

McDonald's Corporation

Providing the best burger for  
everyone!

Montreal, 1/4/2016



# Driving question

Go back to sale burgers or revolutionize to compete?

Sales decrease

Cost structure

Customer service

Portfolio offers

Consumer trends

Quality issues with suppliers

# UPcoming solution at a glance

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Address health conscious customers

Portfolio streamlining

Pre-order app to reduce waiting times

Play on trends by offering healthy customized quality burgers

Quality assurance program

# Agenda

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- **Analysis of status quo**
- Evaluation of strategic alternatives
- Detailed implementation plan
- Costs and benefits
- Next steps

# Your business model

## Product

- Extensive portfolio
- Complex menu
- 100 products added over a decade
  - Within 7 years portfolio grew by 70%
- Adding new items resulted in slower services and higher weighting times

## Channel

- Franchisee
  - Unhappy
  - Heavy investments due to changes
- Own stores
  - Over the counter
  - Drive-through
  - Delivery

## Customer

- Loyal fast food lovers
  - fast, cheap and no frills
- Health conscious people
  - Value for money
- **Income gap is increasing**
- **Perception:** cheap unhealthy mass-produced fast food
- Changing consumer trends:
  - Wholesome and healthy
  - Fast casual food
  - **Customizable high quality healthy food**



Trying to please everyone with what they desire.

# Markets you are operating in

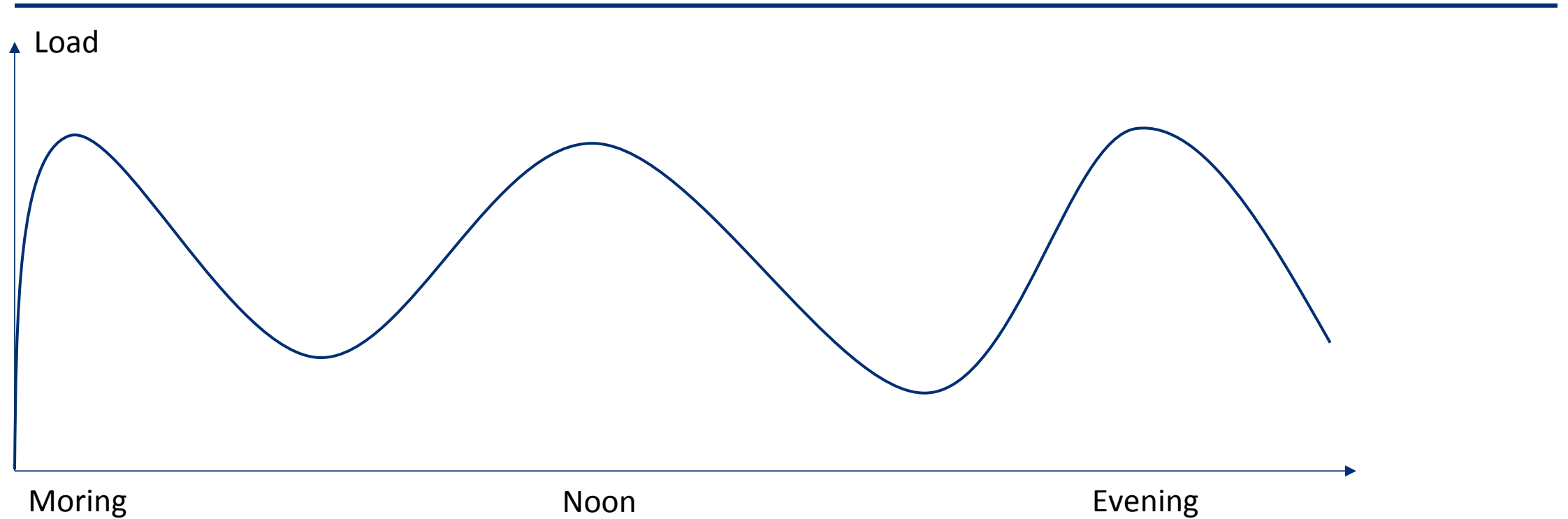
US	International lead markets	High growth markets	Foundation markets
<ul style="list-style-type: none"><li>▪ 40% of revenues</li><li>▪ Core market</li><li>▪ Bring decision-making to the customer</li></ul>	<ul style="list-style-type: none"><li>▪ 40% of revenues</li><li>▪ Australia, Canada, France, Germany, UK</li><li>▪ well-developed franchising organization</li><li>▪ Modest opportunities for new store development</li><li>▪ Similar competitive sets</li><li>▪ Stable economy</li><li>▪ Highly talented teams</li></ul>	<ul style="list-style-type: none"><li>▪ 10% of revenues</li><li>▪ China, Italy, Poland, Spain, Russia, Switzerland, Netherlands,....</li><li>▪ Strong growth potential</li><li>▪ Franchising not well developed</li></ul>	<ul style="list-style-type: none"><li>▪ 10% of revenues</li><li>▪ 100 other stores around the world</li><li>▪ Focus on local culture</li><li>▪ Customs to determine priorities</li></ul>

→ Quality issues in international markets.



