

# McDonald's Turnaround Plan

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A PRESENTATION TO: MCDONALD'S UPPER MANAGEMENT

GOODMAN SCHOOL OF BUSINESS, BROCK UNIVERSITY

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# Problem and Solution

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## **Problem:**

How can McDonald's improve its customer satisfaction and revenue?

## **Solution:**

Adjust current turnaround plan to address brand trust, and customer satisfaction.

# End Goal

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## **McDonald's future vision:**

- Organizational flexibility and adaptability
- Customer-focused
- Stable revenue and cash flow streams
- Sustainable long-term growth

# Agenda

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- Current Situation
- Key Issues
- Qualitative Analysis
- Quantitative Analysis
- Alternatives
- Implementation
- Risk Mitigation
- Conclusion

# Qualitative Analysis

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# Current Situation

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- Q2 2015
- Historically resilient to declining profits
- **Competitive advantage:** Quick service, low prices, powerful franchising network
- CEO, Steve Easterbrook
  - May 2015, CEO has proposed a Turnaround Plan
- Company decline in revenue and sales
  - 2014 = “The Lost Year”
  - Q1 2015: -11% revenue
  - Q2 2015: -13% profits, -2% sales

# Key Issues

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- **Declining profits:** Decline in sales and profitability Q1 2015
- **Brand trust:** Poor perception of food quality
- **Menu:** Complex menu slows down operations
- **Franchisees:** Pessimistic future view
- **Unfocused:** Trying to be everything to everyone

# Market Analysis

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1. **Domestic Market:** 40% operating income

2. **Global Lead Market:** 40%, Australia, Canada, France, Germany and UK

Well developed franchising organization

Modest opportunities for new stores

3. **High Growth Market:** 10%, China, Italy, Russia, Poland

Growing opportunity for eating-out sectors

4. **Foundation Market:** 10%, other 100 markets

Focused on local culture and customization



# Competitor Analysis

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**Direct Competitions:** Fast food restaurants

Better fare and faster service

Healthy options

**Indirect Competitors:** Specialty restaurants, other casual restaurants

Better food quality,

Various pricing level based on the food

# Consumer Analysis

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## **Traditional customers:**

Changing taste in food

Increasing concerns in health issues, like obesity

## **Millennials:**

Customizable food

High quality food

Healthy food

Self image: healthy and savvy

# Qualitative Analysis

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## STRENGTHS

- Global franchising network
- Flexibility in developing new products
- Low price and modestly fast service

## WEAKNESSES

- Complex menu
- Low efficiency in global market management
- Low efficiency in premium product

# Qualitative Analysis

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## OPPORTUNITIES

- Growing opportunity for new store in global lead market

## THREATS

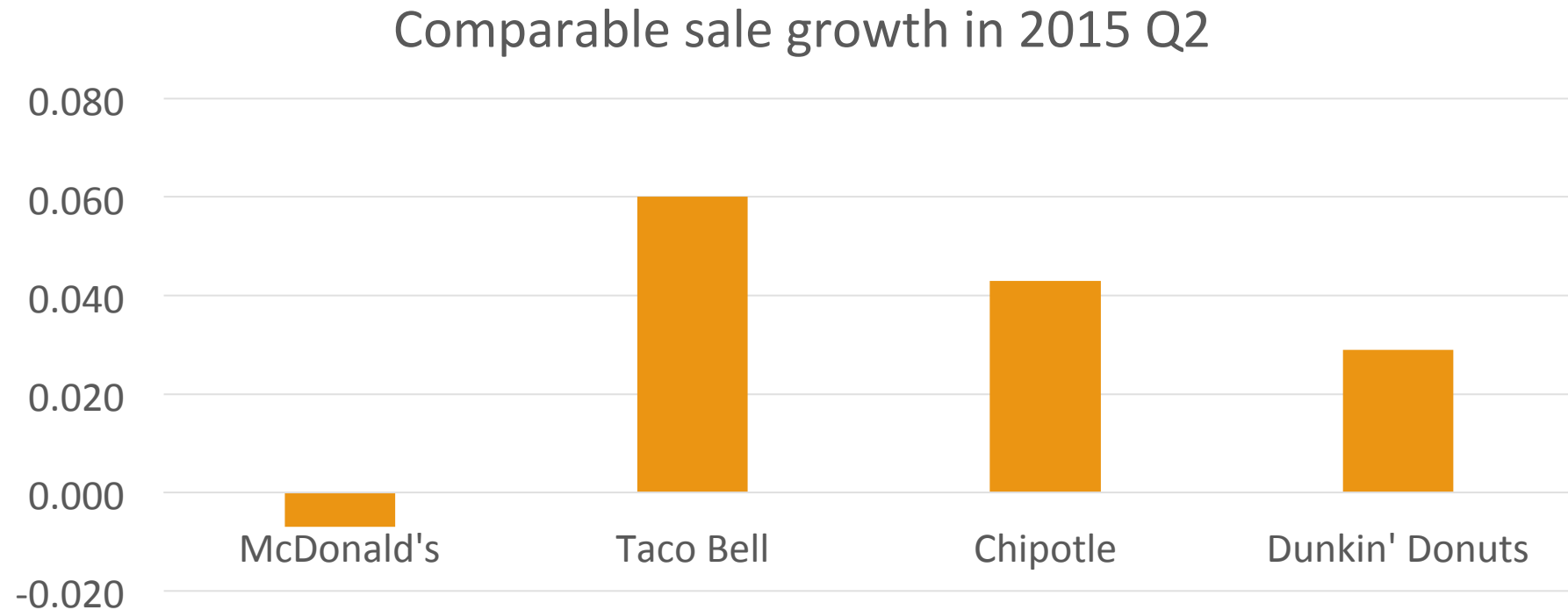
- Competition from direct and indirect competitors
  
