



'Fast action' in fast food: McDonald's CFO on why the company is growing again

Kevin Ozan became CFO of McDonald's in 2015. Since then, the restaurant chain has had a string of successes. Here's his take on what's working, what's not, and what's next for the iconic brand.

When Kevin Ozan assumed the CFO role in March 2015, McDonald's was a company that seemed to have lost its way. Sales were in a prolonged slump, once-loyal customers were going elsewhere, competitors were eating away at its market share.

But quickly, the top-management team—led by new CEO Steve Easterbrook (whose first day as CEO was also Ozan's first day as CFO)—developed a turnaround plan, which started showing results within months. By early 2017, the company was ready to replace its turnaround plan with a growth strategy.

Fast forward to 2018: Easterbrook, Ozan, and the rest of the current leadership team have revitalized the fast-food chain. They've turned around a massive operation—encompassing 37,000-plus locations in more than 100 countries, with annual revenues exceeding \$20 billion—and set it on a path to strong, profitable growth. As of late 2018, McDonald's same-store sales had risen for 13 consecutive quarters.

Ozan takes pride in the company's solid financial performance, but he knows there's a lot more work to do. The 21-year company veteran now oversees more than 2,000 employees, about half of whom are in McDonald's finance departments (accounting, internal audit, treasury, tax, global business services, and investor relations). The other half work in either the technology function or in the company's global restaurant operations and development group—two departments that began reporting to Ozan on January 1, 2019. A Midwesterner who says he eats McDonald's food about three times a week (favorite menu item: the Egg McMuffin), Ozan is candid about the challenges that the chain continues to face—including recent declines in US customer traffic, operational hiccups in its restaurant remodels, and an intensely competitive talent market.

In November 2018, he spoke with McKinsey senior partner Greg Kelly at McDonald's new headquarters in Chicago. He shared his thoughts on the company's

growth to date, how to sustain it, and his role in making it all happen.

McKinsey: *Not long after you became CFO, McDonald's developed a three-part growth framework—retain, regain, and convert customers. Tell us about that. What's worked best? Which of the three is the most difficult?*

Kevin Ozan: Our growth framework came out of research we conducted in our ten largest markets. It was the biggest consumer-research effort we'd ever done in our history. The research showed that what consumers want and why they come to McDonald's—whether they're in Germany or Japan or the United States—is much more similar than different. So our framework is universal; it allows us to speak a common language across the organization while still allowing local management to bring it to life for customers in their markets.

We've been really focused on the "regain" part. Before we launched the consumer research, we thought that the reason we were losing some customers was new trends—people moving away from quick-service restaurants (QSR) into fast-casual or more upscale dining. But the research told a different story: we were actually losing customers to our direct QSR competitors. On the one hand, that was frustrating because, obviously, we don't want to lose to competitors—but on the other hand, we took a lot of satisfaction from it because we knew we could win those customers back. Those are people who like quick-service restaurants and who enjoy eating our food; we just weren't giving them what they wanted. Thanks to the changes we've made in enhancing convenience, introducing new value platforms, and improving the customer experience, we're regaining some of those customer visits.

"Retain" is about keeping the customers who have historically been our stronghold—families with young children and people who love McDonald's breakfast.

Kevin Ozan



Vital statistics

Born in 1963, in Cleveland, Ohio

Education

Holds an MBA from the Kellogg School of Management at Northwestern University and a bachelor's degree in business administration from the University of Michigan

Career highlights

McDonald's

(2015–present)
CFO and executive vice president
(2008–15)
Senior vice president and corporate controller
(2007–08)
Vice president and assistant controller
(2006–07)
Senior director, investor relations

(2004–06)
Senior director, Chicago region finance

(2002–04)
Senior director, corporate controller group

(1997–2002)
Director of financial reporting

Ernst & Young

(1985–97)
Accountant

Fast facts

Chairman of the Ronald McDonald House Charities of Chicagoland & Northwest Indiana

Avid fan of the University of Michigan Wolverines football and basketball teams

Hobbies include hiking, reading thrillers and murder mysteries, and listening to pop, alternative, and new country music

"Convert" is about attracting new people to McDonald's by pursuing growth opportunities in places where we're not getting our fair share, so that's areas like coffee and snacks. It's probably the hardest of the three. We're making progress, especially with our McCafé proposition and our new specialty coffees.

McKinsey: Let's talk about the "retain" part. You could have just left it out of the growth framework, but you didn't. How well has that worked?