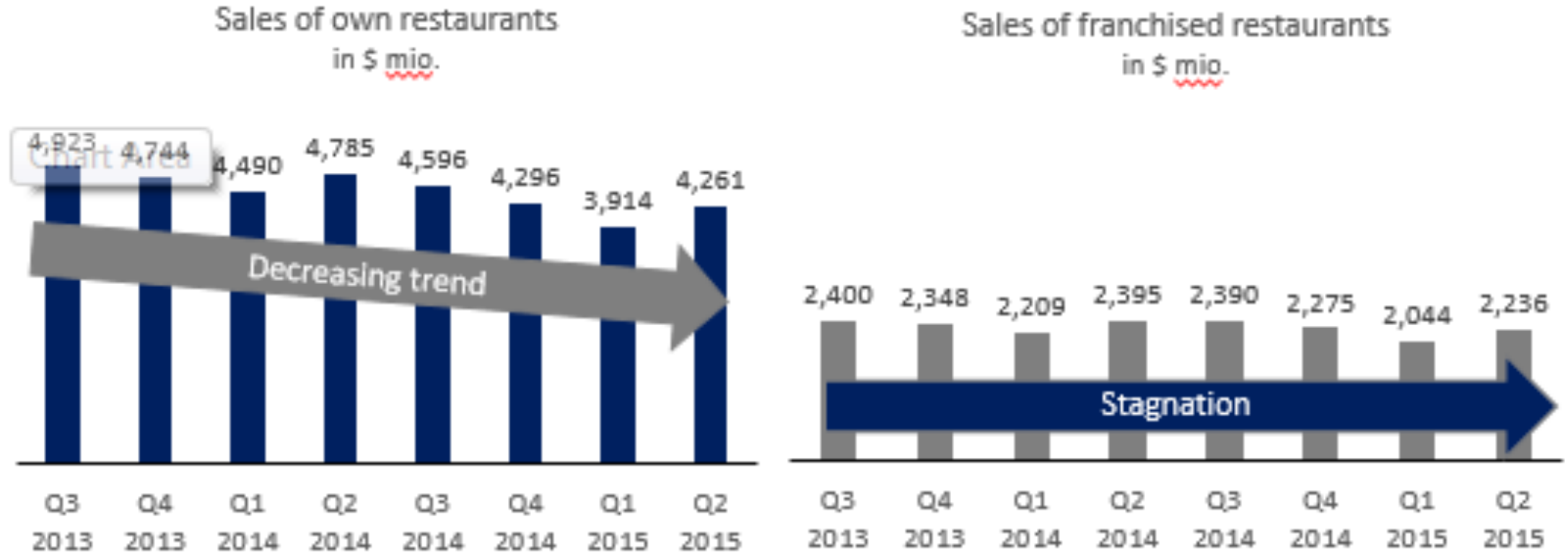
Cluster of similar markets facilitates operations (quick decision making, reduced costs, knowledge sharing)

# Load during the day



Peak times during meal times. Important to reduce waiting and operation time during these peaks.

# Financial health check



Both channels need an improvement in sales.



# Financial health check

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Net income in  
\$ mio.

- Sales growth in 2014: **-2.4%**
- Cost growth in 2014: 0.7 %



Declining sales cause rentability challenges.

# Financial health check

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## Cost structure



- Elimination of 16 Burgers in portfolio reduced costs for Food by 4%
- Selling own stores is going to reduce administration costs by 12%



Cost cutting programs are going to work out.

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# How to revolutionize your company

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Loyal fast food lovers

Premium healthy customer



You need different strategies for your different customers.

# The portfolio is the best leverage to handle the fast food lovers

Less products	<ul style="list-style-type: none"><li>▪ Faster</li><li>▪ Cheaper</li></ul>
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Same products	<ul style="list-style-type: none"><li>▪ Customer satisfaction</li><li>▪ Slow</li></ul>
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More products	<ul style="list-style-type: none"><li>▪ More customers</li><li>▪ Slower</li><li>▪ Expensive</li></ul>
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 Less products are the key to reduce lead times.