- Consumers' changing taste

# Quantitative Analysis

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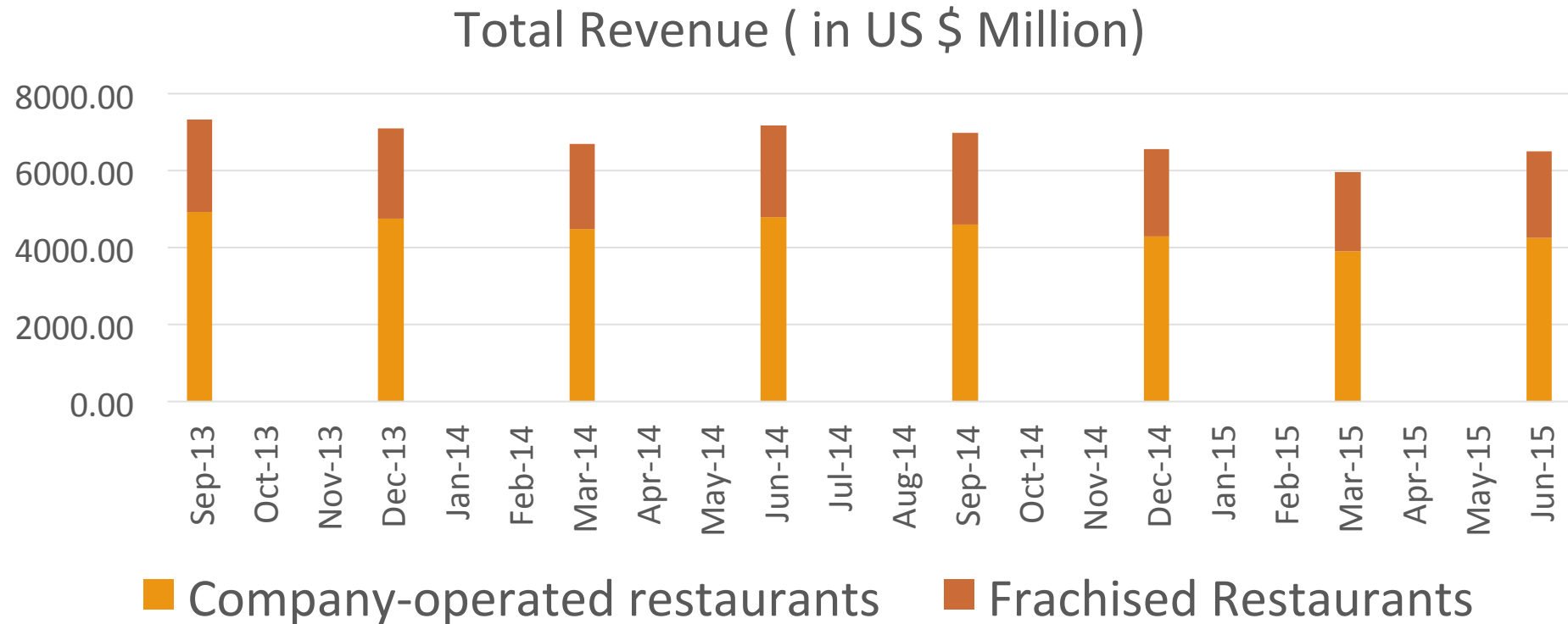
# Current Financial Situation: Competitor Comparison

