

McDonald's makes late-night menu moves

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McDonald's USA has confirmed that it will begin rolling out a "McDonald's After Midnight" menu of [breakfast](#) and dinner items in select markets at participating 24-hour locations, marking a significant move into the late-night daypart.

But several observers of the company noted that, while the time between midnight and 4 a.m. is ripe for experimentation, the pre-breakfast daypart might not hold enough revenue potential to meaningfully combat McDonald's pattern of faltering same-store sales so far in 2013.

"Our customers want convenience around the clock, and we're making it easier to eat at McDonald's with more 24-hour restaurants open than ever before," the Oak Brook, Ill.-based chain said in a media statement. "Our new McDonald's After Midnight menu features a selection of our customers' favorite breakfast and dinner menu items with the option to mix and match to create Midnight Value Meals and select limited-time offerings."

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Items reportedly available on the After Midnight menu include the Big Mac, [Chicken McNuggets](#), the Egg McMuffin, hot cakes, French fries and hash browns. The brand also said McCafe beverages and desserts also would be sold during the new menu's window between midnight and 4 a.m.

McDonald's confirmed that the After Midnight menu is already available in the markets of North Delaware and College Station, Texas. Earlier reports said a [breakfast after midnight menu began testing in central Ohio](#) last August [and in Rockford, Ill.](#), this January. [Another report in USA Today](#) said the menu had been tested in parts

of Southern California.

News of this menu expansion comes during a year in which McDonald's domestic same-store sales have been erratic. The chain's same-store sales in the United States declined 1.2 percent in the first quarter of 2013, lapping an 8.9-percent gain in a year-earlier period when unseasonably warm weather drove traffic and sales. The brand followed that up with a 0.7-percent gain in domestic same-store sales in April.

In response, McDonald's officials noted during the company's first-quarter earnings call that transaction growth would be key to turning around same-store sales, which would lead to increased advertising for the Dollar Menu, as well as new food items across the menu, like Premium McWraps, the Egg White

Delight McMuffin, and three new flavors of the Quarter Pounder.

Breakfast a key differentiator

Dick Adams, a former McDonald's owner-operator who now consults several of the brand's franchisees, called the expansion of McDonald's After Midnight a "smart" move to utilize the existing menu during hours when stores are open but traffic is far from peak levels. The founder of San Diego-based Franchise Equity Group doubts the initiative would be significantly accretive to same-store sales, but added that late night is a good daypart for experimentation.

"There's not a lot of traffic then at most McDonald's units, and you have the grill space and time to fiddle with it," Adams said. "If you screw up ops at late-night, it's not a big deal; if you do that at lunch, it's a disaster."

Operationally, "this isn't a big hassle" in the middle of the night, he added. "But I don't see it being all that productive in terms of sales generation," Adams said. "There are some McDonald's locations where this makes sense, but they're few and far between."

Similarly, Howard Penney, managing director at Hedgeye Risk Management, said driving incremental sales at the late-night daypart likely would not fix the brand's problems. That's because recent struggles to drive same-store sales at McDonald's have more to do with declining lunch sales and over-reliance on the Dollar Menu.

"I don't think chasing those sales makes a lot of sense," Penney said. "They have the capacity between midnight and 4 a.m. to cook multiple things on the grills. They can do it. But it's not a big time for them to generate a lot of sales needed to fix the [unit economics]."

However, Gary Stibel, founder and chief executive of the New England Consulting Group, called the move "two sesame seeds short of brilliant" and said McDonald's could satisfy a need for late-night dining in a big way before competitors could — even early adopters such as Taco Bell and Wendy's.

"Like most things in life, late at night has changed," Stibel said. "Teenagers and young adults go out at 10 o'clock, come home at 2 a.m., and are hungry. ... We think this will be accretive to sales, and anybody who questions people's desire for breakfast food after midnight has never gone to a New Year's party. ... What they're doing is brilliant: using existing real estate, getting ahead of the competition and satisfying a need that already exists."

Although Taco Bell has long promoted its "Fourthmeal" daypart, and Wendy's advertises its late hours at the pickup window, neither has claimed the mantle as the pre-eminent destination for late-night eating, Stibel said.

"McDonald's, if they do it right, could leap ahead of them," he said. "Having breakfast food — which Taco Bell doesn't have systemwide and Wendy's has tested several times — could be the way to do that."

Putting all-day breakfast to bed

Continued from page 1

Though breakfast would be a late-night differentiator for McDonald's, Adams and Penney agreed that expanding McDonald's After Midnight was not a precursor to the brand's long-rumored adoption of 24-hour breakfast service.

"Breakfast all day is impossible," Adams said. "The menu is too broad already and too complicated for the restaurant and the consumer. To add all-day breakfast would be a disaster. Jack in the Box does it, but they serve half the customers McDonald's does and they're in a different business."

McDonald's may hint occasionally that it would explore all-day breakfast to gin up interest in that menu, Penney added, but its stores in the United States do not have the equipment or capacity to grill burgers and breakfast sandwiches 24 hours a day.

"The box is not set up to do 24-hour breakfast," Penney said. "The restaurants would need major equipment upgrades."

Yet Stibel said McDonald's could explore all-day breakfast further if it sees a big shift toward breakfast sales at multiple occasions, like late at night.

"I get what they're saying: Operationally, [breakfast] is tough when you're trying to move hamburgers and French fries all day," he said. "But trust me, if this works, they'll find a way to do it. I wouldn't count McDonald's out just because current operations make it difficult."

Of McDonald's more than 34,000 restaurants around the world, more than 14,000 units are located in the United States.

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