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Dr. Nicholas Mathys: How has the restaurant business changed over the years? What do you see affecting it in the future?

KD: It really boils down to the vast number of choices and vast amount of information available to consumers today. Pretty much every business' customers have become more demanding, better informed, more discerning about value, and in many cases much less loyal. Satisfying customers' ever-changing needs and expectations is what's driving change in most industries. With so many options to choose from, customers have really changed the way business has to operate. In some ways, it's segmented markets to the point that mass merchandizing "one-size fits all" may be a thing of the past.

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Ten years ago, a glass of ice water in a wax cup with a lid and a straw were free; now people willingly spend \$1.50 for a bottle of spring water. It really is incredible. Look at Starbucks. Ten years ago, when coffee was just a commodity, few would have believed that large numbers of people would happily pay \$3 or \$4 for a cup of coffee. Don't like Starbucks? Take your business elsewhere; there are more than 150 "coffee cafés" listed in the downtown Chicago yellow pages. What this all tells me is just how much and how fast consumers' tastes, demands, and purchasing habits have changed in the last decade or so.

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NM: How has this affected the way business operates?

KD: The speed of change can be problematic for businesses that aren't able to turn on the

proverbial dime. CEOs used to be able to set a three- or five-year business plan and then just keep everybody focused on executing it. In today's environment, even the best annual plan may not be good enough. Now, business plans need to be flexible enough to accommodate monthly or quarterly change, or as some people would argue, daily or weekly. It's a much more dynamic, fluid market today, and the business plan has to be more fluid too. Companies have to be more in tune with their markets; it's much more intense and markets can change very quickly.

The CEO's job, in my judgment, is much different than it was. The competencies and the skills needed to run a company in the 80s or early 90s are much different from those a CEO needs to run the same company in the 21st century. Whether it's harder or easier isn't the point. It's different. It demands a different level of customer awareness, of what the customer demands, than ever before. Quite frankly, it's making us a better economy and a better able to compete globally. In many ways we're ahead of others. The U.S. population is so large, diverse, and segmented in terms of markets, trends seem to come and go faster here, and some markets have already matured. That's meant that business has had to become very nimble, very quick, very customer-oriented.

NM: Much of your expertise is in branding. How does a brand stay relevant?

KD: By constantly being in touch with the customer. By understanding the product's features, benefits, and differentiations. What are the benefits for the customer? How are our brand and our products perceived? What is our message and what should it be? How will we shape perceptions and deliver our message to customers, both existing and new?

A brand's relevance to its customers is always changing because customers' viewpoints are always changing. I'm not even talking about bringing new customers into the brand. Just to keep the existing customer base, a brand has to evolve along with the customer, continue to be important to her or to him, most especially as new competitors and new choices enter the mix. It may sound like Marketing 101, but it's much more intense. Customers aren't loyal to companies or brands as my parents generation used to be as much as they are loyal to specific product attributes or product benefits. What matters today is whether a product delivers or fulfills a customer's need. This can be problematic for companies that built their brand based on loyalty to a logo rather than product benefits.

NM: What made McDonald's so successful for such a long time?

KD:Â Some of it was timing, some of it was executing better than anyone else.Â America was changing after World War II.Â More people had more money, lifestyles were changing, and we were becoming a much more mobile society. McDonald's really understood people's growing desire to enjoy meals outside of the kitchen. We filled the need with very good products people craved and we developed a system to deliver consistency.Â Consumers could rely on us.Â They knew exactly what awaited at every McDonald's " the same products, the same taste, the same quality, service, cleanliness, and value.Â Until then, very few brands had been able to deliver all of those things.Â McDonald's didn't invent fast food; McDonald's perfected the systems to deliver fast food consistently and conveniently.Â As Ray Kroc said, "We take the hamburger business more seriously than any one else."Â His vision of a McDonald's on every corner, with no compromises in quality, service, cleanliness, or value, was great timing " and with a lot of hard work, really paid off.

NM:Â Can some analysts now see McDonald's more as a cash cow than a growth company.Â Can the brand regain its former success, and does it need to radically change to do so?

KD:Â A lot has changed since 1955, and through the years McDonald's has faced many challenges to meet customers' changing needs.Â McDonald's started as walk-up restaurants; people usually ate in their cars.Â We added dining rooms when people wanted to sit inside, drive-thrus when people wanted to eat on the run.Â We added PlayPlaces for children.Â We expanded our core menu " one example is breakfast and the Egg McMuffin " and offered special regional tastes.Â McDonald's evolved as customers' needs and demands changed.

The current situation is the result of many factors.Â One, the ability to grow by new openings has matured; there are now some 13,500 McDonald's restaurants in the U.S. alone.Â Two, while the number of meals eaten or prepared away from home continues to increase, an enormous number of competitors now offer an enormous number of choices:Â fast food, fast casual, casual, grocery stores, convenience stores, vending machines, microwaves.Â Everywhere you look there's affordable prepared food to eat on-site, eat in your car, eat at home.Â Three, consumer tastes have changed, which is driving both proliferation and diversification in the restaurant industry and fragmenting the market.Â Once-exotic foods like sushi and burritos are now everyday options.Â And four,Â I think McDonald's lost some of the "magic" that differentiated the brand in earlier years, what business calls goodwill, or brand equity.

Can McDonald's attract new customers, regain the loyalty of former and existing customers, make the Golden Arches shine? There's still room for more restaurants in the U.S. and elsewhere, but that isn't dynamic growth. The real key to sustainable, profitable growth is understanding changing customer demands and meeting or exceeding their expectations. That's true for any company, no matter its size or business. There has to be a much more intimate relationship with customers today. Ultimately it comes down to delivering good value, which is much more than simply the price of your products. The equation is value = experience divided by price. A 10 experience at a 5 price is great value; the reverse is not. So, if a customer's experience – that combination of product quality, service, environment, expectations fulfilled or denied – isn't good, or isn't good enough to separate a brand from its competitors, the only choice left is to lower prices.

Unfortunately, in the last number of years, McDonald's put an inordinate amount of time and resources into lowering prices and short-term promotions, which compromised its financial situation, rather than building the brand by improving the customer's experience, which is a people issue. But now, with the emphasis on service and operations improvements in the restaurants, plus interesting new menu items such as premium entrée salads, I think McDonald's is getting back on track. Comparable sales have been trending up for more than a year.