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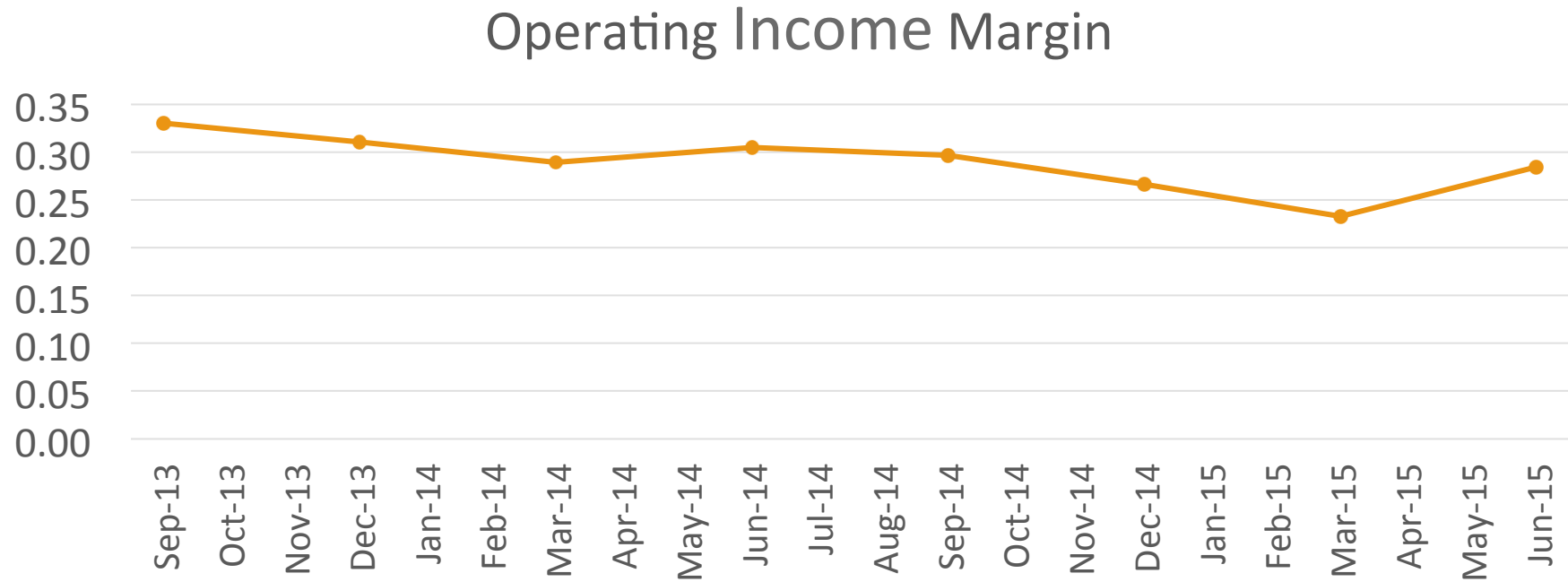
# Current Financial Situation: Total Revenue

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# Current Financial Situation: Operating Income Margin

