

McDonald's losses reflect the end of the 'golden age' of fast food

✘ McDonald's has made fast food popular around the world and becoming synonymous with the burger, fries and soft drink combo. Its business model has been copied everywhere, leading the onslaught of franchise businesses that extend from burgers to tacos and coffee. However, for the past ten months the famous restaurant chain has suffered a malaise that seems inexorable. The Golden Arches are a little less precious today as McDonald's suffered a 30% drop in profits to USD\$ 1.07 billion year to year. This is no accidental drop; it reflects a significant societal trend and the loss is so large as to warrant its own brand: how does a 'McLoss' sound? CEO Don Thompson reflected management's bewilderment over the results: "the challenges are more formidable than we imagined." He blamed the results on a recipe of pressures ranging from negative events in Europe and Asia to shifting attitudes of American consumers. Sales fell 3.3 per cent overall during the third quarter.

In Asia, where a major McDonald's supplier was shown on TV repackaging expired beef, the sales drop was 9.9%. Dragon TV reported last June that Husi, a meat supplier owned by OSI Group of Aurora, Illinois, altered expiration dates on what was stale beef and chicken, selling these to McDonald's and KFC among others. Doubtless, this contributed to a major reputation loss in the world's fastest growing market. Meanwhile, in the United States, McDonald's is facing tougher competition, which stems less from other fast food chains than it does from something more difficult to challenge: consumers are changing their tastes, preferring what they perceive to be more wholesome foods. In Europe, there were closures of restaurants in Russia, charged with having inadequate sanitary

conditions while the usually strong German market was weaker contributing to 1.4% losses in the 'old continent'. This offensive is interpreted by the Russian media as retaliation against the United States' sanctions against Russia since the beginning of the Ukrainian crisis.

As difficult as the third quarter has been, McDonald's admitted that the fourth quarter appears to be enduring the same headwinds. McDonald's will surely be considering ways to refresh their entire business model. This will go beyond the occasional addition of healthy alternative menu offerings such as salads. McDonald's main competitor Burger King showed the way by acquiring Tim Horton's; the Golden Arches are surely already searching for new opportunities to re-package their brand. The 'breakfast' market is an already too crowded niche. Now there are no fewer than a dozen rivals, from Starbucks to Taco Bell through to Burger King, Chipotle, Dunkin' Donuts, and Wendy's. Younger generations have been gradually losing their interest for McDonald's. Teenagers and thirty-something's prefer local casual and better menus and this has meant that McDonald's faced the weakest sales in over a decade last August, while September was even worse.

McDonald's was founded in 1955 by Ray Kroc. Sixty years later, it is facing its biggest challenge ever. It was inevitable perhaps that tastes would change and the losses are attributable to far more than mere strategic mistakes; it has to endure tough competition in the United States, health shortcomings allegations in Asia and geopolitical tensions in Europe and Russia in particular. Analysts suggest that McDonald's must strive above all to simplify its menus, improve the quality of its service and its prices again as the restaurant group is also preparing to sell packets and coffee pods in supermarkets in North America to expand the McCafe brand. Ultimately, McDonald's losses reflect the end of the golden age of fast-food. The phenomenon, which started in North America and which managed to gain a foothold in Europe

in the 1980's and in the past decade in Asia may account for the most important reason that McDonald's 'customers served' count has been growing more slowly. In the United States, the classic hamburger sandwich and fries are being attacked by new forms of fast food and higher-end food chains. Even famous 'slow food' or gourmet restaurants and chefs have launched their own brands of fast food such as Wolfgang Puck. The formula for success increasingly depends on prices, quality and service. But McDonald's faces a steep uphill challenge if it wants to survive; fast food operators are doing everything to attract new customers as traditional coffee shops and breweries/pub establishments make a comeback, serving higher end food.