

BUSINESS INSIDER

McDonald's is about to unveil a huge plan to save its business — here are 8 things investors need to hear



HAYLEY PETERSON
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Photo/Vivid Lane

McDonald's has lost its way.

The chain is battling declining sales and traffic, a damaged public perception, and a relationship with franchisees that has hit an all-time low.

After six straight quarters of same-store sales declines in the US, the company is finally unveiling a new turnaround strategy.

The company's new CEO, Steve Easterbrook, will reveal the plan to investors on Monday.

Here are some key changes the company needs to make in order to reassure investors.

1. More menu simplification. McDonald's menu has grown 42.4% in the past seven years, from 85 items in 2007 to 121 items today, according to The Wall Street Journal.

The bloated menu is causing problems in McDonald's kitchens and slowing down customer service.

The chain's average drive-thru wait is now 3 minutes, 9.5 seconds, which is the longest average-wait time in at least 15 years, according to a study by QSR Magazine.

McDonald's has cut some menu items in recent months, but franchisees say much more needs to be done.

"They say they are going to simplify the menu and then add the Sirloin Burger and new ingredients," one McDonald's franchisee wrote in response to a survey by Janney Capital Markets. "They are continually forcing new products on the owners to try and drive sales, but the new products continue to slow service and frustrate managers and crew in the restaurants."



Mike Blake/Reuters

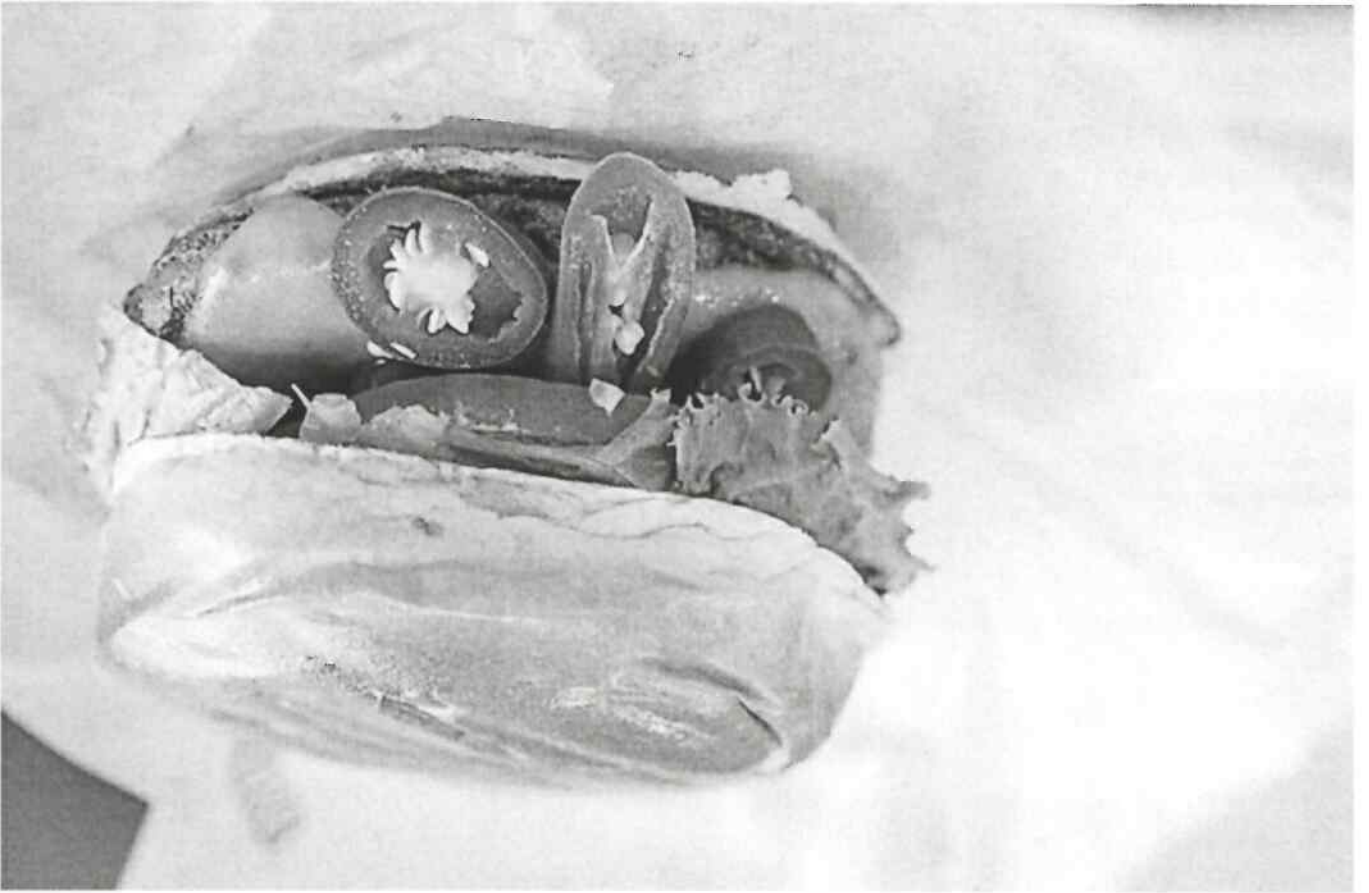
2. Quicker customer service. The company needs to find ways to speed up customer service, outside of just slimming down the menu.