# A new brand for your premium healthy customers is needed

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## New stores

- Build new stores
- Perfectly designed for customer needs

## Store in store

- Add a new store inside the existing stores

## Transformation

- Use some existing stores in order to transform them into new brand

- Cost
- Time
- Feasibility
- Value to customer



Choose the best alternative with the provided criteria.

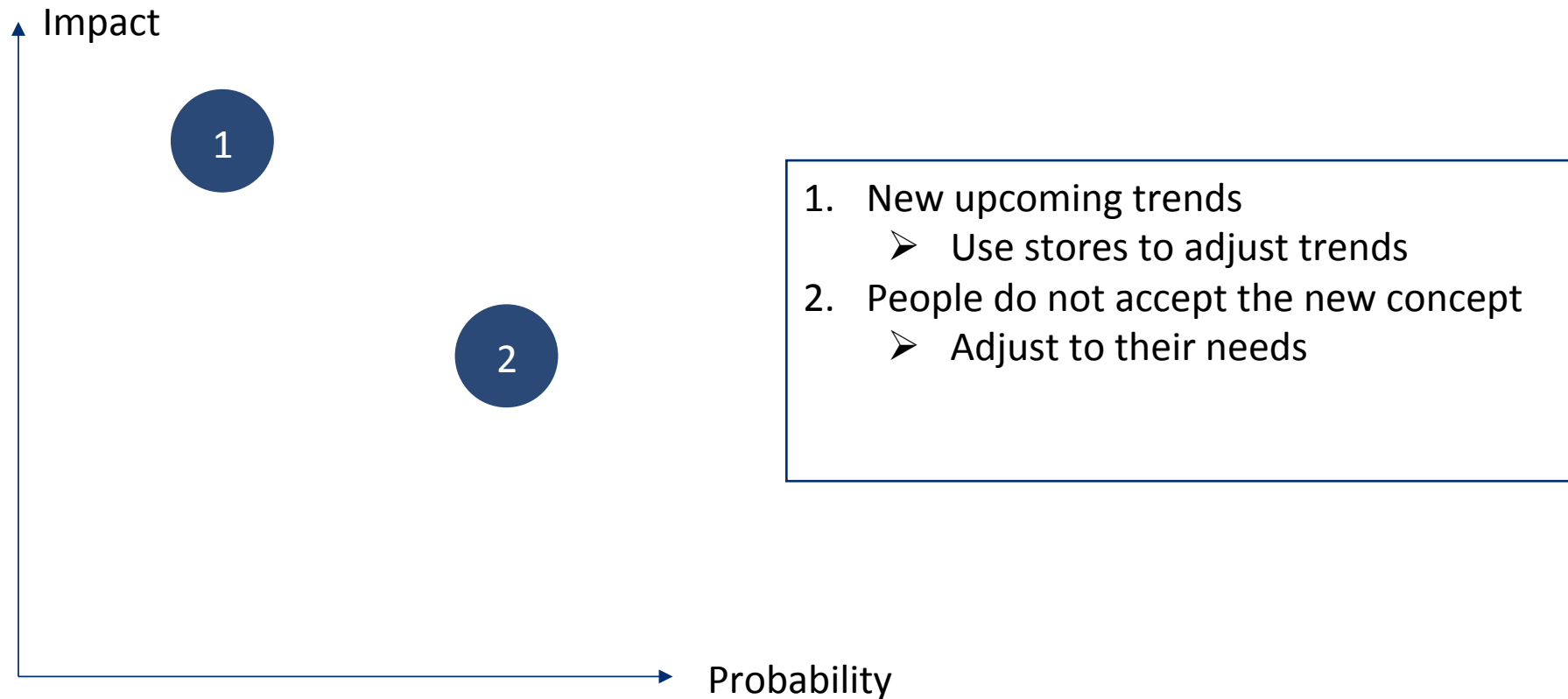
# How to open the new stores?

Criteria	New stores	Store in store	Transformation
Cost	●	●	●
Time	●	●	●
Feasibility	●	●	●
Value to customer	●	●	●



The transformation of existing stores into new brings the biggest impact on your strategy.