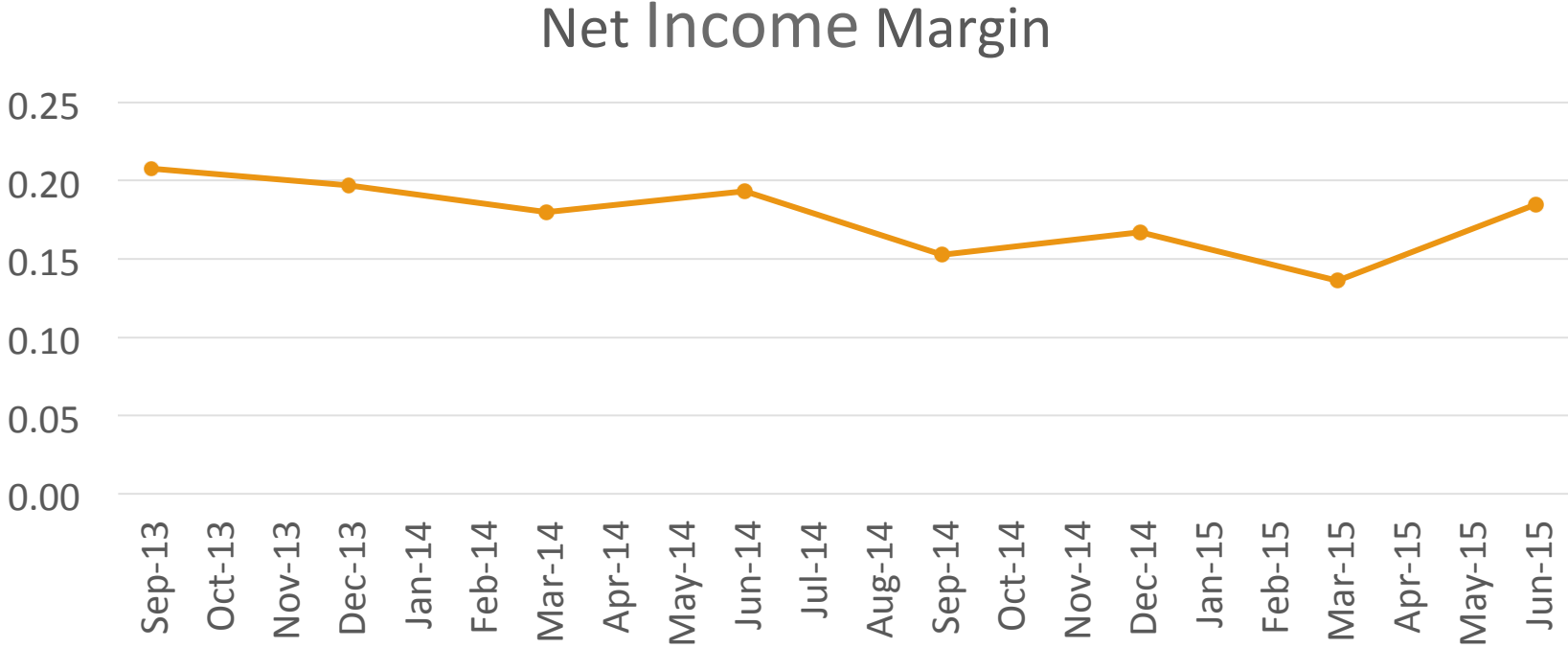
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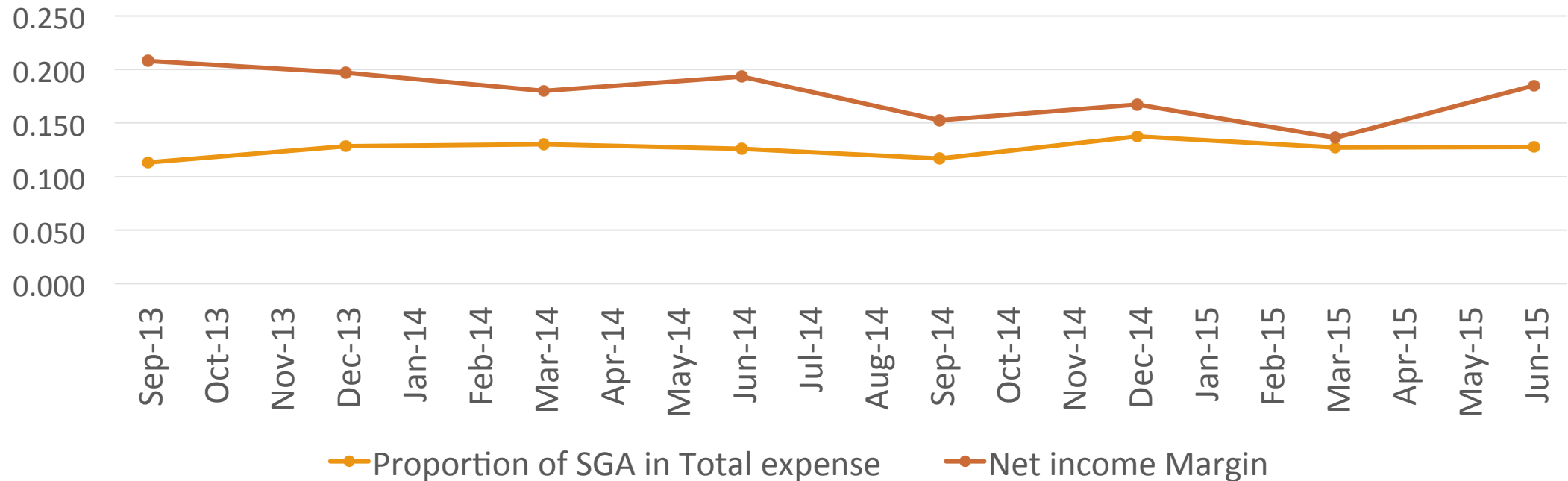


