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## MCDONALD'S UPGRADES PAYING OFF, IMPROVING OUTLOOK

(MCD, PNRA, SBUX, WEN, YUM)

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### BACKGROUND/DESCRIPTION

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- ▶ [McDonald's Corp.](#) (MCD) has taken on three objectives to improve business: store renovations, menu innovations, and upgraded operational efficiencies.

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### RESEARCH QUESTION

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- ▶ Will McDonald's store renovations, menu innovations, and upgrades to the ordering experience increase same-store sales throughout the United States in 2011?

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### FINDINGS

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- ▶ Store remodels, equipment upgrades and menu changes have lead to improved performance in McDonald's stores that have undergone these transformations.
- ▶ Franchise owners and stores reported a noticeable year-to-year jump in business after remodeling. They credit an improved appearance inside and out and increased efficiencies in ordering and kitchen equipment. Stores with expanded drive-thrus also reported improved business.
- ▶ Suppliers and industry observers said the remodels have boosted business and margins for McDonald's. Equipment upgrades like new fryers reduce material and labor costs, which solidifies McDonald's innovative edge within the fast-food industry.
- ▶ Customers at remodeled stores praised the changes, which include more comfortable seating, couches, TVs, free [Wi-Fi](#), and a faster ordering process thanks for equipment upgrades. However, three of four said the upgrades would have no bearing on their number of visits.
- ▶ Customers welcome the new menu items, especially coffee and [sweet tea](#). A potato supplier source's french fry orders have decreased in light of the trend toward healthier choices. Now consumers have yet another healthy menu item: [oatmeal](#).
- ▶ Franchise owners for McDonald's competitors said remodeling is an industry necessity that boosts performance, but none expects to lose local share to McDonald's as a result of the changes.

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### DATA

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**Silos:** McDonald's franchise owners (3), suppliers (2), competitors' franchise owners (3), remodeled McDonald's stores (3), customers at remodeled McDonald's stores (4), and industry experts (2)

**Additional Sources:** Industry publication (1) and news articles (2)

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### SILOS

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#### McDonald's Franchise Owners

- ▶ **Manager of a franchise with West Virginia restaurants, including one remodeled store**  
This source said the remodeled store's sales have risen 8% year to year since reopening in June. New kitchen equipment has cut the cost of labor, electricity and food but has increased the production and popularity of certain menu items like sweet tea.
  - "This was a complete teardown. We were closed for three months and reopened June 3. Traffic is up,

and a lot of people are coming in just to see it and check it out. We are located close to the mall, so we are always busy this time of year. I can't tell what percent of the increased traffic is from the remodel or whether the economy is coming back."

- "We are doing really well [since the remodel]. Our sales are up about 8% over sales from this same period last year."
- "Everyone loves the remodel. The only thing people don't seem to like are the wall dividers. The walls are divided from the lobby and people like to see who is coming in, and now they can't. I'm not sure why they put in dividers. We've got a couple of TVs, maybe for security. The dividers also make the place seem roomier."
- "We have a lot of new equipment. The most innovative are the self-serving oil vats. They are so great. We went from this inefficient oil guzzler to these vats. They are 10 times better than what we had before. They have an automatic filter that keeps us from having to change them frequently."
- "We were filling the vats every 8 to 10 days. Now we only have to change them about every 20 days. It has helped out on oil costs and cut back our oil order tremendously. We were ordering about 12 oil jugs a week. Now we get six a week."
- "We have 20 new cameras for better security, new modern counters, booths with really nice, soft cushioning, and chairs. We have plastic seats, but we also have hardwood seats. Outside, we took off the traditional roof. We added 10 feet to the front and back for storage areas."
- "We have not had any menu innovations or new items. People like the salads a lot, but it's not hurting the sale of fries. One big thing is the sweet tea. It is a killer tea, and it's selling really well. It is made in a new brewing system. We had tea before, but the new equipment makes it a lot easier on the crew. We've been doing four to five tea urns during lunch, and now with this new bulk tea system it's cleaner, faster and easier. Coffee is still going good. Our coffee sales are up over last year."

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*Manager, McDonald's Franchise  
West Virginia*

▶ **Franchise owner with restaurants in Michigan, including one remodeled store**

One of this source's stores underwent a six-week remodel. He expects the renovation to boost sales but will not be certain until April or May 2011 when road construction and winter weather will end. The remodel eliminated the standard McDonald's [mansard roof](#) and created a double-lane drive-thru. The interior is upscale, wired and functional and relies on black and white tones. Community seating has been eliminated for a minimal, chic design targeting the locale clientele: students and travelers. The source said owners could select from about 25 different design remodels.

