

Can McDonald's change its image?

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McDonald's has been presenting a brand very different from the one most of us grew up with.

In early August, McDonald's Corp. invited a few dozen members of the media to its headquarters in Oak Brook, Ill., to share the company's latest product news: The removal of high fructose corn syrup from buns and artificial ingredients from Chicken McNuggets and scrambled eggs.

But the company also wanted to demonstrate a broader menu shift. McDonald's served breakfast bowls made with egg whites, spinach and turkey sausage. Lunch included new salads, burgers made with guacamole, and fries coated with garlic.

McDonald's corporate [chef](#) demonstrated how to make an Egg McMuffin. The supply chain director described how McDonald's is working with suppliers to improve offerings and make sure items are more sustainable.

This is the new McDonald's.

The brand is focused on sustainability, the treatment of animals within the supply chain, and providing customers with more healthful options they can feel good about.

"We're about making purposeful change," said Marion Gross, who leads McDonald's North America supply chain.

“We’ve got a committed attitude. We want to be better. We’re listening to our customer.

“So over the past year and a half, we’ve accelerated the pace of change in everything we’re doing. And we’ve challenged nearly every aspect of our menu.”

But it remains to be seen whether a more sustainable supply chain will generate more sustainable sales growth. McDonald’s is McDonald’s, after all. And changing the view of the most well-known and well-visited restaurant chain on Earth will be no easy feat.

“I think it will take years,” said John Gordon, a San Diego-based restaurant consultant. “It will take time. There will always be the pressure on McDonald’s to devote time and attention to the core business.”

Growth sputters, and a shakeup ensues

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Between 2002 and 2012, McDonald’s used a combination of Dollar Menu, product introductions and restaurant remodels to build sales at existing locations. Unit volumes grew by about \$1 million to \$2.5 million in the U.S. — turning what was already the largest restaurant chain in the world into an absolute behemoth.

But then those efforts stopped working. Same-store sales began falling, and continued to be weak for three straight years. Major product launches, such as the Angus Third-Pound Burgers and Mighty Wings, were deemed failures.

A management overhaul followed. In August 2014, Mike Andres was named president of McDonald’s USA. By early 2015, CEO Don Thompson was out, replaced by Steve Easterbrook.

Both executives were McDonald’s veterans who left the company for outside opportunities, only to return. Their arrival has preceded an almost unprecedented set of changes at the company.

Over the past 18 months, McDonald’s has made major changes to the executive ranks. The company has reorganized its global operations, cutting hundreds of millions in general administrative expenses and involving numerous staff cuts at company headquarters.

The chain went with a regionalization strategy in the U.S. that has put products on the menu such as lobster rolls in Maine and Filet O’ Fish seasoned with Old Bay in Maryland. It ended the Dollar Menu and replaced it with a revolving “McPick” menu to lure value-seeking consumers.

McDonald’s also introduced an all-day breakfast menu last fall to amazing success. Domestic same-store sales rose 5.7 percent in the fourth quarter of last year, and then 5.4 percent in the first quarter of this year. Both numbers easily outdistanced rivals.

But same-store sales have slowed more recently, to 1.8 percent in the second quarter.

And for all of the product tests and regionalized items the company has developed, McDonald’s strategy over the past 18 months has not included a major new product on a national scale.

Instead, the chain appears to be working on





improvements to its core menu items. The biggest changes at the moment are all aimed at improving customers' views of the food they already eat — Chicken McNuggets, salads and Egg McMuffins.

“The core menu is essential to our strategy moving forward,” Andres said. “You’re going to see continued news around the core.”

While McDonald's has lacked major new product news besides all-day breakfast, Burger King, Wendy's, Jack in the Box, Arby's and Sonic have released several innovative new products with varying degrees of success.

With same-store sales faltering, that could put pressure on McDonald's executives to do something big. Yet some believe that McDonald's product offerings ceased being effective, and are actually a detriment by making the menu overly complex.

“Everybody cries for innovation,” said Richard Adams, a former McDonald's franchisee who consults with existing McDonald's operators. “But that's what caused the menu bloat they suffer from. Every new product increases complexity, slows down service and makes the job more difficult for crew people.

“The core is what the business is built on,” he added.

Rethinking the supply chain

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Last September, Jessica Foust, McDonald's director of culinary innovation, and Ali Leon, the vice president of McDonald's produce supplier Ready Pac Foods, walked through fields of baby spinach and baby kale at a farm in Gonzales, Calif. Several other company representatives and some franchisees joined them.



