Fresh *thinking*

McDonald's senior leadership team is credited with instigating a dramatic turnaround in the company's fortunes. *Joanne Cleaver* meets CFO Kevin Ozan, a key figure in this transformation, and finds out how his career path has taught him the importance of taking risks.

McDonald's restaurants are so much a part of the American landscape that the company makes light of its landmark status in its corporate art collection. One painting at its longtime headquarters in suburban Chicago depicts McDonald's arches sprouting from an otherwise mundane rural scene. In another, the company's iconic French fries and Big Mac feature in a still life that also includes flowers, fruit and a sliced cucumber.

Amusing as they are, the paintings are a rearview image of the fast-food franchisor and operator. For the past few years, McDonald's has been transforming itself into a modern, progressive company: retooling its restaurant operations around mobile technology and hospitality; streamlining and refocusing its financial operations to support accelerated growth; and fostering a new breed of leader.

As soon as he took up the post of CFO in March 2015, Kevin Ozan became one of the key McDonald's leaders involved in planning and executing the tactical changes the company needed to make in what he calls "turnaround mode." Now he and his finance leadership team are helping to set the strategic course ahead.

KEEPING PACE

McDonald's began as a company that set the standards. Over time, though, tastes changed and expectations rose. McDonald's didn't do enough to keep pace, says the 54-year-old Ozan, who lives in Chicago and relishes the daily reverse commute as a rare chance to spend time alone with his thoughts.

Founded in 1955, McDonald's was an industry juggernaut for decades, anchoring the fast food category, establishing best practices in restaurant location and food service operations, and creating globally recognized brands and mascots. But sales first stalled, then slumped, in the early part of the current decade. Customers started driving by, rather than driving through, McDonald's to other chains that offered a greater variety of food at attractive prices.

By 2015, the board had run out of patience and brought in a new CEO, Steve Easterbrook. At the same time, Ozan was elevated from the role of Senior Vice President – Corporate Controller to that of CFO. He now oversees accounting, internal audit and controls, treasury, tax, global business services, investor relations, global franchising, and workplace solutions.

"Nobody's ever really ready for this job," says Ozan, "but if you wait until you're ready, you'll never do it." His immediate predecessor and former boss, who was still with the company through much of 2016, assisted with the transition and served as a shadow coach and mentor as Easterbrook, Ozan and the senior management team formulated their plan.

As they began guiding the turnaround three years ago, the leadership team focused on three pillars: return McDonald's to operating growth, strengthen financial discipline and build brand excitement. Ozan formed and led several cross-functional teams to evaluate all financial aspects of the company with a "clean sheet of paper" approach and to challenge all legacy thinking – organizational structure and general and administrative costs, capital structure, real estate ownership and franchise ownership.

The 60-year-old company needed to operate with a faster pace and a greater sense of urgency, so the leadership team took out multiple layers of middle management to streamline and quicken the pace of decision-making and execution. They also grouped markets with similar characteristics into four operating segments, so that leaders facing a similar competitive landscape can more readily work through common challenges and rapidly spread the best ideas from one market to another.

This new structure also brought big changes to the McDonald's corporate headquarters. It became a leaner but stronger organization focused on supporting the markets that are closest to the company's customers.

The past three years have been an immersion in the challenge of realigning the organization to support the company's new direction, and modeling culture change in the process. The company's re-engineered functions, says Ozan, have reduced costs and created breathing room for mission-critical operational changes. For the 1,000 people who report to him from across the globe, that includes expanded time, energy and attention to cultivate careers that drive innovation.

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A FLEXIBLE MODEL

Ozan says he has come to appreciate the strategic genius of McDonald's first generation of leaders. In the 1960s, as the company was growing rapidly, they selected thousands of locations on the basis of anticipated population growth and the habits of American commuters and travelers.

Still, taking nothing for granted, in 2015 Ozan led a deep dive into the current rationale for owning its locations. The team concluded that the real estate in the US and its other long-established countries was too precious an advantage to relinquish.

Franchisees, or "owner/operators," as they are referred to at the company, are at the heart of the McDonald's business model, so in November 2015, the leadership team announced a goal to refranchise 4,000 restaurants by the end of 2018. This involved two approaches: expanding the number of restaurants in the hands of conventional franchisees in the company's largest and most mature markets, and franchising some entire markets to developmental licensees (DLs). Last »

» year, McDonald's completed its largest refranchising transaction ever by selling its business in China, enabling the company to achieve its target a year ahead of schedule.

Today, with more than 90% of McDonald's restaurants operated by franchisees, the company enjoys a more reliable and predictable stream of revenue and cash flow. For conventional franchisees, McDonald's owns the real estate and the franchisees pay both rent and royalties based on a percentage of sales. For DLs, the franchisee is responsible for all capital investments, including the real estate, and McDonald's just receives a royalty based on a percentage of sales. "It's an asset-light, low-cost model that we manage and influence through relationships," Ozan explains.

BOLD MOVES

The new leadership also made early, bold moves that showed a commitment to focusing on customers.

All-day breakfast in the US was a win waiting to happen. "It was the number one customer request for years: 'Can you have breakfast available all day?'," Ozan says. "But we didn't do it, for fear of complicating restaurant efficiency. Breakfast ended at 10.30 a.m."

