energy Drinks
In October, McDonald’s announced that it was testing Monster energy drinks in about 20 U.S. restaurants. Long-time McDonald’s partner Coca-Cola had a 16.7% stake in Monster. McDonald’s sold other Coca-Cola beverages aside from the iconic cola, such as Dasani water and Minute Maid juices. Energy drinks satisfy the needs of the customer, McDonald’s said. However, the energy drink category is under FDA scrutiny as it has received hundreds of complaints about bad reactions, including deaths and heart events.

Modern Progressive Burger Company
Steve Easterbrook had a vision of McDonald’s as a “modern progressive burger company” since at least 2006 when he was in the UK office. But what is that exactly, and what does it mean for the brand? As expressed by Stephanie Strom in The Wall Street Journal, “McDonald’s is having an identity crisis.” Ms. Strom asks whether it was possible to be cheap, high quality, and personalized quickly. As she observed, on the one hand McDonald’s has been introducing all sorts of new products and yet selling cheap core products. On the other hand, it wants to compete with the new better-burger restaurants such as Smashburger and Shake Shack while fending off defections to customized, quality ingredient restaurants such as Chipotle and Panera Bread. At the heart of the “modern, progressive burger company” concept is the satisfaction of all of these customer needs at the same time. At the recent (March 1) “turnaround” meeting,
Mr. Easterbrook announced his vision for McDonald’s where he reiterated his idea and said it would happen through making McDonald’s a “destination,” offering breakfast, customized, made-to-order foods and beverages, of high-quality ingredients and at tremendous value. Mr. Easterbrook was clear that he did not believe in the idea of focusing on the core menu first. In his opinion, the only way to improve in terms of food and perceptions was to offer new products to jump-start growth. Analysts said that Mr. Easterbrook “pushed back” on the idea of fixing the core products. He seemed focused on Chipotle, believing its draw was customization. However, the competitive landscape is now much more diverse than cafeteria-style customization. New burger restaurants are attracting those who want quality burgers. So at Smashburger, for example, customers can order the Classic Smash burger (“handcrafted” and “seared and seasoned to order”) at a price of $5.99. Food at Chipotle is also higher priced than at McDonald’s. But the brand is about much more than just customization. It is perceived to be prepared from natural, high-quality ingredients. It is also an organizational culture committed to behaving in a responsible manner consistent with its slogan of Food with Integrity. Observers point out that McDonald’s core customer wants something of quality that is affordable: a $6 burger is beyond their means. (One ex-McDonald’s senior manager who is unable to speak for attribution due to a clause in the contract posed the conundrum as follows: “The problem is not that consumers don’t want hamburgers, as anyone who’s been to Five Guys recently can tell you. What they’re waiting for is a better hamburger from McDonald’s.”) And, most of McDonald’s customers order through the drive-thru window; they do not come into the restaurant for a customized ordering experience.