# Challenges

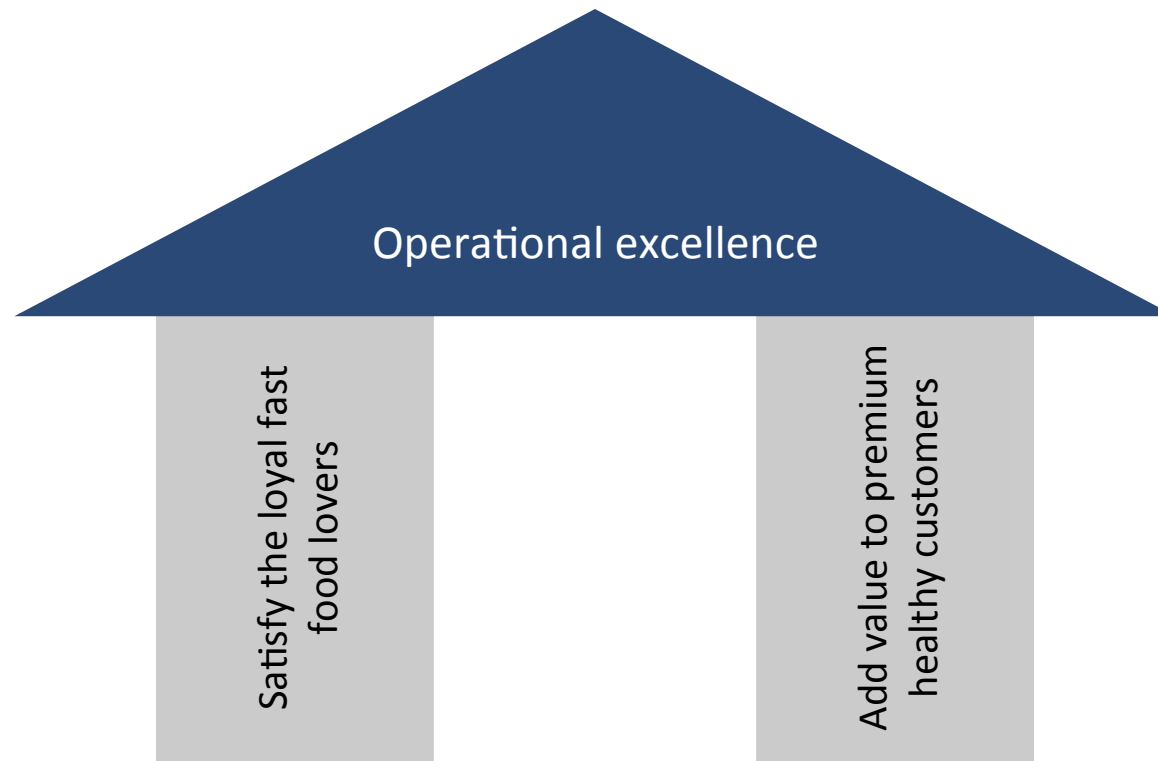


Use the dynamic of the new brand with the power of McDonalds to fight the upcoming challenges.



# Your revolution in a nutshell

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# Operational excellence program

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## Quality assurance

- Supplier auditing
- Quality concept
- “McLab”

