

McDonald's Let's get back to basics!

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Primary Concern

Declining revenue and profitability for 7 straight quarters

Subsidiary Concerns

- ▶ Customer service levels
- ▶ Product quality
- ▶ Rising prices
- ▶ Changing customer tastes
- ▶ Disgruntled franchisees
- ▶ Increasing competition
- ▶ ...

Alternatives

Rebrand

Launch
New Brand

Acquisition

Simplify

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Simplify

Poor performance is due to a myriad of related concerns

There's too much on the menu!

Steadily increasing product offerings have led to a bloated menus, sprawling supply chains, lower order turn-around times, rising costs, dissatisfied customers and franchisees, and, tellingly, declining revenues and profits.

Summary

CONCERN	STRATEGY	DETAILS
Menu complexity	Reduce menu size	<ul style="list-style-type: none">• Decrease menu size by 10-20%• Based on profitability of item, region etc
Customers -Changing Tastes -Dropping Service Levels	Improved by:	<ul style="list-style-type: none">• Shorter turn-around times• Region-specific, simplified, menus• Staff will need less product-specific training and can focus more on customer training• Lower-prices (economies of scale)
Products -Quality -Prices	Improved by:	<ul style="list-style-type: none">• Simplified supply chains• Easier to monitor/manage and ensure quality• Economies of scale will ensure low prices
Disgruntled Franchisees	Improved by:	<ul style="list-style-type: none">• Simpler franchise layout• More streamlined processes• Lower (costly) equipment requirements

This will lead to improved revenue and profitability



Would you like fries with that?

Decision Criteria

Decision Criteria	Simplify menu	Rebrand	Acquisition	Status – Quo
Cost	-	--	---	-
Feasibility	++	-	-	++
Customer Perception	++	--	-	-
Impact on Franchisees	++	-	--	-

Simplifying the Menu is the best way to bring back customers and improve relations with franchisees

The Menu Please: Our Strategy for McDonald's

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In all markets simplify the menu offerings

- ▶ There is heavy competition that is addressing the needs of niche markets (Chipotle, Chick-fil-A, In-N-Out Burger)
 - ▶ You can't be everything to everyone
- ▶ Changing middle class – bifurcating between wanting low cost and healthy options
- ▶ Focus on your *value proposition*
 - ▶ Consistent taste, convenience & affordable prices

The Benefits:

A simplified menu will:

1. Improve *quality* issues:
 - Fewer ingredients will help you to streamline and inspect the supply chain
2. Improve *relations with franchisees*:
 - Fewer menu items will reduce complexity in the kitchen
 - McDonalds was initially based on the automobile assembly line
3. Improve *customer service*:
 - Allows for quick service
 - Economies of scale on ingredients allows you to keep prices low

A Tall Order: How to Simplify the Menu

- ▶ Menus will be different by region
- ▶ Take 6 months to do a full menu assessment in each region
- ▶ Keep items that are:
 - ✓ Profitable
 - ✓ High volume
 - ✓ Complementary products (coffee that brings customers to the store in the morning)

US Segment

- Represents 40% of your operating income

McCafe Stores

- Continue to open McCafe stores in Urban/Suburban Centres
 - Corporate owned
- Goal is to have 5% McCafe stores
- Dunkin donuts is growing at 2.9% per year
- Can serve all day breakfast and reduce the burden on McDonald's stores

Customer Perception

- Transparent advertising – where does the food come from?
- Source local when possible to align with consumer preferences

Create Your Own

- Not a good fit in North America where 70% of traffic is drive through

International Lead Markets

- ▶ 40% of operating income
- ▶ McCafe Stores

Create Your Own (McMine)

- ▶ France, Germany, UK (pedestrian countries)
- ▶ Smaller footprint stores with fewer staff
 - ▶ Great in high density countries where real estate is at a premium
- ▶ Based on the paired down menu
 - ▶ Allow changes to condiments, vegetables, etc.

High Growth & Foundational Markets

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- ▶ Create your own in pedestrian countries
- ▶ Franchises to spur growth
- ▶ Adapt menu to local tastes but keep menu simple and small based on criteria

Adapting to local tastes is key in high growth and foundational markets.

