Resurrecting a Falling Brand

By Martin Roll , Business and Brand Strategist, Founder of Martin Roll Company (INSEAD MBA ‘99D)

The revival of McDonald’s will be a detailed, painful, disciplined and comprehensive journey but an essential one.

Towards the end of January 2015, McDonald’s CEO Don Thompson stood down and was replaced at the helm by Chief Brand Officer, Steve Easterbrook. This change at the top is a symbolic representation of McDonald’s current ailments and what it intends to do to cure itself. The focus needs to shift strategically to building and strengthening the brand and that is what Steve Easterbrook would be expected to deliver. He seemingly has a strong track record of doing this, having being credited with turning around the U.K. business. This time around, the challenge is bigger and at a global level.

McDonald’s is a classic example of a brand that has lost its direction in the fast food market segment, which it previously used to dominate. From its heydays of almost inventing the concept of fast food, becoming a global powerhouse and being one of the most recognisable brands in the world to the current status of continuously losing market share to the likes of Shake Shack and Chipotle in the US, the decline has been gradual but definitive.

Floppy Big Macs…

The year 2014 was a watershed year for McDonald's with the worst sales decline in the last ten years. The decline was significant not only in the United States, but also globally in the majority of the brand's key markets. In the U.S., the company said its decline was down to competitive activity. Appalling hygiene standards of one of its meat suppliers in Asia dented the brand's image in both China and Japan, both strategically important markets. In Europe, the sluggish economy contributed to a cutback in consumer spending, which had a consequential impact on the brand's sales. An increase in competition was also witnessed in Europe, with U.S. brand Shake Shack setting up shop in the U.K.

Though external factors like the sluggish economy, increase in competitive activity and sub-standard suppliers may have contributed to sales decline, but the key underlying issue with McDonald's is an increasing dilution of its brand equity over the years and a loss of the brand's purpose and vision. This loss of equity, purpose and vision are the primary factors that have contributed to the decline of the brand and have led to its current position in the market.

…And knee-jerk salads

McDonald's approach to increasing levels of competition, changing consumer tastes and preferences, emergence of niche brands focusing on specific products in the fast food repertoire and increase in cost of operations, has always been reactive instead of being proactive. The originating premise of the brand was the ability and the purpose to deliver fast food in a "fast", "cheap" and "low cost" operating model. As markets evolved, this generic promise was not good enough for the brand's long-term survival. It needed to design and adopt more differentiated positioning platforms, which it did not. The positioning of the brand as a fast food chain, with a visible absence of any core and differentiated offering, was just not good enough. As consumer tastes and preferences evolved and became more knowledgeable, the demand from a fast food meal also evolved into more niche, customised and exotic offerings than the humble Big Mac.

If the brand's key competitors in the United States and globally are analysed, each of them have a specific niche positioning either towards a particular type of fast food, cuisine or a particular time of the day. Chipotle, one of the key competitors in the United States, mentions on their website that the purpose of the organisation is “to do a few things but do them exceptionally well”. Additionally, we can even look at Starbucks, which competes with McDonald’s directly on coffee (an important morning beverage) and breakfast offerings. Both these brands are doing well and will continue to do well coming up against McDonald’s due to a higher level of quality perceptions attached to their product offerings.

Too much is not enough

McDonald’s used to be one of the best practice examples of cross-cultural marketing and customisation of product offerings. An in-depth look at the brand’s menus over a period of time reveals a lack of disciplined innovation. One of the key criticisms of McDonald’s offerings recently is the confusing menu that has grown into the organisation. Lots of new items have been added, which instead of refreshing the menu, has caused more confusion. Shop floor efficiencies have been impacted due to the expanded and more time-consuming preparation methods of some of the items. The attempt to innovate and refresh the menu has been blindly driven by the need to extend the brand’s offerings to broader day times and meal occasions, without giving a thought to how the classic McDonald’s offerings can be refreshed, repositioned or extended.

To stay true to its low price model, and in some instances religiously so, McDonald’s has absorbed the price pressure of rising labour and operational costs without increasing prices on its menu. This has impacted operational efficiency and in turn profitability (in light of falling revenues). A strong example of how this cheap price positioning works can be found in the failures of McDLT, Arch Deluxe and Big N’ Tasty, which are all premium priced burgers that the brand wanted to sell.

Changing tastes

The last factor, but an equally important one, is the increasing consciousness towards health in the global consumer. The perception of McDonald’s food as being fatty, high in calories and sugar has only grown. The organisation has attempted to counter this negative image by launching healthier versions of some of its products and by using organic milk. But the strategy and planning has been sporadic and the intended impact on improving the image has been minimal.

To resurrect a dying brand, McDonald’s has to reposition the brand on a platform that is differentiated. The challenge with a brand of McDonald’s size and legacy is the dead weight you need to carry around. Reestablishing the brand and gaining brand equity should be done in a fashion that the right paths are aligned with the right set of opportunities. Repositioning does not need to be an organisational-level overhaul, but more about building and extending the equity of the brand in hitherto unexplored territories and domains in the fast food business. These could be around territories that the brand already targets, but with a refreshed set of benefits. The product portfolio of the brand also needs to be developed towards these new opportunity areas.

Though there is a current lack of it, disciplined innovation is an important process to implement in the organisation. McDonald’s attempt to counter its key competitor’s product offerings ended up with a significantly expanded, complex and time-consuming menu. The solution is not to be a “copycat” but to be an opportunity finder. Implementing a disciplined innovation system in the organisation will enable the brand to target the right opportunities with the right kind of products.

An example of this could be the extension of the Big Mac range to include different flavours and toppings or even extending it to a completely different set of adjacent product categories. This allows the brand to extend the equity of an iconic burger into other food products using a sub-brand. If the innovation system stays close to industry trends, cultural trends, eating habits (at home, fast food, dine-out etc) and competitive activity, then the new products on the brand’s menu will have a higher chance of being successful.

Being a franchise-driven operational model, McDonald’s has to ensure that the repositioning and rebuilding of the brand and implementation of a disciplined innovation model is done in a consistent and phased manner across the network. This alludes to the need of having a standardised version of the brand guidelines (purpose, vision and principles) and also the targeted positioning attributes.

The challenge McDonald’s has, and consequently Steve Easterbrook has, is to give the brand a completely new identity (and replace the generic identity). This may be a slow and gradual process due to the size and legacy of the brand, but the journey needs to start now. The gradual transformation of the brand to become a more effective competitor to the niche players in the market will be a detailed, painful, disciplined and comprehensive journey — but an essential one.

__Martin Roll__ is a business & brand strategist, and the founder of __Martin Roll Company__. He provides advisory and guidance on leadership, strategy and execution, and how to build and sustain high performing, enduring brand-driven businesses and global, marketing-oriented organisations. Martin Roll has an MBA from INSEAD ('99D) and is the author of __Asian Brand Strategy__. You can follow him on Twitter __@MartinRoll__.

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