Kevin Ozan: One of the challenges for big organizations like ours is to do multiple things successfully at the same time. I liken it to a kids' soccer game: wherever the ball goes, that's where everybody runs to. In most of the

world, our growth framework has helped us fight that instinct. We've continued to build on our strengths with families and the breakfast daypart. In the US, we had a bold agenda that required us to execute across many levers, and we didn't pay as much attention to breakfast as we should have. We didn't advertise and promote it as much, and we didn't introduce any new breakfast products for years. So, in the past couple of years, we've had negative traffic during breakfast hours in the US market. We've learned that we do indeed need to keep a focus on the "retain" part of our strategy. We can't take our strengths for granted. We're learning how to keep our eye on the things that are working well even as we go all in on new areas.

McKinsey: Speaking of new areas, you've added some elements to the growth framework. You now have three "growth accelerators": delivery, digital, and the store remodels that you're calling Experience of the Future (EOTF). How do these accelerators relate to the retain-regain-convert framework?

Kevin Ozan: Once we had our baseline growth framework, as a leadership team we asked ourselves, "Are we OK with where we are now, or do we have a greater growth ambition?" We knew we could do more, so we generated ideas that would help us achieve more growth. To prioritize the ideas, our primary screen was what would have the biggest impact on the most people in the shortest amount of time. That's how we came up with our three accelerators.

Delivery is one of them. Steve [Easterbrook] and I had visited a few countries where we could see that delivery was clearly a growth opportunity. We wanted to move faster than what would have been a typical approach for McDonald's, so we set up a "fast action" team—bringing together some of our best talent from different business units and different regions. We took them out of their day jobs and had them focus exclusively on getting into the delivery game and building momentum as quickly as possible. We launched McDelivery in three or four months, which, for McDonald's, was an incredibly short period of time; in the past, we would have tested it in one market, and then another, and maybe rolled it out years later.

We partnered with Uber Eats in most of our markets because it had the broadest scale across multiple countries and was in the best position to help us launch, scale, and grow our delivery business the fastest.

McKinsey: Uber Eats is taking the orders and making the deliveries, so Uber—not McDonald's—is getting the customer data, right?

Kevin Ozan: It's true that data is a gold mine for learning more about our customers and giving them a more personalized experience. If I know that you like a Big Mac for lunch every Tuesday, for example, we can tailor our offer to your individual tastes. Right now, Uber does have the more detailed data on individual customers. We get summarized data such as time of day and location. We have a strong partnership with Uber and are exploring opportunities to share more information. We're also integrating delivery into our mobile app, which will help us gain insights that will allow us to develop one-on-one relationships with our customers. That's the goal.

We knew that McDelivery wasn't going to be perfect on day one. But it's proven to be a highly incremental business for us. It skews to a younger demographic, it generates a higher average check, we're seeing a high rate of repeat business, and most of the orders are placed in the evenings, when our restaurants have more capacity. Now that we've launched it, our focus is on optimizing that business. How do we grow awareness? How do we improve the packaging

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for items like fries and drinks? How do we make our operations more efficient? We're tackling all of those things now.

McKinsey: Did you have the same philosophy in developing your mobile app? Get the app out there and then improve it as you go?

Kevin Ozan: Yes. Some of our competitors already had an app, so we wanted to move quickly. If you think about your apps, you get updates constantly; consumers are used to that. An app doesn't have to have every bell and whistle on day one. Again, that wasn't an easy concept for our system given our historical strength in testing and "fail-proofing" initiatives before introducing them in our restaurants.

We're now working on improving the digital experience for customers. For example, if I order and pay through

the app but I still have to line up at the drive-through and wait for my food, there's no payoff; I haven't really saved myself any time. So we've introduced curbside service: you order and pay through the app, then you park in a designated parking spot at the restaurant and the food is brought out to your car. Now there's a payoff of added convenience for the customer.

I see digital as a "greens fee" these days. You need digital offerings. But ultimately the winners are going to be the companies that can best integrate the physical and the digital, and make the overall customer experience as pleasurable as possible. That's what our third accelerator, Experience of the Future, is about—giving customers more choice in the way they order, pay, and receive their favorite food. EOTF has a number of components: one is modernizing and updating the physical restaurants—the décor, the seating—another is putting in digital self-order kiosks, and another is table service. So whether you're ordering from the kiosk or the front counter, you can just sit down, relax, and have the food brought to you. Table service is a great example of how we're trying to increase the level of hospitality that customers experience in our restaurants.

McKinsey: EOTF is a lot more capital intensive than the other two accelerators. How did you decide it was worth the investment?

Kevin Ozan: One advantage of having a large system like ours is that once we started implementing EOTF internationally—in places like Australia and Canada—we consistently saw that it resulted in sales lifts of roughly 4 to 6 percent, so we knew we were getting good returns on our investments. We're spending more than \$1 billion this year on remodeling US restaurants. We're trying to do it at a quick pace—about 1,000 restaurants per quarter—because McDonald's customers expect consistency. If you go to one restaurant that's remodeled, and then the next day you go to a restaurant down the street that isn't, that's a confusing and disappointing customer experience.