# Current Financial Situation: Net Income Margin

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# Current Financial Situation: Correlation



Correlation change from **-0.85** to **0.28**

# Projection of the franchisees

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## **Cost:**

Grill, toasters and other equipment : 175 million

App, website: 10 million

Labeling: 20 million

Marketing: 25 million

Decoration: 200 million

Supervision: 10 million

## **Benefit:**

300 million in saving of SGA expense.

Break-even period: **1.5 year**

# Alternative Analysis

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# Alternatives

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## 1. Back to Basics

- Cut menu items
- Leverage competitive advantage

## 2. Reinvent Yourself

- Stay current, compete
- Ancillary brand

## 3. Adjusted Turnaround Plan

- Focus on transparency
- Focused geographic segments

# Alternative 1: Rejected

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**Back to Basics:** Tried and tested model of selling burgers

+ Simplify menu by cutting items

+ Leverages resilience

+ Enhances competitive advantage

- Does not address changing consumer perception

- Not adaptable to political, environmental, social elements

- Not a competitive strategy

# Alternative 2: Rejected

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## **Reinvent Yourself:** Through ancillary brands

- + New brand image
- + Addresses change in customer values (health conscious)
- Building reputation and positive brand image takes time
- Does not enhance competitive advantage
- Alienates loyal fast food lovers
- Risky

# Alternative 3: Optimal Solution

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## Adjusted Turnaround Plan

- Business restructuring
  - US
  - International Lead Markets: Australia, Canada, Germany, France, UK
  - High Growth Markets: China, Italy, Poland, Russia, South Korea, Spain, Switzerland, Netherlands
  - Foundational Markets: 100 other countries
- Simplify menu: remove 16 items
- Focus on product quality
- Selling 3500 restaurants to franchisees by 2018
  - Franchisees pessimistic about future, but will generate a lot of revenue
- Transparency: promotions



# Justification

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## **Optimal Solution:** Tweaked Turnaround Plan

- + Business restructuring enables growth, quick decision making, and a focused plan per geographic segment
- + Focus on product quality increases consumer perception of food quality
- + Transparency promotions improve brand trust and image
- + Leverages competitive advantage
  
- Current plan lacks detail
- Trying to please everyone

# Decision Matrix

	1. Back to Basics	2. Reinvent Yourself	3. Tweaked Turnaround Plan
Profitability	-	+	+
Timeliness	+	-	+
Risk	-	-	+
Strategic Fit	+	+	+
Competitive Advantage	+	-	+

# Implementation

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# Implementation

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## Continue with Business Restructuring into 4 segments

- US
  - Standardized menus
  - Mass customization
- International Lead Markets
  - Healthy menu options
  - Relabeling
- High Growth Markets
  - Quality focused
  - Transparency
- Foundational Markets
  - Local taste

# Implementation

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- US
  - Preorder
    - Create a new app
    - Customize website
    - Remove kiosks
  - Refurbish restaurants
    - Inviting and warm atmosphere
  - Standardize menu
- International Lead Markets
  - Replace menu with healthy options
  - Green label
  - Marketing campaign
- High Growth Markets
  - Create center of excellence for quality

# Risk Mitigation

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## **RISK**

Menu complexity

Image

Cost

Franchisee complaints

## **MITIGATION**

Replacing

Enhance employee training

Ordering app will reduce waiting time

Relabeling and marketing

Centre of excellence

Removing costs for kiosks

# Conclusion

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**Problem:**

How can McDonald's improve its customer satisfaction and revenue?

**Solution:**

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# “Transparency and Quality”

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