\$50 mio/year

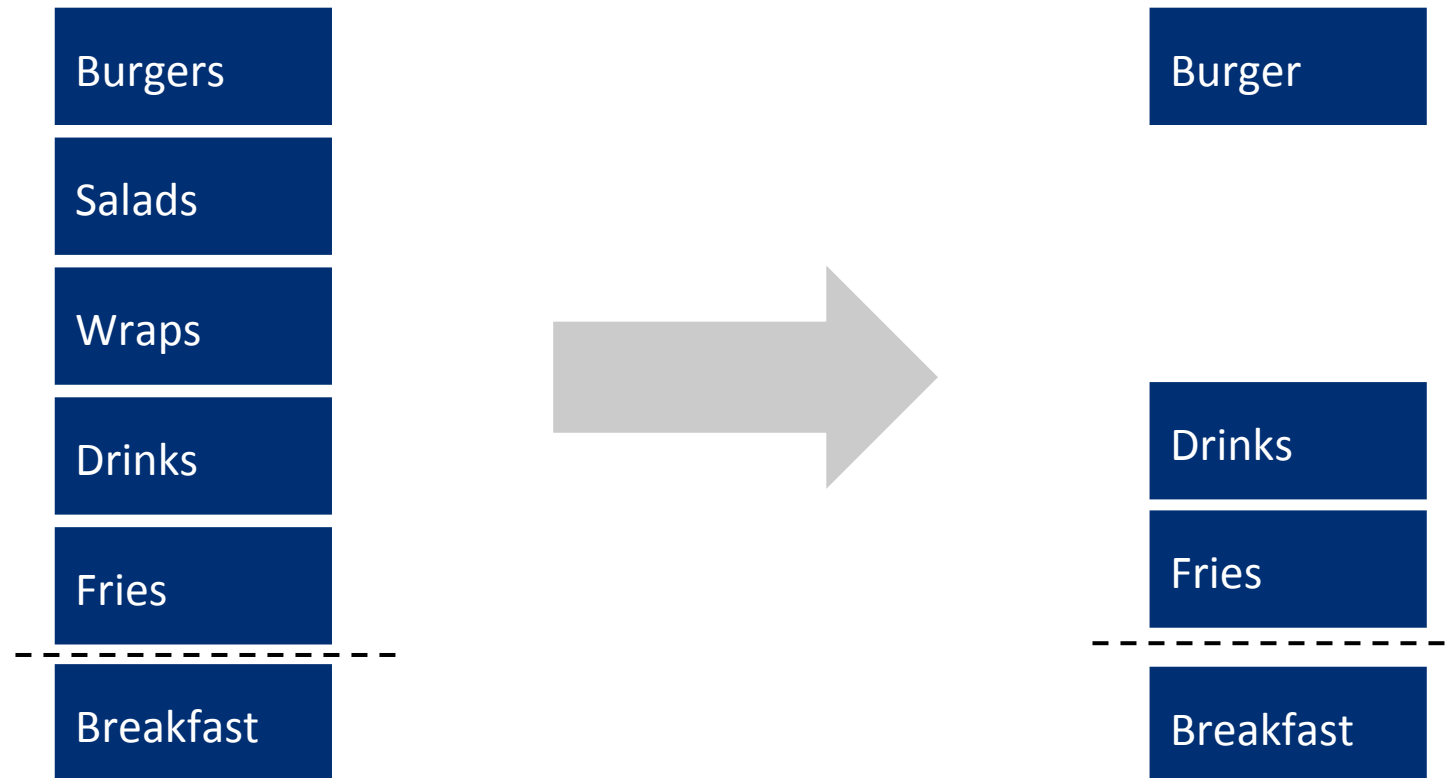
Streamline product portfolio

Pre-ordering concept



Elements are benefitting both divisions.

# Streamline the product portfolio



Simple Burger in better time and quality with breakfast just in the morning.

# Reduce lead times by pre-ordering

Criteria	Self-service terminal	App	Responsive Website
Native user experience	●	●	●
Multilanguage capabilities	●	●	●
Quick payment	●	●	●
Customer profile	●	●	●



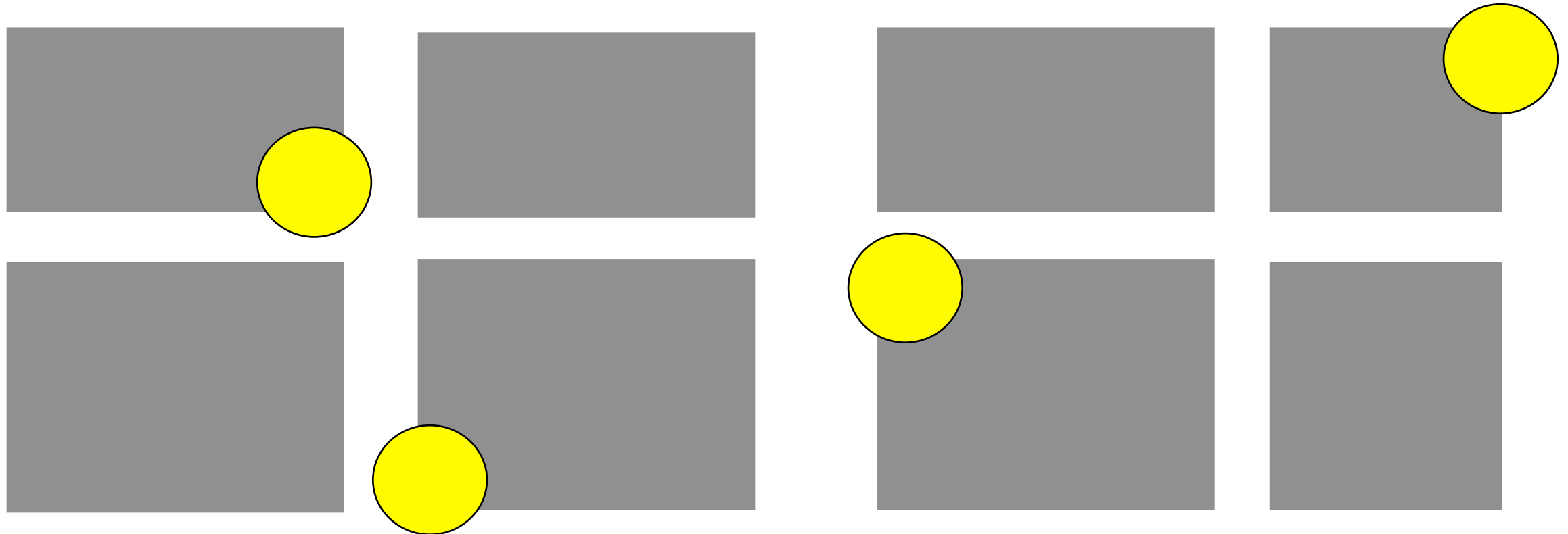
App is best way to facilitate pre-ordering acceptance among customers.