What we're seeing in the US is that our remodels are taking a little longer, partly because the restaurants are older and need more work. It's also taking longer for customers to come back after a remodeled restaurant reopens. The good news is that once they do come back, we're seeing sales lifts similar to what we saw in international markets.

McKinsey: *It sounds like you personally are spending a lot of time on the various elements of the growth strategy, rather than on purely financial matters. Is that just inevitable when you're the CFO of such a growth-oriented company?*

Kevin Ozan: As a CFO, one of the biggest challenges is determining where you spend your time. Everybody wants some of your time, whether that's the board, the CEO, employees, franchisees, or suppliers. You've got to spend your time where you can have the biggest impact. When I became CFO, we were in turnaround mode, so my time was spent determining the right cost structure, the right capital structure, how and where to franchise more—in other words, deep financial analyses.

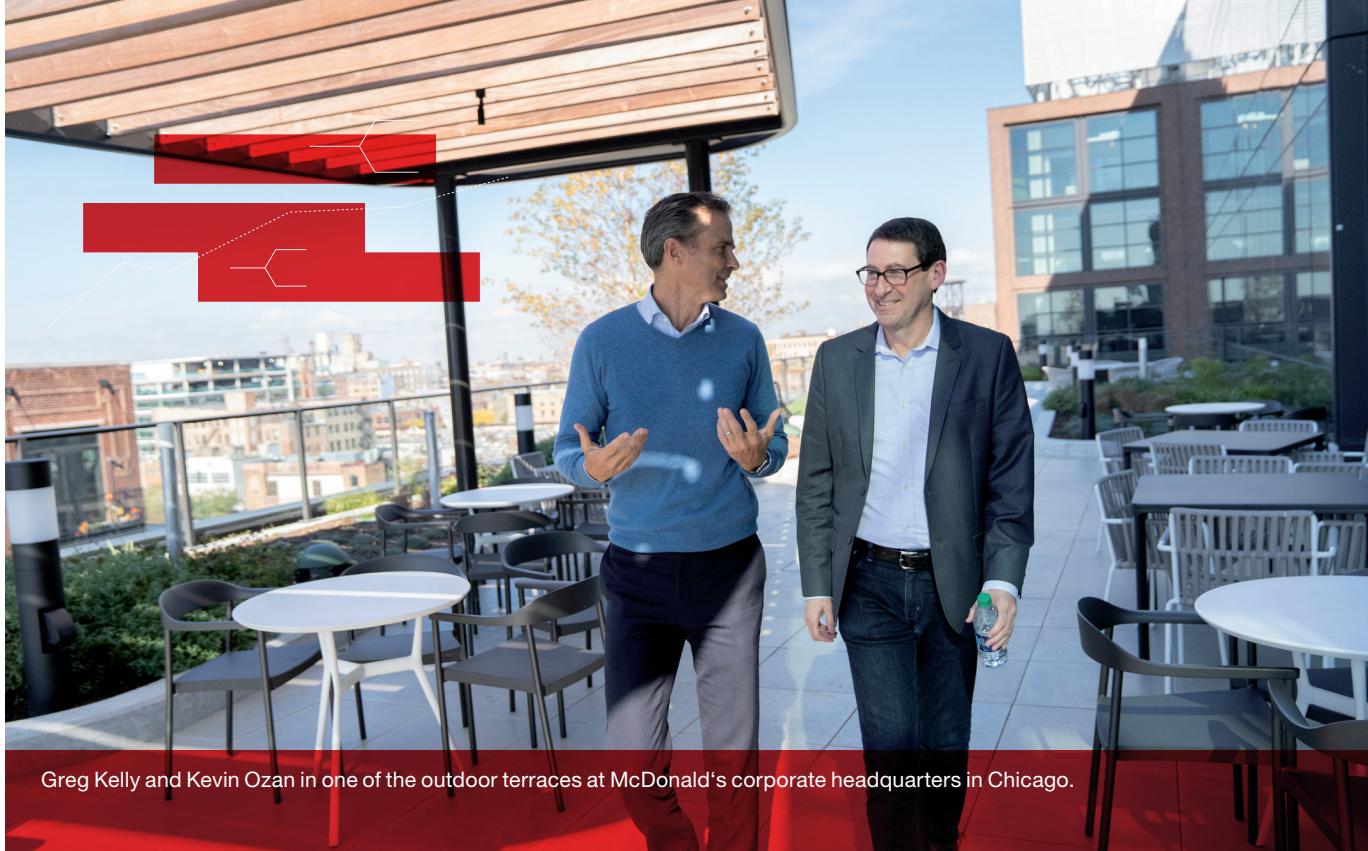
As we've transitioned into growth, I'm now spending more of my time on strategy, innovation, IT, and

digital initiatives. I enjoy that. Finance people, just like everyone else, want to use their creative side; we want to be strategic business partners rather than work purely on financial issues.