- "We started the remodel in September or October, and it took about six weeks. We decided to remodel because the restaurant was showing its age. Another factor was that the road was being widened, so we anticipated it would bring more traffic to the restaurant and wanted to be prepared. With the construction, business was down anyway so we figured now was a great time to close the restaurant and renovate."
- "Generally, the store sales were pretty good, but we expect to do better with the renovation and increased traffic. We probably won't know about its success until April or May because snow and bad weather factor into our business. We typically do better in the summer and hope by then the road construction will be done."
- "People notice the difference right away. They walk in and say, 'Wow, this doesn't even look like a McDonald's! I've never seen any McDonald's like this.'"
- "I first saw this décor in Orlando. It was in one of the stores they had on display and available for viewing by the franchise owners."
- "All the plans offered are different, with different seating and blueprint designs. There are four or five

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*Owner, McDonald's Franchise  
Michigan*

companies we can work with and select from, and each of them had four or five different approved arrangements and designs. ... You can tailor it to your needs and taste.”

- “The biggest change for us is the mansard roof. It is gone. The rooflines have been modernized. The design is more upscale. The other big change outside for us is the double-lane drive-thru. It gives us the ability to serve a lot more people, and it makes the customer experience faster. So far, we have heard very good things about the double-lane drive-thru.”
- “McDonald’s is taking a whole new direction. We had a counter, but we got rid of it. We have no community area beyond the tables. I have no laptop tables, per se, but we’ve got Wi-Fi. The whole place is wired. There are nine outlets around the tables so people can charge their laptops.”
- “It’s very different inside. There are no pictures on the wall; there are only wall graphics. We have four TVs. The color scheme still has orange, but the interior is mostly black and white. The ceiling is black. The floor is gray and tan.”
- “There are two universities near here, so we cater to students. We wanted to make the students comfortable with a contemporary atmosphere. But we are also near the expressway and cater to travelers.”
- “The restaurant has the same menu items. There is nothing specific or new tied to the remodel. We have some new items as always on the schedule but not to complement the renovation. We have some new items about to launch. We have hot oatmeal coming in December for breakfast.”

► **Franchise owner with restaurants in Southern California, including one remodeled store**

This source said sales and traffic are up at the restaurant he remodeled for \$1 million. The design is modern and upscale, but the store retains a neighborhood feel. New technology and equipment have cut overhead and improved margins.

- “The remodel has been extremely successful for us. We have new equipment that has saved energy costs in the kitchen and equipment that makes it faster to order. The new design is very easy on the eyes, very modern.”
- “Our store was 40 years old, so we wanted to upgrade and remodel the outside and inside. We needed to make it more modern, but we also wanted to keep families and the community involved.”
- “The employees love it. The customers love it. The neighborhood loves it. Sales are up, but I can’t say by how much.”
- “There is contemporary seating and contemporary lighting. The counter layout makes it easier to order. There is a lounge area with couches and a flat-screen TV that is always on so people feel at home. We also have a large community table for big groups that seats them around a high-top table with stools.”

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*Owner, McDonald’s Franchise  
Southern California*

## Suppliers

► **Marketing executive for a company that makes kitchen equipment for the food service industry**

This source expects McDonald’s remodel and equipment innovations to help sales, operational costs and margins in 2011 and beyond. New proprietary equipment made at McDonald’s request will drive down material and utility expenses, enable new consumer products and improve sales for both companies. The new fryer cuts oil use by 40% and reduces trans fat content.

- “We created and developed a new generation of fryers for McDonald’s. We developed a low oil-volume open fryer that requires 40% less oil capacity for cooking. The concept was created because McDonald’s is looking at moving toward zero trans fat content.”
- “Oil is typically the most expensive component for frying. If you install one at a high volume store, you typically save on the amount of oil per gallon and as a percentage of operational costs.”
- “McDonald’s came to us knowing what they wanted. Certainly, any remodeled or new restaurants globally are getting the new technology, but so are some other high-volume stores.”

- “It reduces the operational cost based on material savings, energy savings and labor savings. The new fryer, for example, has an automatic filter that requires less labor.”
- “I can’t discuss cost of the new technology versus the old technology, but ultimately the investment will pay for itself in a couple of years. It is a proprietary piece of equipment, but we have another version of the technology in other equipment for other customers. It’s not exactly the same machine or specs, but similar.”
- “We are relatively new to the open fryer business. We were not involved with that equipment previously although we have worked with McDonald’s on and off for 30 years supplying other equipment.”
- “I am not aware of any other innovations. Our emphasis has been on the open fryer for the last two years. The equipment launched in 2008 globally. McDonald’s is not necessarily mandated to use the new technology, but there is a compelling argument to use it from now on for energy savings and consumer health. This really elevated our business and our relationship with them.”
- “The open fryer is tied to new menu items. [Southern Style Crispy Chicken Sandwiches](#) are prepared in the open fryer. They could have been made on the old equipment, but now they are able to do it more efficiently and at a better cost savings.”
- “There have been several innovations with drink equipment that has led to the creation of new menu offerings. New equipment in some cases did go hand in hand with the renovation and were developed particularly for new menu items. The [McCafé](#) area got some new machinery to create coffee drinks, but the new equipment is not necessarily tied to all aspects of the remodel.”
- “Any time you can be ahead of the curve in putting out new menu items or equipment, it can help sales. The remodeling incorporates new design, products and equipment that help to solidify McDonald’s image as an innovator. Others neglected to remodel or let their image linger too long without renewal and they were phased out or died. The remodeling helps to reinforce and maintain a contemporary image. Equipment is another way to drive that innovation.”