There are those ex-McDonald’s senior managers like Mike Donahue who can list all the times McDonald’s focused on upscale offerings at upscale prices. (Neil Golden’s recent Angus Burger was removed from the menu as it was simply too overpriced for customers.) Larry Light (co-author of this book) said to Ms. Strom, “The two key words in fast food are fast and food, and McDonald’s is no longer fast, and its burgers ranked last in a Consumer Reports survey recently. Those are their No. 1 and No. 2 challenges, but I’m not sure they know it.” McDonald’s needs to satisfy a customer in 37 seconds: miss that threshold, and McDonald’s runs the risk of defection. Currently, The Wall Street Journal reported, a drive-thru order takes slightly more than 3 minutes (189.5 seconds). Every second really does matter. And customers acknowledge that if the drive-thru looks too long with too many cars, they will drive somewhere else. Ex-franchisee and current franchisee consultant Richard Adams says that 13 cars represent the limit. If there are 13 cars in line, other cars leave. This is one of the problems behind Ms. Strom’s original question: if McDonald’s becomes more customized, it runs the risk of being slower food, and this might alienate an extremely large number of customers. This is why the Premium McWrap “flopped” in the U.S.: it was a higher priced, long-wait-time offering. Mr. Easterbrook’s desire for customization has forced franchisees to face the fact that they soon will have to ramp up staff numbers and equipment to accommodate the Create Your Taste menu. The vision is a customer coming into the restaurant, customizing her choice on a kiosk, and waiting for the order at a specified table. The wait is what franchisees are concerned about. At the moment it is clocked at 8 minutes. That is 8 minutes waiting inside a McDonald’s. The entire program will cost franchisees about U.S. $100,000 per store. Each franchisee will need to “have shaved Parmesan on hand, in addition to the shredded lettuce used for regular
burgers, not to mention grilled onions, jalapeños, avocado and 30 other toppings.” Franchisees see Mr. Easterbrook’s compulsion to compete with customization restaurants, specifically Chipotle, as a way to walk away from McDonald’s core strengths. Affordable, quality burgers and fries are strengths, as is breakfast, which McDonald’s pioneered in the 1970s. However, franchisees see the introduction of the espresso drinks as a waste of money: the U.S. $13,000 (per restaurant) machines are usually idle. It appears to be an outcome of a strategy that ordered them to compete with Starbucks.407

Beyond the marketing, analyst, financial, and investor communities’ comments, food commentators had something to say about the idea of McDonald’s as a “modern, progressive burger company.” Mark Bittman, at the time a New York Times opinion-page contributor and food commenter, took Mr. Easterbrook to task in the April 8 issue. He said, “McDonald’s has made several well-publicized, big announcements that were widely greeted with yawns or jeers. That non-antibiotic move is so incomplete—there is nothing about beef or pork—that seems pathetic. All the moves demonstrate that McDonald’s is hardly a progressive company but one that is merely trying to catch up with changing market norms and to anticipate inevitable regulation.”408

LABOR

2015 did not ameliorate the issue surrounding minimum wage in the United States. As reported in The Wall Street Journal in early March, labor was still continuing to put heavy and vocal pressure on McDonald’s to change the way all its employees are paid.409 One of the issues now raised with the courts focuses on whether McDonald’s corporate is “jointly responsible” for decisions that affect each store’s labor policies and positions.410

On April 2, Steve Easterbrook made a big announcement that McDonald’s would raise employee pay at its U.S. company-owned stores. What Mr. Easterbrook did not say but was pointed out in several newspapers was that the pay raises did not include the more than 70,000 employees who work for U.S. franchisees. Mr. Easterbrook indicated that he and his team had been listening to employees and saw that if they were to rejuvenate the brand, they would need the employees. Mr. Easterbrook was convinced that pay raises were critical. “Motivated teams deliver better customer service and delivering customer better service in our restaurants is clearly going to be a vital part of our turnaround,” said Mr. Easterbrook.411 So, in April, Mr. Easterbrook ran a full-page ad in The New York Times to announce the company-owned store pay raises. In the ad, he reminded readers that McDonald’s would become a “modern, progressive burger company.”412

In mid-April, labor announced that there would be a national strike at McDonald’s over not being paid the $15 minimum wage. The strike would focus on McDonald’s but in essence would apply to workers at all restaurants.413
**OPERATIONS**

**All-Day Breakfast Test**

On March 31, McDonald’s announced that it would be testing all-day breakfast in San Diego. McDonald’s did indicate that currently all-day breakfast was not possible as it would require different equipment. However, the idea for offering breakfast past the 10:30 AM cut-off time was considered to be a sign that Mr. Easterbrook was “open to new ideas.”

*The Wall Street Journal* wrote on July 22 that the San Diego test was probably leading to the reality of all-day breakfast at McDonald’s. Julie Jargon wrote that McDonald’s corporate was “pushing” this initiative through the system. The article did state that the delivery of breakfast all day was complex and needed more review. Additionally, franchisees must be aligned, as this initiative would not be cheap.