Quality Improvement

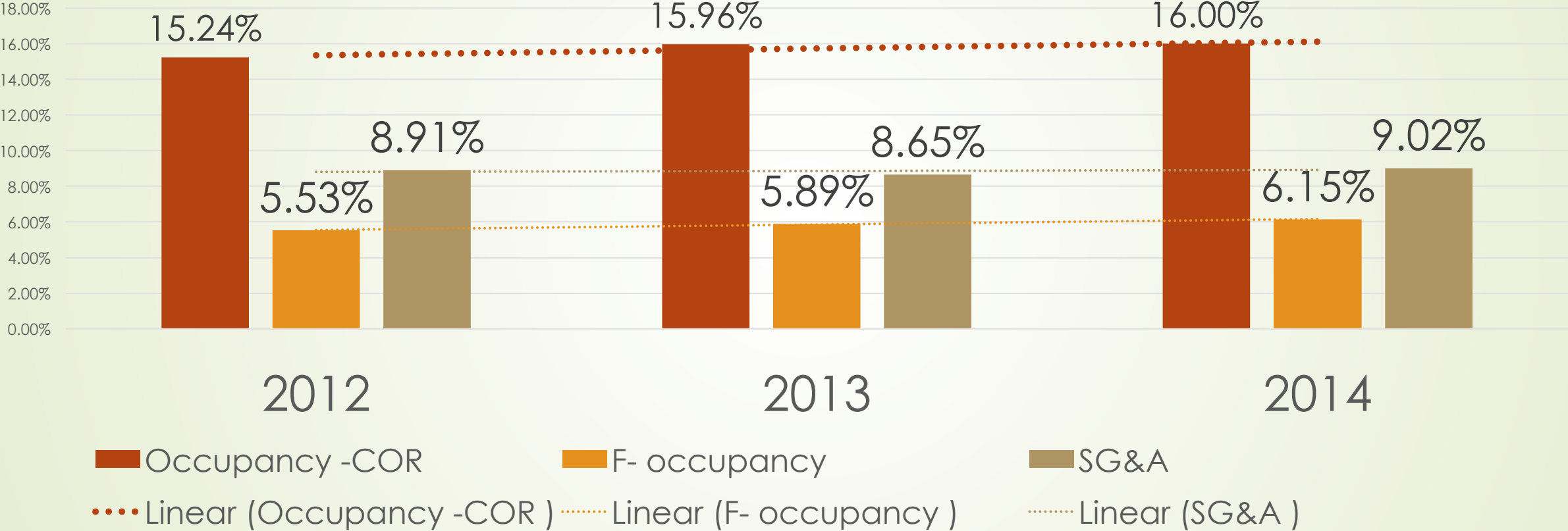
- There have been a number of quality issues, specifically in China and Japan
- Develop a quality scorecard for suppliers and make the results available on your website
 - If standards can't be met, find new suppliers
- Allow customers to “follow their food” by showing them the supply chain