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*Marketing Executive,  
Kitchen Equipment Manufacturer*

▶ **Senior vice president of SCM and sales at a global supplier of french fries to QSRs**

This source said the remodeling initiative would improve McDonald’s same-store restaurant sales in 2011 and beyond. Although the remodeling and the equipment upgrade have had little effect on the source’s sales, the trend toward healthier new menu items has lowered his french fry orders and sales. The source expects this trend to continue and said his company has been testing sweet potato products for fast-food restaurants.

- “They seem to be benefiting from the traffic generated by the remodeling. I think the remodeling will improve their sales. We have already seen that in the numbers from stores that have been remodeled.”
- “A lot of QSRs [quick-service restaurants] can’t remodel right now, but McDonald’s is smart enough to invest while they have the money. The investment will benefit them in the long run. Remodeling is all a function of cash flow.”
- “Most major fast-food chains are not doing well and can’t afford to remodel, but all of them have new designs and new footprints and blueprints ready. They have four or more different remodels each and 20 different possible designs, so they are ready when they are doing well enough to afford a remodel.”
- “The remodeling is not having an impact on us, but their recent changes in the menu continue to have an effect. Their sales are going very well, but my product category is off. They now offer [yogurt](#), [Apple Dippers](#) and different side-order options other than french fries.”

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*Senior Vice President,  
Global French Fry Supplier*

- “The menu changes have reduced our volumes, and I expect the trend in offering increasingly different and new menu items will continue. McDonald’s continues to add choices on the menu, which is driven by consumer demand and at times by regulations.”
- “McDonald’s wants to be able to say, ‘See? We offer choices other than burgers and fries.’ ... They can say they aren’t making kids fat; they have choices.”
- “People are eating fewer french fries, and restaurants are decreasing the volume of orders. But we have developed new products like sweet potato. We are testing sweet potato products in quite a few locations in various fast-food chains to see how they sell, but I couldn’t tell you if McDonald’s is among them.”
- “Now they have oatmeal on the menu.”

### Competitors’ Franchise Owners

#### ► **Owner of a Wendy’s (WEN) franchise with 38 stores in the Southeast**

This source said remodeling is a necessity in the fast-food/quick-casual business. He expects the improvements to help McDonald’s achieve the industry goal of a 2% to 4% annual sales increase. Competitors will benefit when a nearby McDonald’s closes to remodel, but McDonald’s will get a bump at reopening. He sees no big technology game changers but said equipment upgrades save on energy costs in the long run.

- “A redesign tends to keep sales from dropping. In this business, if you can maintain a 2% to 4% sales improvement every year, you’ll do OK. That means you redecorate every five to 10 years, refurbish aspects over a period, or do a complete makeover every 30 years.”
- “You do it because you will eventually die if you don’t modernize. There is more efficiency in equipment today in terms of power savings, how efficiently the equipment operates. The new model electronics are less labor-intensive, and as the cost of energy continues to go up you almost have to upgrade.”
- “The trend in quick casual is that they are no longer looking at the cookie-cutter box building. As with Starbucks [Corp./SBUX], there is a basic continuity from store to store, but each one is a little different in design or layout.”
- “No single element of the redesign would make the difference. It’s all of it. The outside is the most visible, but if you do the outside you’ve got to do the other parts as well. With new operations, I have not heard of any one thing that is a game changer. But when somebody has a new idea, McDonald’s is one of the first places to go.”
- “A couple of McDonald’s franchise friends of mine are remodeling. They are choosing between four or five different basic designs because the place you build in Pensacola is not going to be the same thing needed in San Francisco.”
- “McDonald’s owns most of its buildings and property; the franchise just pays for equipment. So the burden is on corporate, and the franchise hopes sales will increase. A franchise will see a bump up when they reopen after a remodel and it may help them stay on that 2% to 4% track over the next year. But it’s not like you will see them get a big bump year after year.”
- “If there is a McDonald’s near us that remodels, we will do well when they close. It may knock us back a bit when they reopen, but I can’t say that it would have an overall negative impact on us. We hold our own. But it will help them continue to improve.”
- “It’s not as if any of our customers has told us to do what McDonald’s is doing. We’ve done a couple of dining room remodels. We were going to continue remodeling outdoors last year when the BP spill happened. All 38 of our restaurants were impacted, and we applied for money, which we’ll be able to put toward the remodel.”
- “People have not stopped going out to eat, but it’s been tight. The challenge will be with food prices going up, which means menu prices go up. We’ve generally done well when prices go up because people notice the increase first in the grocery stores, so they are less shocked when they see prices

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*Owner, Wendy’s Franchise  
Southeastern U.S.*

go up in restaurants.”

