



McDonald's Benchmark Report

Executive Summary

McDonald's is engaged in an extremely ambitious modernization program with many moving parts. Brand strategy is built around its Velocity Growth Plan which is designed to: retain existing customers by bolstering core strength in family occasions & food-led breakfast; regain lost customers by improving food taste, quality, convenience & value; convert casual to committed customers by elevating & leveraging the McCafé platform and enhancing its snack & treat offerings. While this system upgrade is still in its early innings, strong 2017 comps with positive traffic for the first time in a long time suggest that these strategic initiatives are working. In any case, we think McDonald's could not lose by simply returning to its value roots which it has done very well (check is -19% below segment average which reflects that price value is a key accessibility strategy foundational to the brand's identity). The menu emphasizes value with many options at different price points starting as low as \$1 and increasing in single dollar increments until the 2 for \$4 breakfast LTO price point. Building on this foundation, McDonald's is stretching with its: fresh beef initiative which helps the brand finally address the better burger segment; new Buttermilk Crispy Tenders which helps build the brand's chicken credentials; and the re-introduction of its espresso products which keeps McCafe in the game. On top of this, McDonald's is bolstering its access and convenience with its Experience of the Future, mobile order & pay and delivery initiatives. Fortunately, all-time high unit level sales and cash flow can help fund all these investments (including the remodels). However, it is important to note that the system's operational complexity is already challenged by capacity constraints given a very high AUV and can only be aggravated by all these new initiatives. Notably, speed comes a close second to value in terms of brand equity for this iconic chain and its drive-thru times are already challenged which is a concern given that this old fashioned channel still drives the vast majority of its business. In conclusion, while McDonald's means to take no prisoners, it must remain aware that at the end of the day, the game is its own to win so long as it can execute as advertised and only time will tell if its eyes are bigger than its stomach.

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