The Numbers

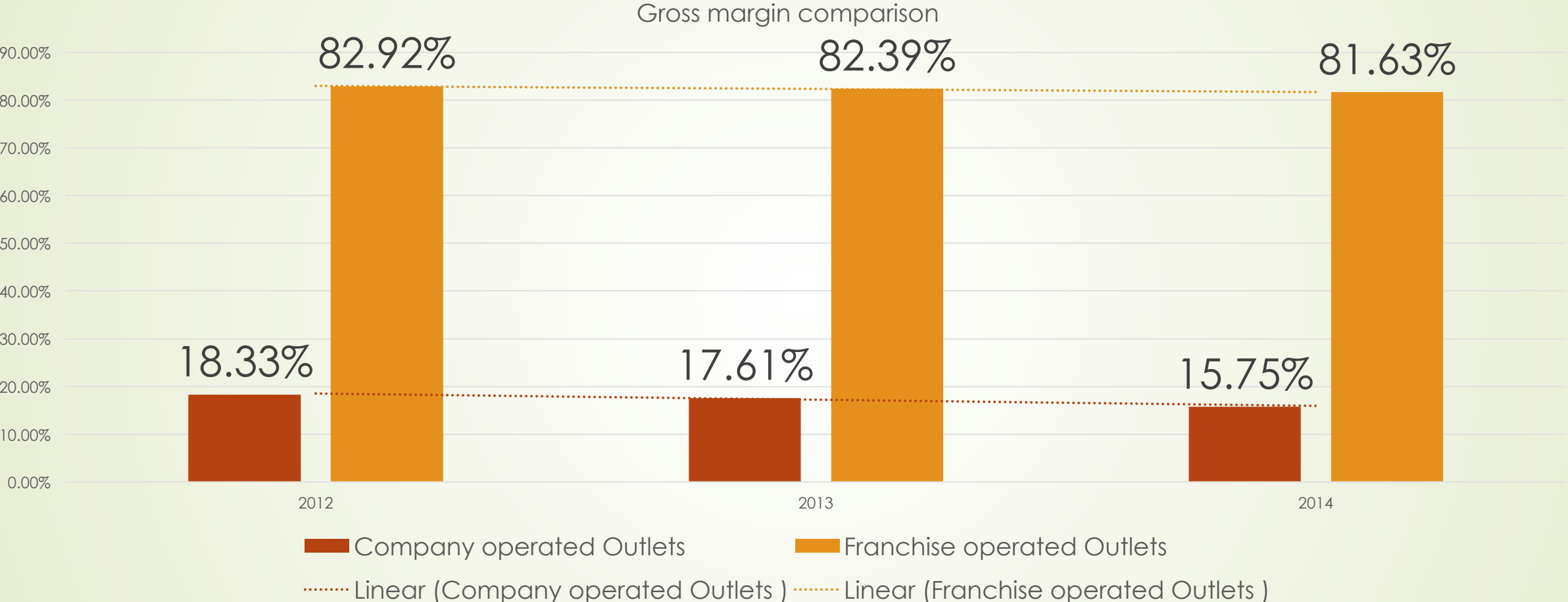
Cost Concerns

Operating Exp%



Occupancy Costs increasing

Gross margins



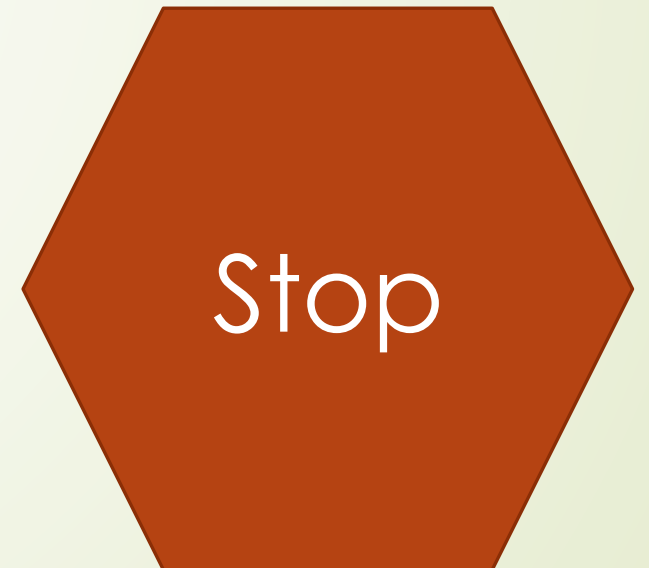
Revenue Comparison

Revenue %	US	Europe	APMEA	Other Countries
Franchise	50	70	82	53
COR	50	30	18	47

Focus on Increasing Franchises in Europe & AMEA on correcting core strategies

Launch Health Brand

- Further deviate McDonald's from core competency
- Create confusion in the mind of the customer regarding the value offered



Rebrand

- Already a strong brand with a strong history
- Huge customer brand recognition, rebrand will be confusing to customer.
- Expensive to implement



Stop



Implementation

Off The Dollar Menu: Creative Ideas

Not recommending this now.

- Create a McDonald's Documentary that goes into what the company is doing to improve it's operation, and image.
- Seasonal Items- Follow Starbucks
- Possible McFit add on to McCafe

The Ingredients of Decline:

1. Price Increases
2. Deteriorating Customer Service
3. Changing Customer Tastes



What does *McDonald's* want to be
when it grows up?