▶ **President of an Arby's (WEN) franchise with 85 restaurants in the Pacific Northwest**

This source has seen or heard little about McDonald's remodeling in his region. He questioned the wisdom of McDonald's shift from fast food to upscale casual dining, and said recovering the investment of major remodels is difficult. He does not expect the initiative to dramatically increase McDonald's sales in 2011 or beyond.

- “We haven't heard much of anything about the McDonald's remodel up here, and I have not looked into it. I am not aware of any McDonald's in our regions that are remodeling. McDonald's has been steady for about four to five years with not much fluctuation up or down. I don't think this will change their position very much.”
- “There are a lot of very old McDonald's in some very old neighborhoods throughout the U.S., and I'm not sure how replacing the fast-food image with a more upscale image will play in these areas.”
- “McDonald's is a QSR. People go there because they expect and want fast food. So I'm not sure of the risk or potential success they will have in trying to become another Panera [Bread Co./PNRA] or Starbucks. I like the idea of reinvesting to refresh or remodel, but I'm not sure about changing the image because very often you do not get your invest back on a remodel.”
- “We are not planning any major upgrades. We are trying to manage our costs and refurbish where needed. We will continue to move in a modern direction, but we have no new changes that are groundbreaking. We have enough remodeling to do just to keep up with operations and maintenance.”

▶ **Owner of a Subway (Doctor's Associates Inc.) franchise in Ohio**

This source had not heard about specific McDonald's remodeling but said many QSRs are moving toward upscale designs. Remodeling will not hurt a chain, but he questioned whether it alone would increase sales, especially for a company like McDonald's that already has a strong market position. His chain has remodeled and sales have increased, but he attributed the improvements to a sluggish economy that has forced consumers to trade down. He said Subway's breakfast could not compete with McDonald's, which has two key components to a successful fast-food breakfast: quality coffee and a drive-thru.

- “I have not seen anything in the trade press or regular press or heard of any local McDonald's near me remodeling. I don't know if their sales will go up, but all of our stores are remodeling and Subway sales have done nothing but go up.”
- “Remodeling or reimagining can't hurt business. It makes it look like you are keeping up with maintenance and technology and styles. If a place is run-down, people will go somewhere else. Our sales have gone up about 10% since remodeling two years ago and now. My company would say sales have gone up because of the remodeling. Speaking as a customer, no, I don't think remodeling can dramatically increase sales. It's just a different look, and most people don't go more often to a place because of the look.”
- “Industrywide, remodels have a lot to do with the economy. So many people have been trading down from fast casual to fast food when they dine out. Everyone is trying to get the same customers.”
- “My sales and the company sales have steadily gone up in the last two years, but I don't know if it's due to the remodeling. I really think it's because of the economy and people trading down. The economy and \$5 footlong had more to do with the sales improvement.”
- “All of our stores across the country are being remodeled in phases. We started two years ago with what they call [Tuscany 1](#). Tuscany 2 starts five years later. The designs are more upscale and intended to be more modern. It's supposed to have a Mediterranean look.”
- “The bright yellow and Marlite paneling are gone. Now we have gold tones, muted red, and fake bricks. The brick has an old-world look versus wood paneling. There are upscale paintings on the wall. There was no wall art before. The lighting is more like something you'd find in a bistro.”
- “In Tuscany 2 we will have fireplaces and overstuffed chairs for comfortable seating. We'll get TVs in

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*Owner, Subway Franchise  
Ohio*

Phase 2. I suppose if we can get fireplaces and Lazy Boys in here people will hang out more. Years ago common wisdom, especially at McDonald's, was to move people in and out as quickly as possible. That's why McDonald's had uncomfortable, hard plastic seating. If people hang around, they are taking up valuable real estate. They wanted people to eat and get out so the next round of seating can come through, eat and spend money."

- "Wendy's did a remodeling recently into what I would call a more upscale design. Certain sections now have carpeting and there is drum lighting. It's more contemporary."
- "I don't think of McDonald's as a competitor although any fast food is competition. Our philosophy is customers don't eat in the same place five days a week. People are in the habit of going to an area and within that area there may be a McDonald's, a Wendy's, a Burger King [Corp.] and a Subway. In theory, we will get one or two of the visits during the week."
- "We have taken share from other sub restaurants, but I don't think we've taken away from McDonald's."
- "We started breakfast in March, and it's getting better every day. But we will never steal McDonald's market share for breakfast because we don't have a drive-thru, and that's what people want in the morning. We now have [Starbucks'] Seattle's Best brand, but it's drawn more complaints than compliments because it's too strong. They plan to revamp it and supply us with a milder blend. At our downtown location, we sell tons of coffee because we are near a lot of professional and attorney offices. In our other store, not so much."

### Remodeled McDonald's Restaurants

#### ▶ Assistant manager at an owner-operated, renovated McDonald's in the Midwest

This source said sales have risen 12% year to year because of changes to the store's appearance and technology. Customers appreciate the speed of food delivery, which is due to improved technology and the additional drive-thru lane. New equipment has led to better and expanded drinks while the [Dollar Menu](#) has been repositioned to highlight its presence and increase purchases. She said all other McDonald's owned by the franchisee soon will undergo the same improvement with the same results expected.

