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## BUSINESS

# McDonald's CEO Is Out as Sales Decline

Fast-Food Chain Has Struggled to Attract Younger Customers

By **JASON DEAN, ILAN BRAT** and **ANNIE GASPARRO**

January 28, 2015

McDonald's Corp. said Chief Executive Don Thompson was leaving, less than three years into his tenure, and promoted a company veteran to try to revive the fast-food giant from its worst slump in more than a decade.

Steve Easterbrook, 47 years old, who started with McDonald's in 1993 and is currently chief global brand officer, will succeed Mr. Thompson on March 1, becoming the company's third CEO in the past decade.

McDonald's gave no reason for the abrupt retirement of the 51-year-old Mr. Thompson, who has been with the company nearly 25 years. But it comes after two years of worsening sales declines in its core U.S. market that have so far defied management's remedies.

Net income last year fell nearly 15%, to \$4.76 billion, and McDonald's stock has been basically flat since Mr. Thompson took over in July 2012—a period when the Dow Jones Industrial Average rose 36%.

McDonald's shares gained more than 3% in after-hours trading on Wednesday following the news, to \$91.60.

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spokeswoman said the retirement, announced after a regularly scheduled board meeting on Wednesday, was Mr. Thompson's choice.

"It's tough to say goodbye to the McFamily, but there is a time and season for everything," Mr. Thompson said in a statement released Wednesday.

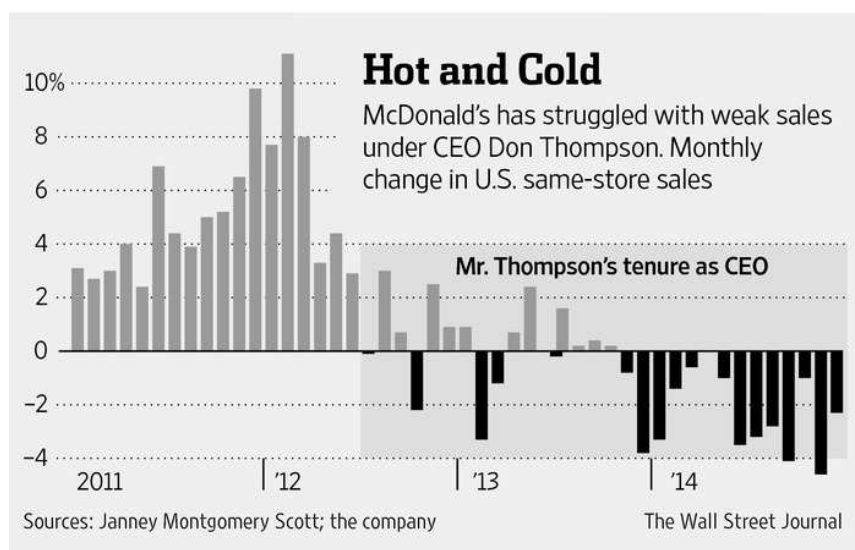
"Steve is a strong and experienced executive who successfully led our U.K. and European business units and the board is confident that he can effectively lead the company to improved financial and operational performance," Andrew McKenna, McDonald's nonexecutive chairman, said in announcing the change.



McDonald's CEO Don Thompson will retire on March 1 amid declining sales and menu changes. *PHOTO: BLOOMBERG NEWS*

Left unclear for now is how Mr. Easterbrook will address the broad range of challenges McDonald's faces. In addition to competition from long-standing rivals like Burger King, McDonald's is under attack from a host of smaller, more focused "fast casual" restaurants that are winning younger consumers with fresher and more customized offerings. These range from burrito chain Chipotle Mexican Grill Inc., with some 1,700 U.S. outlets as of September, to upstarts like Shake Shack Inc., a boutique burger joint with 63 locations that is expected to raise up to \$109 million in an initial public offering scheduled to price on Thursday.

The Golden Arches also is wrestling with the effects of its own expansion over the years, with more than 14,350 locations in the U.S.—4.6 for every county in the country—and a menu that executives acknowledge has become so bloated with items that it has slowed service.