They were there to check on the status of the greens. The



previous
June,
McDonald's
quietly
changed the
lettuce mix
for its salads.
Gone was
iceberg
lettuce. In
came baby
spinach,
baby kale
and Tuscan
red leaf

lettuce. After that meeting, they would change the blend again, adding more red leaf lettuce, along with ribbon-cut carrots.

“Since the growing cycle of lettuce is a relatively short 60 to 90 days from germination to harvest, this was a fairly simple change to make for us,” Leon said. “What we did to make the change quickly was we simply removed iceberg from the fields and replaced it with romaine, and added new crops — baby spinach, baby kale and baby Tuscan.”

When McDonald's shakes up its supply chain, the industry takes notice. The burger giant is bigger than Subway, Starbucks and Wendy's combined in terms of systemwide sales. And considering that its price point is among the lowest in quick service, the company's customer reach is even bigger.

Suffice it to say, changes at McDonald's have a big impact on the entire food world. Since McDonald's announced plans to shift to cage-free eggs last year, for instance, more than 100 companies, including restaurants and grocers, followed suit. When the chain introduced sliced apples as part of Happy Meals, it sourced more than 10 percent of all sliced apples produced in the U.S.

That impact on the supply chain is certainly not lost on the company. “We can use our size and scale not only to bring value, but we can use it for good as well,” Gross said. “When we make changes like this, it has a ripple effect on the industry.”

As such, she said, change can be slow. “When you have a supply chain that's as big as ours, sometimes things don't move as fast as you would like them,” Gross said. “Our grocery basket is huge.”

Shifting eggs to cage-free will take time because suppliers will need to build housing for hens that could be meet the cage-free requirements, while also keeping in mind waste removal and their behavior. And some suppliers might simply look at breeds of hen that are less apt to peck one another.

Suppliers, Gross said, “are keenly aware of where the customer is going,” and understand the need to make changes.

A menu for the new consumer

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The change to McDonald's salad mix that Foust and Leon



discussed that day in September was a relatively simple one. But it also represents the new McDonald's — focused on improving existing products at the request of customers, who didn't think that iceberg lettuce was nutritious enough.

And although McDonald's is known more for its burgers and Egg McMuffins, salads are an important component. It's no secret that its mid-2000s renaissance included an upgraded premium salads line to appeal to mothers of children who yearn for the chain's Happy Meals.

Indeed, one could look at McDonald's decision to remove antibiotics from its chicken — a goal it reached nearly a year ahead of schedule — along with its removal of artificial preservatives from its Chicken McNuggets through the same lens.

“Not every meal has to be tofu and kale, but we want to feel good about ourselves as parents,” said Mark Kalinowski, a restaurant securities analyst with Nomura. “I don't necessarily think [McNuggets made without preservatives] will be an incredible sales driver. But it's a good example of the type of move McDonald's should do.”

To be sure, McDonald's isn't entirely abandoning innovation. But it also isn't afraid to rethink signature menu items.

For instance, the chain tested two new Big Mac sizes in Ohio and Texas earlier this year. Kalinowski, among others, expects that the three Big Mac sizes will be offered nationally some time next year. Andres, for his part, hinted at just such a thing when he said, “We're doing some things with the Big Mac into next year.”

That would be a key change: The Big Mac is iconic. McDonald's, for all of its product additions over the years, has been hesitant to mess with it.



And then there are the fries — another iconic product. McDonald's this year has been testing fries coated with garlic from Gilroy, Calif., in the San Francisco Bay Area. "Garlic fries national in the U.S. would be huge," Kalinowski said.

"This is only the beginning," Andres said. "We're committed to addressing every one of our menu items as part of this journey."

Indeed, maybe the biggest change to its menu is still being tested in Dallas: Fresh beef. Using fresh beef for its quarter-pound burgers would be a massive shift for a legacy chain built around the use of frozen patties.

All of this might seem like a lot of work to simply give customers the same products they've always had, rather than some new product that would appeal to the Instagram and Twitter age. Yet, as Adams said, "Trying to improve the food is always the right strategy."

And McDonald's has concrete evidence that it can work. Last year, McDonald's changed the recipe for its popular Egg McMuffins, shifting to its old English muffins and substituting real butter instead of margarine, melted from sticks in a microwave.

Sales of McMuffins soared by double digits in the third quarter last year — paving the way for all-day breakfast.

"We're a burger and breakfast company," Foust said. "We need to do those things better before we can do other things."

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