- "We're seeing a 12% increase over the same time last year because of the remodel and improved technology."
- "We finished all of our upgrades in July."
- "The remodel gave us a more modern outside, with the store being more appealing inside and out."
- "All the other McDonald's in this area owned by our owner are getting new computer systems and dual-point drive-thrus."
- "We're getting lots of compliments about our new lobby. We've got cushioned seats, a more comfortable feel to it and a flat-screen TV. It's mostly tuned to CNN."
- "We've received technology in our store before others. We're now able to serve customers differently, and it is really speeding up the process."
- "We have someone who takes the orders and someone else who is the 'runner.' Customers place their order; then it shows up on a screen for the runner to see. When it is ready it comes up on a screen where the customer sees their number and then they come pick it up."
- "We've gotten lots of positive feedback. It takes a lot less time for people to get their order."
- "We also have the dual drive-thru with two lanes and two order takers. This is also a lot faster. It has really improved our speed and efficiency."
- "We see a little bit more hanging out in the store from the younger crowd, but the customer demographic has stayed the same."
- "We don't really have a new menu, but the menu boards are different. The Dollar Menu is now off to the side on its own and more on the frontline."
- "The [McRib](#) is back on the menu, but that's a seasonal item. Our shakes are made differently now,

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*Assistant Manager,  
Owner-operated Renovated McDonald's, Midwest*

with whipped cream and a cherry on top like old-time shakes.”

- “We got a new blended-ice machine with the remodel, so we make better smoothies and frappes. And we’re emphasizing more of the McCafé coffees.”

▶ **Manager, Los Angeles area**

This source said her store was updated last May, and sales have since climbed about 3%. She now has four to five regulars who bring in laptops and hang out. The store soon will add oatmeal with fruit to its menu.

Reporter Observations: The location was busy at 11:30 a.m. on a Friday. The store has installed new café seating and faux-wood flooring, as well as new black-and-white photos on the wall, signage and other items. Many customers ordered McCafé products. The [mocha coffee](#) was displayed on a small stand, with samples.

- “Sales are good since the refresh. We are up by about 3%. But we have a lot of new customers since the school across the street opened too.”
- “We put in new chairs and tables, flooring and artwork, and we are getting ready to expand the outdoor patio to make room for more inside seating.”
- “I have about four or five customers now who are coming in almost every day, and they bring computers with them. So I think that the new remodel has made us more of a place where customers want to sit and read or work for a while.”
- “The only new item we are adding is oatmeal. That is coming out next month. We’ll be selling it with fruit on top. I don’t know what the price will be yet.”
- “McCafé is very popular. I’d say the hot or cold mocha coffee drinks are the biggest sellers.”

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*Manager, Renovated McDonald’s  
Los Angeles-area*

▶ **Manager, New York City**

This source said customers have responded favorably to the design changes and customer service improvements, such as having their orders taken while in line rather than at the counter.

Reporter Observations: The store was packed at 2 p.m. on a Friday. Roughly 50 people were seated, and another 10 were waiting in line. Oversized lounge chairs were just to the right and left of the front entrance. A long bar was in the middle of the restaurant, akin to the kind found in Starbucks. Customers did not wait long in line as six employees simultaneously took orders. A 50-inch HDTV showing CNN was located in the front of the store while teenage boys were watching skateboard videos displayed on two 32-inch HDTVs mounted on a wall. Four people were using laptops.

- “We’re here to welcome customers so they can get their orders quickly.”
- “They really like how the place looks.”

### Customers at Remodeled McDonald’s Restaurants

▶ **Male, 30s, Los Angeles-area**

This source likes the remodel and now spends more time in this location buying McCafé drinks, working and studying. He said the environment is more comfortable and inviting with its colored drop lamps, café-style seating, two flat-screen TVs and stylish artwork.

- “I like the makeover. It feels more cozy. I can sit in here now before class, and the chairs are more comfortable. I often will get the large desk-style table over by the window, access the Wi-Fi, and get to work.”
- “I come here more for coffee now than before because I know I can hang out. I don’t feel like I have to get it and go. Before, I would get coffee at Starbucks and hang. If I went to McDonald’s, it was usually the drive-thru.”
- “I’m definitely coming here more lately because I have finals next week, so I’m working on papers. I’ll probably keep coming here.”
- “I prefer this look to the older McDonald’s style I grew up with. I thought the seats were always

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*Customer, Renovated McDonald’s  
Los Angeles-area*



- too hard and there was way too much plastic.”
- “I think these upgrades have to be working. People love McDonald’s despite the bad rap on fast food.”
  - “I usually order breakfast, but today I’m here late because I have a class. I will usually get the mocha and [McSkillet Burrito](#).”