McKinsey: *What's an example of a time when either you or your finance colleagues were creative and helped enable the growth strategy?*

Kevin Ozan: Delivery is a great example because it was a new business model for us. We understood the profitability of a front-counter and a drive-through sale, but with delivery, all of a sudden, the customer has to pay a delivery fee, and there's a commission to the delivery provider. It's a whole new way of thinking. We've had to educate ourselves and our franchisees that the percentage of profitability may not be as high as a front-counter sale, but as long as that business is sufficiently incremental, it will earn incremental dollars.

So our finance staff has been figuring out the right financial model for delivery. Are there different models we can work with our providers on? What's the sensitivity of customers to the delivery fee? Does it matter if we change the split between the commission and the delivery fee? And so on.



Greg Kelly and Kevin Ozan in one of the outdoor terraces at McDonald's corporate headquarters in Chicago.

McKinsey: You lead a very large finance organization. What leadership traits do you look for in your staff? What traits do you feel have been important in your own success?

Kevin Ozan: I think CFOs and finance people need exceptional communication skills. That may not be the first thing that you'd associate with finance people, but in my role, I always have to adapt my communication style and messages to different constituencies—whether it's the board of directors, our leadership team, employees, or franchisees.

Finance leaders need to be able to explain financial concepts to nonfinancial people. You have to be able to bring complex ideas down to a level so that everyone is nodding their head and saying, "I understand what you're talking about." That's how you get things done in a large organization.

As a finance team, one of our most important roles is to produce facts and data, analyze the data, provide insights to tell a story about what's happening and why, and then propose solutions and influence decisions to help grow the business. I need to ensure that members of my finance team are focused on that, because it's not exactly the way you learn in business school.

McKinsey: How do you think you became good at communication? Did you have to learn it? Or do you think it was innate?

Kevin Ozan: I learned writing skills in my first job out of college. I had a mentor who was a strong writer, and she taught me how to convey my ideas in a logical, thoughtful manner so that people can easily understand what I'm saying, whether I'm writing just a short email or a long memo. Developing those writing skills also helped me become a better speaker.

Also, my career at McDonald's has exposed me to many different perspectives. That has helped me communicate better with a wide range of people. I started out in financial reporting, where I gained a good global perspective of the business from the corporate side. I then had the opportunity to work in Sweden, which gave me an international perspective. I spent some time out in the field working with franchisees, which was another new perspective, because franchisees view the business very differently from the way we did at headquarters. I came back and went into investor relations, which gave me an investor and analyst perspective. Gaining all these different perspectives has been incredibly valuable in my current job.

McKinsey: Do you spend a lot of your time on people issues?

Kevin Ozan: Absolutely, and it's something I really enjoy. I spend more time on recruiting, talent development, and employee engagement than one might expect. Top talent is scarce and provides a competitive advantage. Right now we're in a war for talent; many of the people we're trying to hire have several job offers on the table. That's true not just at the corporate office but also in our restaurants. With unemployment low in many countries, I expect that talent and labor issues will continue to be a challenge.

We're investing a lot in upskilling our employees. Our Archways to Opportunity program, for example, helps our non-English-speaking restaurant employees learn English and provides tuition assistance so that employees can get high-school and college diplomas. We've recently launched a program providing free career-advising services and tools. We're investing \$150 million over five years in building the capabilities of our restaurant employees, so that they can have great careers whether they choose to stay at McDonald's long term or not.

McKinsey: Last question: What's next for McDonald's? What are some things you're working on that could take the business to the next level?

Kevin Ozan: We're constantly reinvesting in our existing restaurants, of course, because nothing is as profitable as growing like-for-like sales. But we also think there's room for new restaurants, even in our mature markets, like the US, Canada, and France.

That said, the biggest area of increase in our spending has been in technology, which is helping to drive our growth. I expect that will continue. We're looking at how to use technology to improve the customer experience and create new customer experiences. We're also exploring technologies that can help us reduce or eliminate repetitive tasks and make employees' jobs

more interesting and rewarding. In our finance organization, we're piloting robotic process automation and other technologies. In our restaurants, we have a team looking at automation opportunities that can help drive labor efficiencies.

I'm a big proponent of intellectual curiosity and agility—learning new areas and keeping up with what's going on with the world, whether that's analytics or blockchain or something else—and getting things done quickly. At McDonald's, we're more curious than ever, and we're getting better at agility. That means our customers, employees, and franchisees will have lots of new things to look forward to. ■

Kevin Ozan is the CFO of McDonald's Corporation, based in Chicago. This interview was conducted by **Greg Kelly**, a senior partner in McKinsey's Atlanta office.

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