**All-Day Breakfast National Expansion**

September brought the news that McDonald’s would be offering breakfast all day in all of its U.S. restaurants. U.S. president Mike Andres said that all-day breakfast was the biggest strategic initiative since the introduction of the McCafé. He reminded people that all-day breakfast was “the consumer’s idea.” One of the stumbling blocks had been equipment: McDonald’s grills were designed to manage lunch and dinner. Additionally, the raw eggs used in the McMuffin could create problems with cross-contamination, so grills needed to be kept separate. This meant operators needed to buy new equipment to handle breakfast sandwiches on an all-day basis. The new equipment would cost as much as $5,000 depending on what was already in place. There would be some menu modifications. Egg McMuffin and other biscuit sandwiches may not be available everywhere all day, and the all-day menu would be limited to a small number of items. The biscuits take 18–20 minutes to make, and this time does not include the rising and kneading of the dough. From a preparation process, all-day-breakfast would move McDonald’s to a “made-to-order” operation. This meant that as the day progressed, breakfast items would have to be made at the time of ordering, leading to drive-thru customers pulling out of line and waiting. The San Diego test indicated that as the day wore on, breakfast ordering became highly unpredictable. McDonald’s had told franchisees that all-day breakfast would generate an additional 200 customers a week for each restaurant.

In October, ahead of the third-quarter results, *ADWEEK* reported, “McDonald’s Breakfast Is a Bust.” The article cited a study by Nomura of the 29 franchisees in the continuing survey where employees report slow service, lower customer average bills, and added extra labor costs. However, McDonald’s remains upbeat. The launch is described as successful with a great plan to follow.

**Drive-thrus**

A May *Wall Street Journal* report by long-time McDonald’s journalist Julie Jargon announced that McDonald’s was planning to “simplify its drive-thru menu, and revamp its mid-price offerings as it seeks to turn around its struggling U.S. operations.” In a franchisee webcast, McDonald’s said that it intended to only display top-selling
products on drive-thru menu boards. It hoped that this would speed up the drive-thru. McDonald’s said also it was addressing the mid-tier of its menu by adding items at the $1.50 to $3 price point. This was more than the Dollar Menu but less than the prices of its premium products. McDonald’s saw this as a way to stop people from buying either at the low end or the high end or not at all because there were no medium-sized, medium-priced products: the menu was too skewed to be appealing. As reported in The Wall Street Journal, the franchisee meeting offered “more menu details about the company’s plans than last week’s investor presentation, which had been much anticipated. The presentation had left many analysts and investors wanting to know more about how McDonald’s would improve its food and service at a time when shifting consumer tastes and fierce competition were pressuring sales.” On the webcast, McDonald’s executives said the company planned to add a McChicken sandwich with leaf lettuce and tomato, as well as a double burger with leaf lettuce and tomato for around $1.50, up from the current range of $1.19 to $1.39 for similar sandwiches. The upgraded sandwiches would be sold in addition to the lower-price versions now available, according to one of the people familiar with the webcast. Executives also said they would expand a test of all-day-breakfast, which was currently available in San Diego and would roll out to Nashville. The company had been experimenting with a Create Your Own Taste concept, offered only inside restaurants, in which people could customize their own burgers. But with more than 60% of sales coming through the McDonald’s drive-thrus, many franchisees pushed back, and the concept has since largely morphed into what the company is calling “taste crafted,” in which drive-thru customers can choose from among a set number of different burger toppings and buns. Executives said McDonald’s would expand the more drive-thru friendly version of burger customization. A spokeswoman for McDonald’s declined to comment on the webcast. “We're always innovating around McDonald’s food, drinks and restaurant experience, and we’ll share news on these initiatives when the time is right,” she said.418

Sweden: Reserve a Table
Advertising Age reported on September 28 that in Stockholm, to promote a new Maestro Classic burger, McDonald’s invited customers to reserve a table in advance via Bookatable and receive a 2-hour, wait-service burger meal with coffee or tea and dessert.419