▶ **Male, early 40s, New York City**

This source said McDonald’s deserves credit for its design improvements, but he does not expect the updates to increase his number of visits. As a design professional, he was critical of the quality of the renovation process, but still believes it is a step up from the drab designs of other McDonald’s establishments. He said he simply would rather go to Starbucks, where the Wi-Fi is more reliable, the music more calming and the atmosphere more relaxed.

- “It’s better than the old McDonald’s.”
- “It looks more current. The old McDonald’s look like the ’80s.”
- “It is closer to a cohesive design. Before, there were just bland, terrible-looking colors on the walls without a sense of what it was supposed to mean. With this, it seems as if there are actually fewer ideas.”
- “It is more pleasant overall. There’s Wi-Fi, but it’s slow here.”
- “The decor is OK. I don’t know about those weird videos, which have no sound.”
- “It looks cheap. You look at the chairs, tables. ... I don’t blame [McDonald’s]. I wouldn’t want to buy \$2,000 chairs either. It doesn’t make sense.”
- “I’m not crazy about the color palette [on the walls]. The wall graphics are agitating.”
- “I don’t use McCafé.”

▶ **Male, early 20s, New York City**

This source said McDonald’s feels less like a fast-food place and more like a cafe where he can hang out all day. He commented on the colorful wall graphics and furniture. He was impressed with the speed of the ordering system. Despite all of his praise, he does not expect his number of visits to McDonald’s to increase.

- “I like the decor. There are lots of seats. It’s an easy-going environment.”
- “It makes you feel like you aren’t in a fast-food place.”
- “Ordering was really fast. I got to see into the kitchen, and it looked really clean.”
- “This is my first time here since the remodel. It’s cool, but I don’t see it making me come back more often.”

*This is my first time here since the remodel. It’s cool, but I don’t see it making me come back more often.*

*Customer, Renovated McDonald’s  
New York City*

▶ **Female, 51, Los Angeles**

This source does not come in as frequently now because of finances, but she likes the feel of the new store and enjoys the McCafé mocha and smoothies. She does not expect to work on her laptop or read a book while at the restaurant because of the noise level.

- “I’ve been coming to this McDonald’s for about 10 years, and I love what they did to it. It’s much more comfortable. Before, the seats were plastic yellow and beige, and they were cold and not very inviting.”
- “This is definitely a change for the better. All the McDonald’s should be doing this.”
- “I guess I order the same amount of food, but I generally can only come in about once a week now because I’m unemployed. I like the smoothies and the new coffee. In the summer I hit the drive-thru a lot and got sweet tea for the road.”
- “The only thing I would change or add to this location is more parking.”

*I’ve been coming to this McDonald’s for about 10 years, and I love what they did to it. It’s much more comfortable. Before, the seats were plastic yellow and beige, and they were cold and not very inviting.*

*Customer, Renovated McDonald’s  
Los Angeles-area*

## Industry Experts

### ► CEO of a restaurant consultancy familiar with the McDonald's makeover

This source believes the McDonald's redesign will create an upscale atmosphere with broader appeal. The overall changes are likely to improve sales and margins as new software and equipment will save energy. He said the new interior designs are visually pleasing, but he questioned the introduction of sitting areas with couches. McDonald's effort to create a hangout runs counter to its core fast-food identity. However, he said no one will notice if the initiative flops.

- "So far, there has not been a ton of chatter one way or the other about McDonald's remake within the industry or among customers. The truth is, they really don't think much about it. They want their food and they want it fast. Everything else is incidental."
- "The changes will probably have a positive impact on sales because virtually everything McDonald's does has a positive effect. Others announce discounts and sales go down. McDonald's discounts and sales go up. Others initiate dollar menus and sales go down. McDonald's does a dollar menu and sales go up. Customers love McDonald's. They are marketing geniuses. If [Yum! Brands Inc.'s/YUM] Taco Bell were doing the same thing, we would be waiting for a train wreck."
- "McDonald's has dozens of initiatives going on right now in conjunction with the renovation. They are very good at projecting what the customer wants. They are building sleeker buildings with smaller footprints. There are different lines and colors and windows that are more appealing to the eye. They have a corporate chef in a special test kitchen who understands what ingredients and preparation work, well before they roll out. They are very big on research."
- "They don't do anything quickly. They will roll out slowly with stores in different places so there won't be an overall immediate effect. But it will be the compilation of things that make a difference."
- "They are trying self-ordering in some locations. We rolled out a similar system for Taco Bell in 1990, but back then customers did not like it. Now they probably will because people are used to self-service gas and self-service check out at Wal-Mart, ATMs at banks. It saves money."
- "McDonald's is also always ahead of the game when it comes to sanitation. They have a new touch sanitation device in some kitchens that can tell you whether you have any bacteria on your hands so you meet standards. There is a new soft drink machine that takes up less space, uses less power and produces fewer spills, which is more convenient for customers and employees."
- "I like most of the pieces of the redesign that I've seen in the field. No single piece stands out more than another. In general, the remodels will have a much smaller footprint, which ultimately saves money and improves margins. But it's too soon to say how much."
- "The only thing I don't get is the couch/lounging area. They are losing their fast-food identity. ... It makes it more of a destination, like Starbucks. You are better off staying with fast food. That's what they are. That's why people go there. McDonald's has never been a destination restaurant. Most people rely on it as a drive-thru. They want to get in and get out."
- "Every McDonald's has different menu items at different times, but none of the items does anything to the core offerings. There are always new limited-time items that serve to boost sales, and then they disappear."