Easterbrook acknowledged this issue in a call with analysts last week, but he didn't go into too much detail.

"We've still got to make the entire McDonald's experience just a little easier for our customers and a little easier for our crew," Easterbrook said. "And it's not simply the menu simplification, it's what else can we take off the workload of our teams in the restaurants to enable them to focus on what really matters, which is taking care of customers."

3. Improve food quality. McDonald's has made some inroads in this area with its recent announcement that it would be removing hard-to-pronounce ingredients from its chicken. But more needs to be done, said Brian Sozzi, CEO of Belus Capital Advisors.

"It's time to scale back GMOs and other things a person can't even pronounce," Sozzi says. "McDonald's used to be a leader in food quality and sourcing — now, it's eating the dust of smaller rivals."



Foodbears

4. Reduce promotions. In an attempt to drive up traffic, McDonald's recently expanded its dollar menu and ran several promotions offering free coffee during morning hours.

Franchisees have complained that the promotions are hurting profits.

"The system is broken," one franchisee wrote in response to the Janney survey. "There is no leadership, no plan, no respect for operators or their investment or bottom line."

5. Upgrade aging stores. As former McDonald's CEO Don Thompson noted last year, customers today "want to enjoy eating in a contemporary, inviting atmosphere."

But many McDonald's restaurants don't live up to that description.

"Aging McDonald's stores give the restaurants an old fashioned image," Matthew J. Kiernan, CEO of Inflection Point Capital Management, wrote in The Huffington Post.

McDonald's can't afford to further strain its relationship with franchisees by making them pay the full cost of the upgrades, however. So "McDonald's should negotiate franchise fee reductions or freezes in return for the refurbishment of stores," Kiernan wrote.



Flickr / Christoph Spiegel

6. Get new products to the market quicker. "Believe it or not, McDonald's has a strong product pipeline — it just takes forever to get them to market," Sozzi says.

The company also needs to find a way to add new products without slowing down customer service.

7. Raise wages for all employees without putting the full cost burden on franchisees. McDonald's recently announced that it would be raising wages for employees of company-owned restaurants — which account for one-tenth of the roughly 14,000 McDonald's restaurants in the US.

The decision has backfired against the company. Labor activists say the pay raise should have applied to all employees, and franchisees — who own 90% of McDonald's US restaurants — resent the pressure it put on them to increase pay for their workers.