# Digitalization enables to tackle peaks

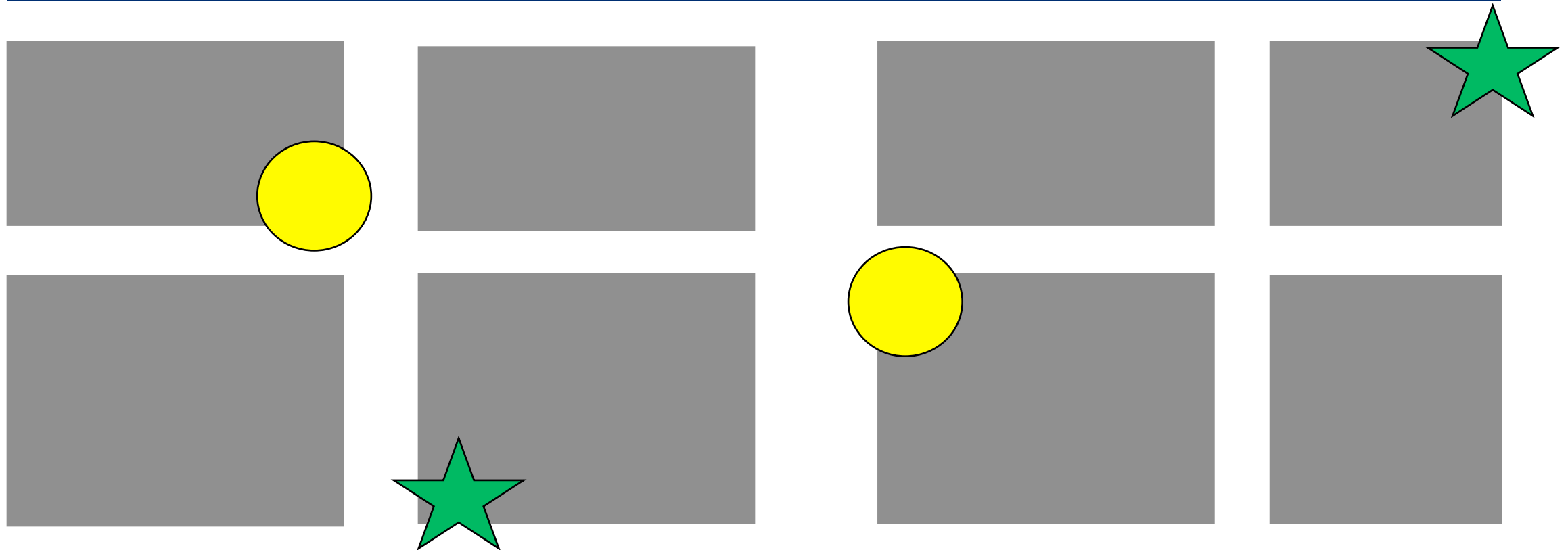
App	<ul style="list-style-type: none"><li>▪ Pre-ordering online</li><li>▪ Having a customer profile<ul style="list-style-type: none"><li>▪ Last orders</li><li>▪ Preferred ingredients</li></ul></li><li>▪ Direct checkout</li></ul> <p data-bbox="2109 606 2356 706">\$10 mio \$3 mio/year</p>
Information system	<ul style="list-style-type: none"><li>▪ Customer profile capabilities</li><li>▪ Open API for integration of 3<sup>rd</sup> party apps</li></ul> <p data-bbox="2089 863 2356 963">\$20 mio \$10 mio/year</p>

