

McDonald's banking on breakfast buzz

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McDonald's is having a moment. Actually, it has been having one for a while. Analysts may find no shortage of things to fret about - from rising labour costs to lousy consumer feedback on the quality of the food - but investors love McDonald's.



Image credit: Bloomberg/Stephanie Keith

Source: [BDive](#)

Okay, there was that seven-quarter US sales slump that took the blush off the share price. It ended last year, though, after Steve Easterbrook became CEO, and overall the stock has climbed 267% in the past decade.

"McDonald's has its challenges, but they're resilient," says Bob Goldin, vice-chairman at industry researcher Technomic.

Even he, a fan of sorts, can reel off what he calls the headwinds coming at the giant, among them increasingly nutrition-conscious Americans who might not be tempted by Big Macs and their 28g of fat.

Easterbrook's introduction of all-day Egg McMuffins in October at most domestic locations has helped to yank the company out of its recent funk.

There was a 5%.7% boost in fourth-quarter sales at established US restaurants, the biggest gain since 2012. Global profit

climbed 10%.

The CEO has made tweaks big and small since he took the helm of the world's largest restaurant chain in March last year.

He slimmed down the corporate staff, revamped drive-through ordering to make it more efficient, and solved the flabby hamburger-bun issue by requiring they be toasted longer. Some stores are experimenting with touch-screen menus. The goal is to stem, then reverse, the slide in traffic.

The challenge will be to sustain the breakfast buzz long enough for Easterbrook's team to tackle all the nagging issues and follow through on innovations such as the create-your-own-burger endeavour. "They want to keep that going over a consistent, long period," says Jack Russo, an analyst at Edward Jones. "There's no easy fix on that."

For some customers, the novelty of hashbrowns at 1pm will wear off. And competitors are elbowing in, with Dunkin' Donuts, for example, overhauling its menu boards to emphasise its all-day breakfast fare.

McDonald's is aiming to keep up the pace with new items; restaurants in the US south will soon be offering McGriddles breakfast sandwiches at all hours. Round-the-clock hotcakes and Egg McMuffins debuted in Australia a few months ago and may show up in other countries, according to McDonald's spokeswoman Becca Hary.

Even if the breakfast glow fades, the company is hardly in danger of a meltdown. McDonald's continues to add restaurants. The dividend keeps growing, with data compiled by Bloomberg showing a 4.8% uptick over the past year. And the stock rose 26% last year, outpacing gains at Yum Brands and Wendy's Co. "People are flocking to safety," Goldin says. "It's looked at as kind of a low-risk investment."

To stay that way, it will have to draw more customers.

"The trick is to find the right price and the right products that stimulate enough traffic and sales and doesn't hurt you too badly" if some diners trade down to cheap items, says David Palmer, an analyst at RBC Capital Markets.

Now is the time to get that right because "the company has re-established some momentum". McDonald's knows it needs to appeal to Americans' appetite for healthier, environmentally friendly fare. The chain also has a less-than-stellar reputation in its limited-service burger-chain universe: it scored lowest in quality; trailing Wendy's, Burger King and Jack in the Box, in a 2015 consumer survey.

The company has committed to cleaner ingredients, although change will be slow because of its considerable size: 36,500 restaurants in more than 100 countries. Serving only cage-free eggs at US and Canadian stores will take a decade, while putting only chicken raised without certain antibiotics on the menu will take two years.

Labour costs are a thornier issue. McDonald's has been feeling some pay-cost pain in the US. The profit margin at US restaurants narrowed to 15.1% last year, from 17.4% in 2014, and the company cites higher wage and benefit expenses.

Early this year, 14 states raised their minimum rates, and legislators in California just made a deal to hike the most populous state's hourly minimum to \$15 by 2022. McDonald's increased pay by \$1 for employees of its 1,400 corporate-owned locations last year, putting pressure on franchisees to follow.

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Source: Business Day

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