Mr. Thompson's team, including Mr. Easterbrook, has unveiled a range of proposed solutions in recent months. It announced last month plans to eliminate low-selling items from its menu, and to expand experiments with more customized offerings.

That followed a restructuring of its U.S. operations designed to give regions more autonomy to offer locally tailored products.

This month, McDonald's launched a new marketing campaign in the U.S. with commercials and food packaging designed to refresh its longtime "I'm lovin' it" slogan, under Chief Marketing Officer Deborah Wahl, who joined in March, and McDonald's USA President Mike Andres, who took over in October.

Still, McDonald's said it expects January same-store sales to decline, after a 1% decline in global comparable sales last year, including a 2.1% drop in the U.S.

"Don got fatally behind the last couple of years," said John Gordon, restaurant

consultant at Pacific Management Consulting Group. “And he hasn’t presented to the investment community that he’s moving quickly to solve these problems.”

Mr. Thompson started with McDonald’s as an electrical engineer in 1990. He led McDonald’s U.S. operations in the late 2000s, helping to spearhead the national rollout of the chain’s specialty coffee offerings in the U.S., and winning over many franchisees and fellow executives with an affable personality to match his managerial skills. He was named chief operating officer in 2010, then became the company’s first African-American CEO two years later.

McDonald’s has a history of promoting within its ranks rather than recruiting outsiders, which comes with the risk that the changes won’t be substantial. But some investors and analysts think the potential to shake up the business is still there with Mr. Easterbrook.

“While Easterbrook is an insider, I think his expertise and focus on branding, media, and menu should give him credibility in the areas that McDonald’s is most needing change and improvement,” said Will Slabaugh, restaurant analyst at Stephens investment bank.

Investor Bill Smead, CEO of Smead Capital Management, said Mr. Easterbrook’s role in Mr. Thompson’s management team doesn’t mean the two men share the same approach.

“I think Don [Thompson] just wasn’t inspiring the franchisees or people around him in the way that they needed to be,” said Mr. Smead, whose firm owns about 168,000 McDonald’s shares.

Mr. Easterbrook, who was born in the U.K., has zigzagged through McDonald’s corporate leadership roles, starting in London as a financial reporting manager in 1993.

He climbed the ranks of its U.K. operations and in September 2010 was named the top brand officer. After just a few months, he took over as the president of the company’s European operations—then left McDonald’s less than a year after that.

He then served stints as CEO of two British restaurant chains, PizzaExpress Ltd. and Wagamama Ltd., before returning to McDonald’s in June 2013 to head up global brand operations once again.

Last March, McDonald’s broadened Mr. Easterbrook’s responsibilities to include



Steve Easterbrook is the new president and chief executive of McDonald's. *PHOTO: BLOOMBERG NEWS*

oversight for corporate strategy and the restaurant solutions group, which comprises restaurant design,

innovation, training and other operations.

Mr. Easterbrook has been vocal about McDonald's need to make itself attractive again to "millennials," often defined as the group born between 1980 and 2000, who are now in their midteens to mid-30s. That age bracket once was a core demographic for the chain.

Millennials "want to buy into a brand not just from it," he said in an interview with The Wall Street Journal last summer. "What we've got to do is find interesting and engaging ways to share that information with millennials, not old-fashioned corporate lecturing."

Also on Wednesday, McDonald's appointed Google executive Margo Georgiadis to its board, representing a push to improve digital capabilities and connect with younger consumers.

Mr. Thompson took the helm after nearly a decade of prosperity led by Jim Skinner. Mr. Skinner became CEO in 2004, in the wake of McDonald's last big business downturn.

Mr. Skinner helped turn around McDonald's U.S. operations, which had been suffering from overexpansion. Under his tenure, he slowed new-store openings and focused on improving the company's operations. McDonald's steered through the recession relatively unscathed, partly by rolling out coffee nationwide, which helped make the company one of the most successful restaurant chains at the time.

By Mr. Thompson's appointment as CEO in March 2012, McDonald's stock price had nearly quadrupled since 2003 on strong revenue and profit gains.

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### **Corrections & Amplifications**

Steve Easterbrook is 47 years old, not 48 as was reported in an earlier version of this article. (Jan. 30, 2015)

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