# How to chose the optimal location

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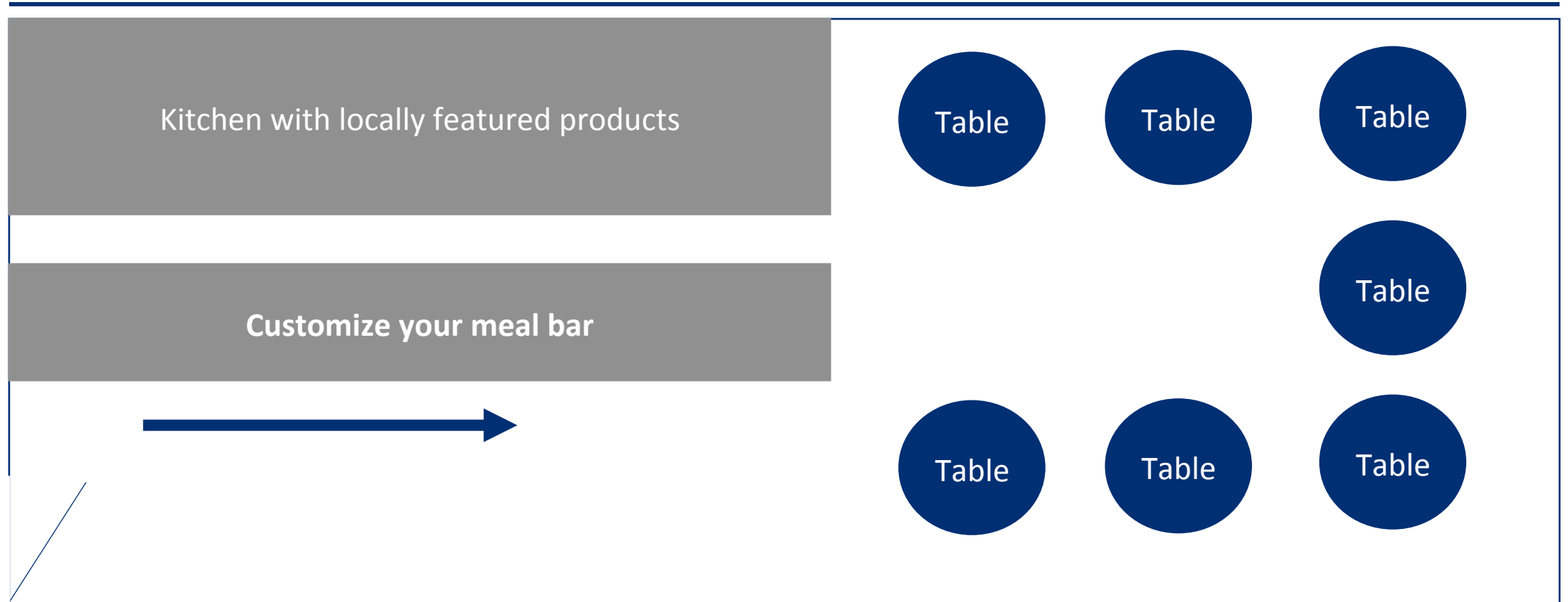
# How to choose the optimal location



Making use of the existing space in the metropolitan areas and change stores for \$0,75mio each.