Franchisees
Franchisee Survey
In April, Mark Kalinowski reported on the latest McDonald’s franchisee survey that Janney Capital markets conducts. Mr. Kalinowski said that the survey continues to show franchisee disenchantment and irritation. The franchisees who were polled said in their opinion the McDonald’s business outlook was somewhere between poor and fair. In evaluating the brand, this franchisee group rated the brand “1.81 out of 5, the worst assessment in the history of the survey spanning more than 11 years.”420
In July, *The Wall Street Journal* reported that the franchisees in the Janney survey were “sour on the company.” The survey results were the worst in the survey's history. The franchisees were very clear: the initiatives from Steve Easterbrook were not working.421

**Selling Restaurants to Franchisees**

Mr. Easterbrook understands the virtue of becoming an “asset light” organization as the activists have been suggesting. He said in his 23-minute “vision” video that McDonald’s planned to sell more restaurants to franchisees. And he intended to restructure international operations, cutting $300 million in annual costs. The vision was to create a more agile organization. Instead of discussing the food and the brand reputation, as was expected, Mr. Easterbrook looked at financial engineering by cutting costs and returning money to shareholders and the “organization chart” for his salvation. He said that McDonald’s would sell 3,500 restaurants globally to franchisees by 2018. This represented more than the 1,500 restaurants expected. Mr. Easterbrook said that his aim was to have 90% franchised.422

**Franchisee Discontent**

*Bloomberg Businessweek* noted that Steve Easterbrook may have competition to worry about, but he also has aggressive unhappiness closer to home with his franchisee community. As of May, the irritation franchisees have with McDonald’s has generated bad feelings on all sides. Franchisees believe that Mr. Easterbrook and his team are sorely out of touch with franchisees concerns at the store level. Additionally, franchisees “accuse the company of ignoring their concerns on everything from bloated menus to ever-more-costly kitchen equipment to wages for counter workers.” Mr. Easterbrook has not admitted to any discontent with franchisees, nor has he focused on their issues. His vision began and ended with the organizational restructuring. There are fewer franchisees in the UK. It was easier then to achieve franchisee alignment. People are concerned that Mr. Easterbrook has not recognized how vital it is to garner franchisee support. As one franchisee stated, “If more of the corporate people would take their lunch hour and work the line and in the kitchen, we wouldn’t be in the position we’re in today. They kept repeating themselves in expanding the menu; we knew this was only making the problem worse.” It is unfortunate, but after the “vision” video, “many franchisees also complained that Mr. Easterbrook, after not mentioning his plans for wages at what the company called a Turnaround Summit in March, blindsided them by announcing in April that it would pay about 90,000 workers at 1,400 company-owned stores in the U.S. at least $1 more than the minimum wage in their localities.”423

**COMPETITION**

**In-N-Out Burger**

On April 30, *Bloomberg Businessweek* ran an article on the state of McDonald’s. One of the points that the reporter made focused on the complexity of McDonald’s. The author wrote about Ray Kroc and how he focused on doing a few things that a lot of people like and doing them really well. Now McDonald’s has gone in the opposite direction: doing a lot of things for everybody by offering things that only certain people like. The reporter said that In-N-Out Burger has only 300 U.S. locations. However, these are crowded. The
reporter observed that from where he was parked, he saw “62 cars in the parking lot and 10 in the drive-thru line. Every table was taken.” At In-N-Out Burger there are only four things on the menu not including beverages: “a hamburger, a cheeseburger, fries, and the famous Double-Double (two patties, two slices of cheese)—with variations on how each is served.” He mentioned that he did have to wait 10 minutes for a Double-Double Protein Style (sans bun). And, somehow, the order seemed healthier than McDonald’s even though it did not have fries that taste as good as McDonald’s.424

Can McDonald’s Compete?
In the same Bloomberg Businessweek article, the journalist noticed that a McDonald’s restaurant near him had 12 cars in the lot. He said the McDonald’s menu was “bloated and ill-defined.” He added, “Sales at existing locations have dropped in five of the past six quarters.” For this journalist at Bloomberg, the “excitement” in fast and casual eating is no longer at McDonald’s; it is somewhere else, specifically the more focused stores: “In-N-Out and its kindred “better-burger” purveyors such as Five Guys and Shake Shack, and even more so at “fast-casual” restaurants such as Chipotle Mexican Grill and Panera Bread.” From the journalist’s point of view, McDonald’s has not been able to keep up and worse yet, all of its attempts to be contemporary have failed even though McDonald’s paints a rosy picture.425

