

Memo To McDonald's: Core Execution Should Be On New U.S. President's To-Do List

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Summary

- McDonald's Corp. named a new head of its U.S. unit last week.
- McDonald's is struggling with flat or negative sales and declining shares.
- New U.S. president Mike Andres should focus on core value, core menu, and core customers.

For the second time in two years, McDonald's (NYSE:[MCD](#)) has named a new head of its U.S. unit. The executive change is the company's latest attempt to revive the business. Sales in the U.S. have either been flat or negative for nine straight quarters and company shares are down 3.4 percent this year. As new U.S. president Mike Andres takes on the challenge, here are three activities he should stop the company from doing, and three core areas he should start focusing on.

The Don'ts

Stop introducing new products outside the core menu. McDonald's should learn from the colossal failure of its Mighty Wings launch, which left the company with 10 million pounds of surplus product, and the equally disappointing Fish McBites, which analysts blamed for the company's dismal sales last February. These and other niche products currently in test like mozzarella sticks and Petite Breakfast Pastries don't resonate with the mainstream McDonald's customer -- and they result in increased operational complexity that can't be justified by increased sales. McDonald's needs to innovate in its core -- burgers, fries, chicken nuggets, and Happy Meals. A steady stream of incremental innovations to its most popular products would generate more excitement at less cost.

Stop trying to improve quality perceptions by courting the media. McDonald's recently hosted events for reporters and bloggers featuring Kung Pao chicken appetizers, slow-cooked beef gnocchi, and beignets filled with grilled chicken. The idea was to convince "influencers" that its food is real, fresh, and high quality. The problem is, McDonald's will never win on the quality front -- perceptions to the contrary are too ingrained. It can certainly improve on perceived quality by executing more consistently, but its attention should be on promoting taste. Developing crave-able products that people love will drive traffic and cultivate customer bonding more than any contrived influencer campaign.

Stop the move to sell bagged coffee in retail. The company recently announced plans sell bagged coffee on supermarket shelves starting next year. But doing so fails to make sense on three grounds (pardon the pun!). First, Starbucks (NASDAQ:[SBUX](#)) and Dunkin' Donuts (NASDAQ:[DNKN](#)) already have a head start in the channel with a superior product -- McDonald's coffee just doesn't have the pull to offset those brands. Second, some have suggested that the move is a way to get McDonald's coffee in front of more people more regularly. But given the chain's market saturation, it doesn't suffer from an awareness or familiarity problem, so it's expensive marketing. Which raises the final point: Grocery can be one of the most competitive, low-margin businesses out there -- why distract the company from its core operations with such a high-cost, low-benefit play?!

The Do's

Start improving value perceptions. Last year McDonald's moved away from the \$1 price point and rebranded its value

offerings "Dollar Menu & More." With \$1 and \$2 sandwiches and even some items at \$5, the menu has damaged value perceptions of the brand. And the suffering is only going to get worse since Taco Bell (a unit of Yum Brands (NYSE:YUM)) just introduced an 11-item Dollar Cravings menu on which every item is \$1. Perhaps McDonald's executives have seen fast casual chains use higher price points and raise prices with relatively little fallout and have assumed that they can do the same. But value is one of McDonald's core brand equities, and magic price points like \$1 for value menu items and \$5 for combo meals are salient ways to promote value.

Continue streamlining the menu to improve service. Last year, McDonald's executives admitted that their rush to introduce new products resulted in a menu that was too complex for their operators to execute well, so they trimmed a few products from the menu. They need to do more. Customers, overwhelmed with too many choices, not only experience unwanted stress but also they slow down the ordering lines. And employees, challenged with making and serving so many products, not only produce slower speeds of service, but also they tend not to be friendly and helpful. To preserve the core of its menu appeal and execution, the company must ruthlessly delete products.

Re-focus on families. Parents and kids are the customers that built McDonald's into the fast food leader, and the company should dance with the ones who bring them. According to [data from restaurant research firm Technomic](#), the number of U.S. diners aged 19 to 21 who eat at McDonald's each month has declined 12.9 percentage points since the start of 2011. Some have pointed to this trend as a reason why McDonald's must court millennial consumers. And the conventional fast food wisdom is to target younger customers because they're the most frequent category users. But winning over Millennials is difficult (they tend to be less brand loyal) and expensive (they have high quality standards but low incomes), and will likely alienate the core family target. So while McDonald's should certainly have offerings and marketing that is relevant to younger consumers, its focus should remain squarely on the family target they've appealed to for generations.

McDonald's CEO Don Thompson describes Mike Andres as a progressive, strategic thinker. Number one on Andres' to-do list should be thinking about core execution.