Implementation

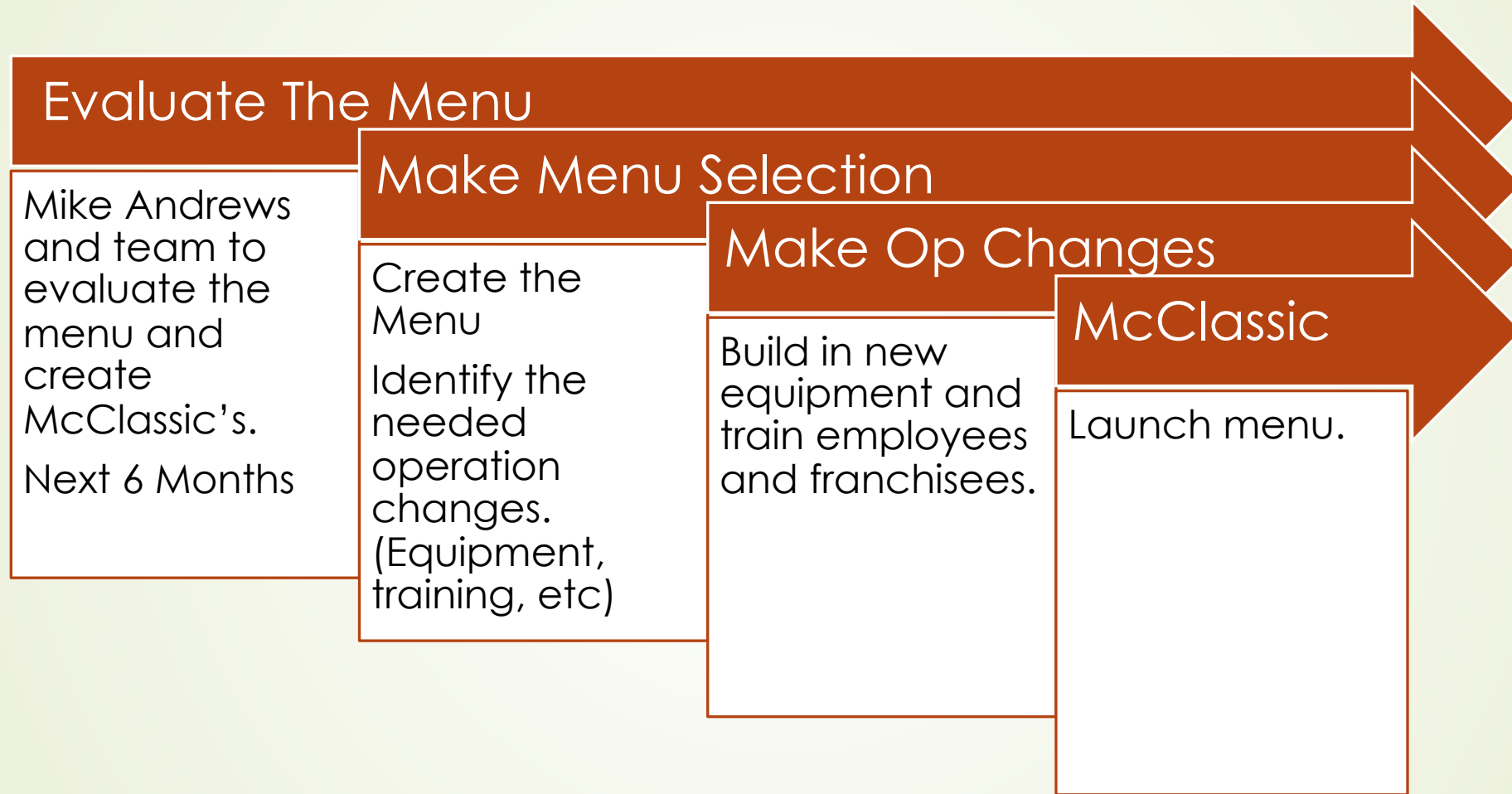
McStrategy:

➤ Overall Strategy

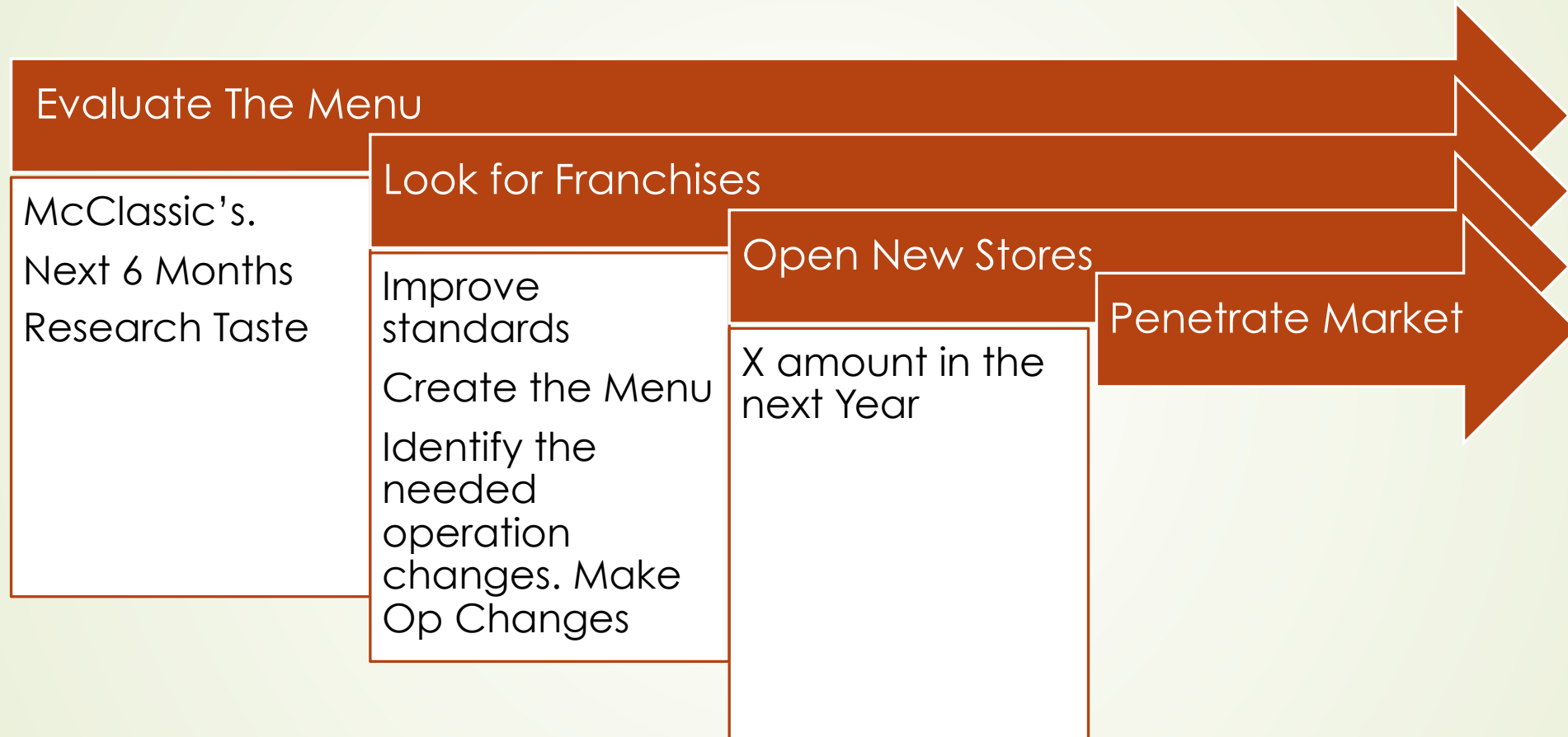
- To Simplify the McDonald's product offering and focus on what McDonald's real world core competencies are. Quality, cheep, and consistent products.
- To increase quality controls
 - Customer service, supplier, partners, experience
- Launch new Transparent Marketing Campaign



The US and Lead Markets: Next 16 Months



High Growth and Foundation: Next 16 Months



McCafe: Build out more stand alone McCafe's

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Identify locations
for McCafe

Create all day
breakfast menu
(simple)

Open store based
on a 5% ratio to
McDonald US and
Can locations

Open McCafe's

A successful brand turn around for McDonalds will look like:

- a) Increase of same store sales
- b) Improved customer perception of McDonald's brand and quality
- c) Improved customer service and employee/franchisee relations

And most importantly, will unlock the financial potential of McDonald's

Risk	Mitigation	Likelihood (H/M/L)	Impact (H/M/L)
FDA Changes	<ul style="list-style-type: none"> - Provide health info on all items, - Smaller serving sizes - Keep healthy options 	H	L
Changing Customer Tastes	<ul style="list-style-type: none"> - Focus on the McClassics, customer tastes are constantly evolving 	M	L
Changing Lifestyle	<ul style="list-style-type: none"> - Keep the focus on quality and convenience 	M	L
Franchisee/ Employee Buy In	<ul style="list-style-type: none"> - Sell the benefit 	H	H
Quality	<ul style="list-style-type: none"> -Increase quality controls. 	H	H

The McRisks can be Managed!



A Mac Made in Heaven

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