# How one of the 750 new store looks like



# Introducing “delight by M”

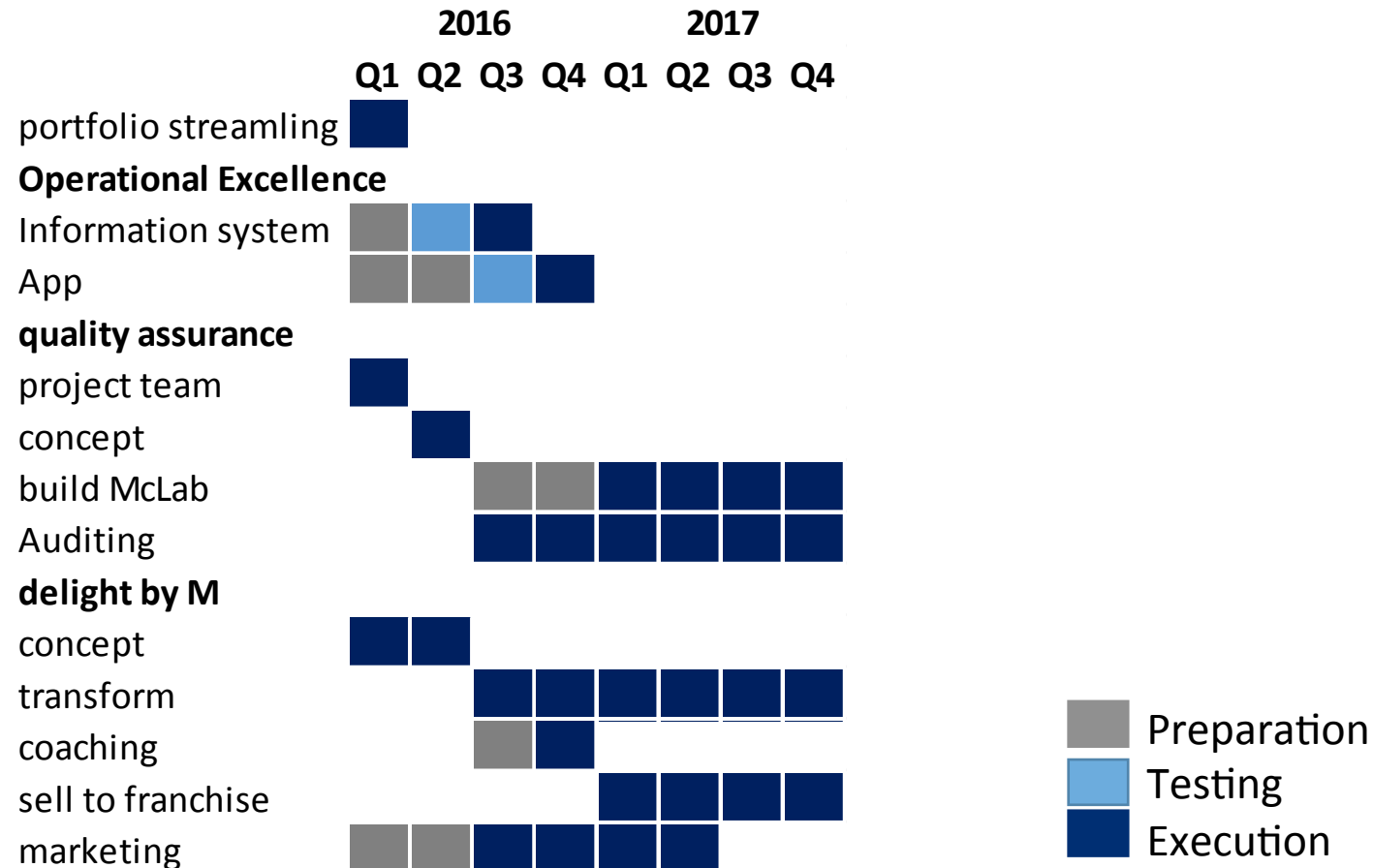
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- TV chefs promotion
- TV campaign
- Digital marketing campaign



\$350 mio to raise brand awareness.

# Your roadmap to success



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# Let us sum UP your investments

Investments in \$ mio.	2016	2017	2018
<b>Pre order system</b>	30	13	13
-Information System	20	10	10
-App	10	3	3
<b>Delight by M</b>	375	375	375
# Stores	750	750	750
Costs per store	0.5	0.5	0.5
<b>Marketing</b>	90	130	130
# Chefs	20	40	40
Salary	2	2	2
TV-Campaign	50	50	50
<b>Total</b>	<b>495</b>	<b>518</b>	<b>518</b>
			1,531

# Where do we increase our profits?

<b>Additional profit</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Pre order system</b>			
+2% overall sales	274.41	288.13	302.54
profit at 32% operating margin	87.81	92.20	96.81
<b>Delight by M</b>			
# stores	750.00	1,500.00	2,250.00
costs per menu in \$	10.00	10.00	10.00
sold menus per day	200.00	200.00	200.00
yearly sales	540.00	1,080.00	1,620.00
profit at 45% operating margin	243.00	486.00	729.00
<b>Marketing</b>			
+2% overall sales	274.41	288.13	302.54
profit at 32% operating margin	87.81	92.20	96.81
<b>Total additional profit</b>	<b>418.62</b>	<b>670.40</b>	<b>922.62</b>
			2,011.65

- Pre order System increases Sales by optimizing turnover times
- Operating margin for Delight M is higher than for the rest of the portfolio

# Value for McDonalds

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in \$ mio.	2016	2017	2018
Cash Flow	-76.38	152.40	404.62
NPV at 9 % Costs of Capital			<b>370.65</b>



Generating an NPV and also value for the company.

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# Next steps

Issue	Solution
Sales decrease	Address health conscious customers
Cost structure	Portfolio streamlining
Portfolio offers	
Customer service	Pre-order app to reduce waiting times
Consumer trends	Play on trends by offering healthy customized quality burgers
Quality issues with suppliers	Quality assurance program
How to get started	
Design new counter for create your own burger Streamline portfolio Modify app	