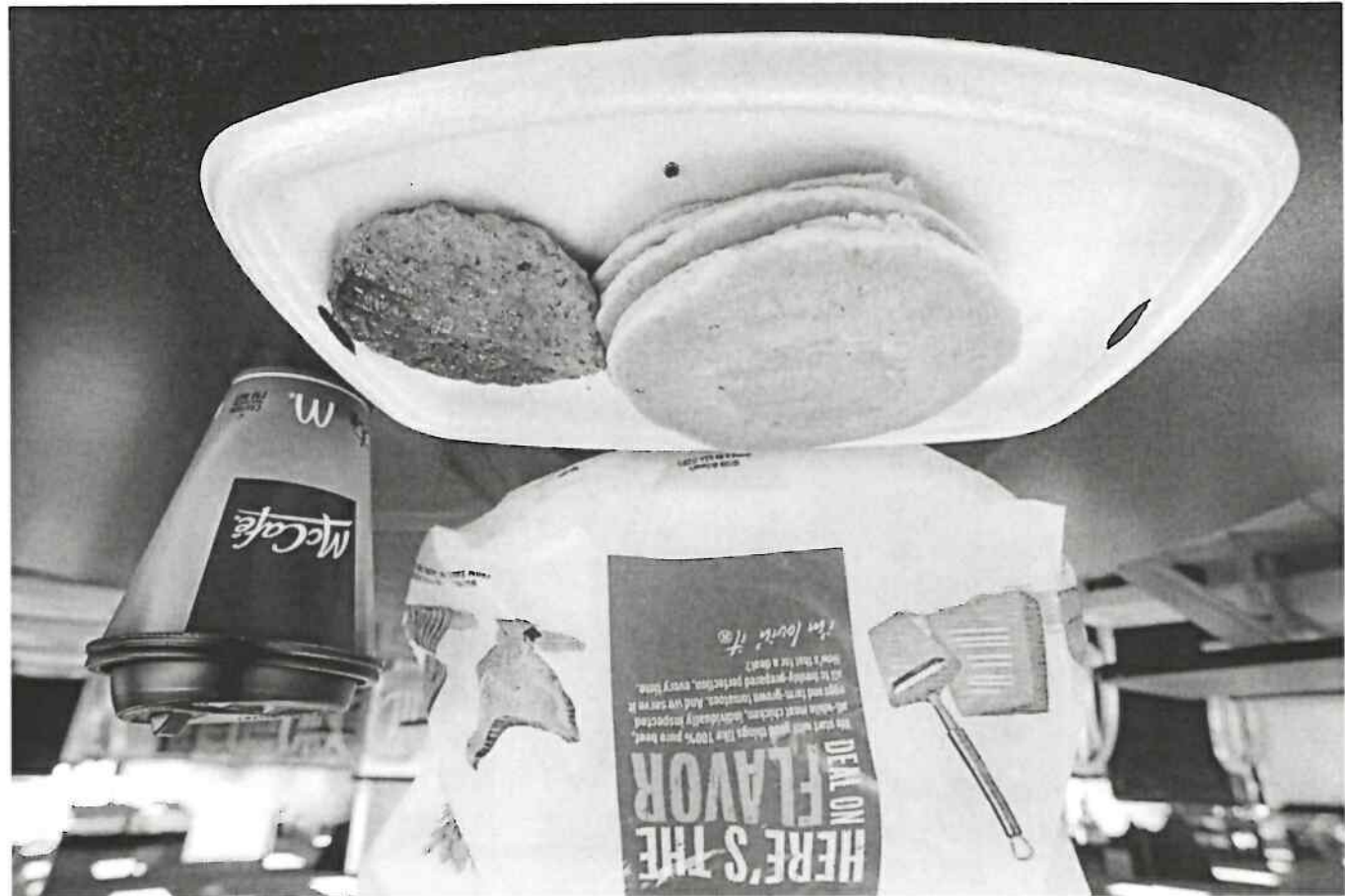
Franchisees say they can't afford more payroll costs because sales are plunging and McDonald's corporate is bankrupting them with fees, aggressive promotions, and costly restaurant upgrades.

Sozzi says the company should help franchisees shoulder some of the costs of a system-wide wage increase.

8. Offer breakfast around the clock. McDonald's is testing an all-day breakfast in San Diego. Expanding that test nationwide could help boost sales, given the popularity of the burger chain's breakfast items.

Some of the most "craveable" items on the McDonald's menu are the McMuffins and McGriddles, Janney Capital Markets analyst Mark Kalinowski wrote in a recent research note.

McDonald's currently stops serving breakfast at 10:30 a.m. in most markets.



A sampling of McDonald's breakfast offerings.

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