*McDonald's has dozens of initiatives going on right now in conjunction with the renovation. They are very good at projecting what the customer wants.*

*CEO, Restaurant Consultancy*

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*CEO, Restaurant Consultancy*

### ► Advertising agency executive familiar with McDonald's makeover

This source said the store renovations, menu additions and ordering changes will boost sales. The changes in ambiance will have the most effect on sales.

- "This project is called Simple Easy Enjoyment Quality. It's a whole new floor plan that includes menu

- boards and the whole ambiance of the restaurant. It's a way to make the restaurants not look like a McDonald's fast-food restaurant. If you walk into a Panera, it doesn't look all 'fast foody' even though it is fast food. That's what they're shooting for."
- "The renovations are awesome. They look so cool. McDonald's tests the heck out of everything before they roll it out."
  - "Store improvements are happening. When they build a new store, they are putting the nicer furniture in there, they don't have the chairs bolted to the tables anymore."
  - "It'll cost the owner operators a lot of money to make the store renovation changes, but once they do they definitely will see a benefit from it."
  - "The store renovations will have the most impact. It's such a drastic change. Everyone will come in and see that. Menus you can give and take and the ordering system is all right, too, but the store is really going to wow them."
  - "The new ambiance is supposed to give the 'I'm not going in there to get a burger' feel. It's more for the in-store experience and not just the drive-thru. They want people to come in, hang out and get coffee. They want that trendy Starbucks guy who brings his laptop in and hangs out."
  - "This will last. Look at how old the look of McDonald's is now and how long that's been around."
  - "Right now, about 95% of McDonald's have free Wi-Fi."
  - "The major thing is competition with casual dining/fast food places like [Portillo's](#) [Restaurant Group Inc.] and Panera. They want a more environmental feel as opposed to a drive-thru."
  - "Our competitors aren't fast-food places anymore; it's the casual dining places or eating at home. McDonald's is trying to get that more comfortable home setting where you sit on the couch and drink your coffee. Burger King is no longer a competitor, and they advertise more for males. McDonald's is going more toward the yuppies, thinking they can get more money out of the 18- to 34-year-old crowd. Our target audience is more geared toward adults than youth."
  - "We've been changing the menu for quite a while now, but it's more about just adding things to it. There's going to be a big push in salads next year and things like chicken wraps. Variety is always good because it's not going to be only hamburgers and fries."
  - "The menu changes also will include the ordering change. It's all tied together. They are looking into what Portillo's does where you order, pay, get a number and step to another area for your food. There's too much traffic in McDonald's, and they want to turn people around faster."
  - "My budget was the same in 2010 as it was in 2009. The 2001 budget won't be known until April."

*The store renovations will have the most impact. It's such a drastic change. Everyone will come in and see that. Menus you can give and take and the ordering system is all right, too, but the store is really going to wow them.*

*Executive, Advertising Agency*

## ADDITIONAL SOURCES

### Industry Publication

- ▶ An Oct. 1 *Fast Company* article detailed McDonald's makeover with an emphasis on its restaurant renovations, menu innovations and operational efficiency improvements.  
<http://www.fastcompany.com/magazine/149/super-style-me.html?page=0%2C4>
  - "Next year, McDonald's will launch its first total makeover campaign since the Carter administration, allocating \$2.4 billion to redo at least 400 domestic outposts, refurbish 1,600 restaurants abroad, and build another 1,000."
  - "The company's European and Asia-Pacific regions have already seen success with the new styles: Second-quarter sales in Europe, for example, were up 5.2% year over year, an uptick the company credits in large part to revamped stores."
  - "Over the past two years, Denis Weil, McDonald's VP of concept and design, has tested modern renovations throughout the United States, in such varied locales as Manhattan, Los Angeles, and Kearney, Missouri. In July, the company reported a 6% to 7% sales jump at U.S. stores that had been redesigned. Weil adds that when McDonald's puts enough refurbished stores in a market, customers alter their perception of the brand: The new look even makes them more likely to try new menu