Historically, McDonald's would have tested a new idea for years before introducing it, but in this case the company went from initial testing to full rollout in a few months. "This was one of the first tangible signs that we were going to be a more agile and nimble organization," Ozan says.

Same-store sales rose by 5% globally in the last quarter of 2015, with analysts attributing much of the gain to the new all-day breakfast. That validated the leadership's perspective. Now they are on a mission to rid "risk" of its reputation as a dirty word among McDonald's staff. Their goals: "fast failure," experimentation and innovation, and evolving the company culture to operate more quickly.

A year ago, McDonald's transitioned from its turnaround plan to a strategic growth plan. The foundation of the plan is a commitment to "Running Great Restaurants," serving great-tasting, hot food, fast, with friendly service and hospitality. The company also acknowledged the rising expectations of consumers for convenience, value and fun.

The team moved quickly, introducing Mobile Order & Pay to 20,000 restaurants in less than 10 months. Customers can now order ahead on the McDonald's app and then have their order brought to them in their car when they arrive. Those ordering inside, either at the front counter or at new self-order kiosks, can now have their food brought to them at their table. And if a customer doesn't want to leave their couch, they can now get McDonald's delivered from over 10,000 locations around the globe.

CALCULATED RISKS

Just as the McDonald's culture is shifting to embrace calculated risks to advance its business, Ozan has adopted a similar philosophy for directing his career.

He draws on his own experiences as a young accountant with EY. A Midwesterner born and bred, his first career aspiration was to make it in Chicago. After a few years edging up the career stepladder, he was offered a short-term assignment in London.

Most twenty-something professionals would have jumped at the chance, but Ozan hesitated. His international travel experience was limited to Canada, and he wasn't sure how he'd navigate the threefold challenge of learning new tasks with new colleagues in a new culture. "The idea of it scared me," he admits.

But something clicked inside and he accepted the assignment. "It was one of the best things I ever did," he says. "I made lifelong friends from other countries. I grew both personally and professionally. And I learned that I needed to take calculated risks."

Not long after he returned, he had a chance to apply that newfound wisdom to a pivotal decision faced by many rising public accountants: to pursue partnership in the EY member firm or to transition to industry? A former colleague was moving ahead at McDonald's and thought that Ozan would be perfect to fill the newly opening position.

"I thought, well, why not talk with them," Ozan recalls. "It was a director of financial reporting job. I asked about the 'normal career path' and they said, 'there is no normal career path.' That intrigued me."

He was on the road to partnership at the EY member firm, but he detected a better long-term fit within the broad parameters of McDonald's. In the fall of 1997, he made the move.

He draws from lessons learned at both EY and at McDonald's to coach his staff through the company's accelerating culture change. In retrospect, he says, some career disappointments delivered insights that are essential for showing staff how to pursue their own goals.

For instance, after just a few years at McDonald's, he applied for a job that represented the next rung on the ladder — and didn't get it. He asked why and learned that a stint in field operations — getting to know the ground-level concerns and daily stresses of franchisees — was vital for genuine leadership. So he took a lateral position, stepping away from corporate to a regional financial role.

"Your career isn't a checklist," he says. "It's partly experiences and partly luck — and you have to be comfortable with being uncomfortable. Accountants don't always like that. But you have to be prepared to take advantage of opportunities when they come — and they'll come fast, because the world is changing fast."

KEVIN OZAN: CV IN BRIEF

- Joins EY in 1985, immediately after graduating from the University of Michigan with a degree in accounting. He works primarily in audit, spending two years in M&A and one year on assignment in the UK, in London.
- Joins McDonald's Corporation in 1997 as Director of Financial Reporting.
- In 1998, earns a Master of Business Administration degree from the Kellogg School of Management Executive MBA Program, Northwestern University.
- Spends six months on assignment in Sweden in 2001.
- In 2005–06, takes a developmental lateral move to field finance operations for the Chicago region for nearly two years.
- Becomes Vice President, Assistant Controller in May 2007.
- In February 2008, he is named Senior Vice President — Corporate Controller.
- In March 2015, he is named Executive Vice President, Chief Financial Officer, McDonald's Corporation. He is also Chairman of the board of directors of the Ronald McDonald House Charities of Chicagoland & Northwest Indiana.

Embracing ambiguity and aiming for a moving target are two leadership qualities that can annoy the precision-obsessed, which is why Ozan shares more about his decision-making process and personal style than is generally common among financial leaders. After all, people can't follow your example if they can't peek beneath the top line to understand the process as well as the results.

He'll soon have a new setting for exercising his creative side, as McDonald's is preparing to relocate its global headquarters to downtown Chicago. As beautiful as it is, the old suburban campus is a relic of the era that built the company to its current scale. Going forward, McDonald's aims to be part of the streetscape and to blend in with customers' everyday lives — instead of inserting itself into customers' habits in an incongruous way, as it does in the soon-to-be-warehoused paintings.

Decades ago, McDonald's planners sited restaurants on the right-hand side of major roads so that customers could pick up breakfast without interrupting their morning route. Today's equivalent is occupying that same convenient spot on smartphones. Two of the essential drivers of the company's growth, says Ozan, remain reliability and convenience — and anticipating what it will take to be where tomorrow's customer expects McDonald's to be. ■