Which Brands Are McDonald’s Competition?
A June piece by Business Insider quoted Larry Light, former CMO and co-author of this book, as saying, “McDonald’s is going after the wrong customers.” Mr. Light stated that it appears as if the new McDonald’s CEO “seems to be obsessed with Chipotle.” Mr. Easterbrook was so focused on the fast casual segment he never gave any indication of why McDonald’s was losing customers and to which brands these customers were defecting. Mr. Light pointed out that sales at Burger King, Jack in the Box, Wendy’s, and Popeye’s were all growing. In fact, the “only major burger brand in decline is McDonald’s.” Mr. Light said that McDonald’s must focus on its two most important issues: “hemorrhaging of the customer base and the deterioration of the brand.”426

In July, the well-respected trade press in the U.S., Nation’s Restaurant News, ran an article showing how limited McDonald’s perspective on “the competitive set” might actually be. The author said that McDonald’s had a very shortsighted view if it thought it was losing customers only to Chipotle and other customized restaurant brands. In fact, the landscape for food had changed so significantly that McDonald’s was missing the world of prepared food delivered by grocery stores. The perimeter of most grocery stores in the U.S. has become a food mall in and of itself with all sorts of prepared foods that can be brought home for dinner. The data cited in Nation’s Restaurant News indicated that McDonald’s had better be looking at grocery as this type of venue was also providing solutions for customers.427

Burger King and “The Truce”
On August 26, Burger King ran full-page ads in The New York Times and The Chicago Tribune asking McDonald’s to join them for a single day to commemorate International Day of Peace, something the UN General assembly initiated in 1981. To show support for this day, Burger King suggested in its ads that the two rivals run one pop-up restaurant with employees wearing special uniforms and nametags combining elements
from both chains to sell a hamburger called McWhopper. CEO Steve Easterbrook answered the request in a Facebook post with what Financial Times said was “humorless... a snippy reply... that might suggest certain McBozos cannot see an easy PR win when it splats a pie in their face.” Mr. Easterbrook said publically, “Let’s acknowledge that between us there is simply friendly business competition and certainly not the unequaled circumstances of the real pain and suffering of war. P.S. A simple phone call will do next time.” Seeing an opportunity for great PR, the U.S. “diner” chain Denny’s ran an ad calling out to Burger King that Denny’s was available. The Denny’s headline said: “Hey @BurgerKing, we love the idea of a Peace Burger. We’re just not sure what to call this thing. Any ideas? @Denny’sDiner.” Mr. Easterbrook’s “sad” reply led trade publication Adweek to run a picture of Ronald McDonald wearing a Burger King crown and saying over a mobile phone, “Hello? King? I don’t think I can make it....”

2 FOR $2 MENU

On November 17, McDonald’s announced that it was replacing the Dollar Menu & More with a feature called “McPick 2.” Starting January 4, 2016, the McPick 2 would “allow customers to pick a pair of items for a total of $2 from among four choices: the McDouble, McChicken sandwiches, a small order of fries and mozzarella sticks.” As pointed out in The Wall Street Journal, McDonald’s has struggled with its Dollar Menu and its iterations. The New York Times said that McDonald’s hopes this new idea will revive sales and attract customers.
QUESTIONS

1. How did the marketing world change since 2005?

2. What were the critical external factors that led to McDonald’s decline? How could this have been avoided?

3. What were the internal factors that contributed to the decline of the McDonald’s business?

4. Discuss the issues relating to McDonald’s menu choices both pro and con. How did the menu choices affect the brand’s ability to compete against its competitive set?

5. Create a new Plan to Win for McDonald’s going forward. Address each of the Eight Ps.
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