- items.”
- “The answer will soon pop up in a neighborhood near you. Weil has created what he calls a ‘living network’ where ideas bubble up from McDonald’s global partners—owner-operators, suppliers, outside design firms—and are relentlessly filtered and tested by Weil and his team.”
  - “This year, he will host representatives from 25,000 restaurants at his Innovation Center, in Romeoville, Illinois, to propagate the best ideas systemwide.”
  - “Weil’s scientific design method has led to some subtle but important changes in redesigned stores. ... Weil has restored some live entertainment value by positioning McCafé barista stands next to the registers. Customers can view their drinks made with traditional espresso machines that pull fresh shots and steamed milk on demand—just the way Starbucks used to do before it got too big.”
  - “At breakfast, employees must stir a cup of oatmeal (which Weil enjoyed the first morning I met him) a minimum of 12 times before serving it to the customer, both to mix the ingredients properly and to signal homemade goodness. Weil has also redesigned menus with larger-than-life photos of the food—a 21st-century stab at telegraphing quality.”
  - “Because drive-through orders represent approximately 60% of sales at fast-food restaurants, Weil actively tests possible on-the-go improvements using golf carts in the Innovation Center. Weil and his team have a patent pending on a design that adds an additional window for people with enormous orders. The drive-through of the renovated Kearney store, a rural outpost just past Kansas City’s suburbs, features two lanes of cars lined up at two different ordering kiosks. ... It consolidates the traffic around the restaurant so everything appears much less gridlocked.”
  - “The one change Weil hopes to institutionalize systemwide is a recalibration of the register area. A restaurant’s historical traffic flow dictates the number of registers. Weil has added an overhead screen that flashes order numbers for pickup to alleviate a clogged register area. At the revamped restaurant in Kearney, that means just two active registers and tons of wide-open counter space for picking up your order.”
  - “The ultimate decision of whether to embrace a redesign and which iteration might work best lies with owner-operators. As an inducement, McDonald’s is offering to pay about 40% of the estimated \$400,000 to \$700,000 cost of renovations. That’s not surprising considering this isn’t the first time the company has asked its franchisees to buy into its design learning curve. In 2006, a number of franchisees balked at the expense of adopting the Arcade exterior when it was initially conceived. And over the past seven years, 4,700 stores have invested in less-ambitious interior remodels that are now being superseded by McDonald’s new offerings.”
  - “‘It’s a very contemporary and inviting restaurant,’ says Paul Hendel, an owner-operator with 19 franchises in New York, of the European model. Last October, he redid his 186-seat restaurant in the Chelsea neighborhood using the French-inspired design. With its open glass-front entry, multicolored chairs, and oasis-like second floor, his joint saw an immediate sales rush. Though he won’t share numbers, Hendel says he’s serving more customers with a higher check average than ever before. That prompted him to invest in a new ‘wow’ gadget: a handheld order taker that will allow roving waitstaff to funnel orders from the back of the lines into the kitchen.”

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*Fast Company Article*

### News Articles

- ▶ A July 20 article on AnnArbor.com detailed the renovation of a McDonald’s in Michigan.  
<http://www.annarbor.com/business-review/McDonald's-in-pittsfield-township-to-be-chains-latest-area-expansion-and-renovation/>
  - “The owner of the franchise at 5550 W. Michigan Ave. in Pittsfield Township is seeking to add nearly 2,000 square feet to the building’s footprint and add a second drive-through lane to the store.”
  - “Co-owner Jeff Fellhauer wants to add 1,904 square feet to the building to increase seating capacity to about 80 patrons, up from just over 35. He also wants to make the restrooms larger.”

- “Several area McDonald’s have undergone extensive renovations—including demolition and reconstruction—as the iconic burger chain repositions itself with a higher-end café-style design that often features free wireless Internet service.”
  - “Renovations at area stores are part of a [multi-year repositioning](#) of McDonald’s restaurants across the U.S. that started several years ago.”
- ▶ A Sept. 30 article in the *Midland Daily News* announced the reopening of a McDonald’s in Michigan with details on its improved appearance and atmosphere and its new side-by-side drive-thru. [http://www.ourmidland.com/news/article\\_448b0da7-2ff6-5b8e-977c-a41d6b76f6b8.html](http://www.ourmidland.com/news/article_448b0da7-2ff6-5b8e-977c-a41d6b76f6b8.html)
- “Larry Peters, owner of the McDonald’s restaurant in Freeland off Midland Road, is excited to show off his store’s modern renovations to local VIPs from 4 to 7 p.m. today.”
  - “Peters said work on his restaurant, which began Aug. 16, included a revamp from floor to ceiling, and front to back.”
  - “Walls have a nature theme with earth tones of greens and khaki with high top tables and chic lighting.”
  - “Employees worked the location’s drive-thru up until Sept. 13, and then had to be temporarily relocated to train at the McDonald’s store on State Street in Saginaw to learn the new computer system and how to work the side-by-side drive-thru, which has been added to the Freeland restaurant. That means employees can tend to two customer orders at a time.”

## NEXT STEPS

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**Blueshift’s next report on McDonald’s will investigate whether remodeled stores’ sales growth is taking share from nonrenovated McDonald’s or competitors. We will follow up with newly remodeled stores in the new year to gauge the improvements’ effects and gain details on equipment upgrades, including those that speed up the ordering process. We also will revisit this report’s store and franchise owner sources to determine the sustainability of the surge in business. We will measure the effects of new menu items like oatmeal and the expansion of McDonald’s higher-margin drink menu with smoothies and frappes.**

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