



McDonald's Supply Chain Efficiency

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Executive Summary

Introduction:

McDonald's has been the world leader in the fast-food chain business ever since the start of their existence. Since their opening in 1940, McDonald's has remained consistent in not only their values, but their ability to meet their goals. With over 36,000 restaurants located in over 100 countries, McDonald's has managed one of the top tier supply chains in the world. McDonald's stands by communication and revision, which has worked for their efficient supply chain. Third-party logistics has been one of the key essentials to this well-oiled machine, as suppliers have contributed many resources to the McDonald's experience. After many years of using this supply chain strategy, McDonald's has been ranked highly among the world's best in supply chain efficiency. For four straight years McDonald's ranked in at number two for Gartner's Supply Chain Top 25.

Methods:

Through research, team roles, and proper scheduling, this paper was designed to inform people of the supply chain functionality within the McDonald's corporation. Both news articles and web articles were used to conduct secondary research. Primary research was accomplished with an interview with HAVI supply chain personnel. Team roles were given to each member of group one. With the group working together, each member of the team had their own specific tasks at hand. To accomplish the same goal of analyzing the entirety of the McDonald's supply chain practices, and how they could improve on certain areas of practice.

Results:

With the use of third-party logistics, McDonald's shows how efficient supply chains can be maintained, not just to the limitation of one company doing it all. According to Joseph Hazer, Senior Business Solutions Analyst at HAVI, "McDonald's follows the 'Efficient Supply Chain' model within their Global Supply Chain & Sustainability group and requires that all suppliers, including HAVI, follow 'Efficient Supply Chain' principles." With these two processes of supply chain intertwined, McDonald's has been able to keep up with consistent supply and demand on all 36,000 McDonald's locations. But, every supply chain does have their issues regardless of how well they are managed. McDonald's is faced with three major problems that could be fixed: better forecasting on new product launches, food safety and quality, and freight shipments as a whole.

Discussion:

McDonald's clearly has shown that their supply chain is strong and one of the best around the world. With their three-legged stool system, McDonald's seems to be focused on running and excelling their supply chain techniques. However, even with a strong efficient supply chain, McDonald's still runs into many issues with forecasting, food quality, and logistical mishaps. With so many locations and resources being used, recommendations were made for McDonald's moving forward. These recommendations touch on what McDonald's should keep doing because it is working, but also touch on what McDonald's should do differently to see more success in the immediate future.

Introduction

McDonald's is the leading fast food restaurant brand in the industry today. The restaurant was founded in 1940 by Richard and Maurice McDonald in San Bernardino, California. The restaurant was originally named "McDonald's Bar-B-Que" and consisted mostly of barbecue meals. By 1947, the two brothers had come to the fact that majority of the income was coming from selling hamburgers. They rebranded the business as a hamburger stand and then turned the restaurants into franchises. Following the switch, in 1952, the two brothers realized they needed to be more efficient, so they set out for a building upgrade. This is when the iconic golden arches were added to the McDonald's insignia. In 1954, Ray Kroc became a franchise agent with the McDonald brothers. He went on to build a franchise location outside of Chicago, in the city of Des Plaines, Illinois. Kroc also assisted Christopher Boulos, who went on to open a franchise in Dekalb, Illinois. It was one of the most successful locations, as they sold four million burgers and one million fries in just five years of opening. This location still exists at 805 W. Lincoln Highway. In 1961, Kroc acquired the rights of the company from Richard and Maurice by purchasing their chain of franchises for 2.7 million dollars. (McDonald's Corporation, 2018) In 1965, McDonalds Corporation finally made the decision to go public. Their biggest selling product, which is the highest selling product to date, is the big Mac which launched in 1968. The first drive thru was implemented in 1975 at the Sierra Vista, Arizona location. This increased sales and service time, making quality and supply chain efficiency that more important. The 1980's was the start of more product innovation for McDonald's, as they released the McChicken and the McNuggets. Following these releases, the salad was also introduced to the company's menu. This meant that McDonald's had to find suppliers to source all these new resources. Including new sources for food, McDonald's started introducing Clamshell grills.

These grills cook both sides of the burger and make serving customers three times faster. This was yet another resource that all restaurants need to be supplied with. The original headquarters was in Oak Brook, IL, but their global headquarters is now located in Chicago, IL as of 2018. (McDonald's Corporation, 2018)

McDonald's continues to grow globally and is very competitive in the market. Kroc's vision was to have 1,000 restaurants only in the United States, but now has over 36,000 restaurants in more than 100 nations. (McDonald's Corporation, 2018) The supply chain management activities and related issues that come with the big global business of McDonald's raises the thought of how it strategically positions itself in its market's supply chain and how the corporation has the proper techniques to support their strategy to be the top competitor in the industry. McDonald's has been awarded with multiple awards since 2010. In 2014, McDonald's won two awards for: number five Most Valuable Global Brand and number nine Most Valuable Brand in the World. In that same year, they were awarded number two in the Food Service Category.

Methods

The research conducted for McDonald's supply chain management activities and related issues was completed using credible sources and reliable team dynamics to gather the necessary information on the topic. Our team utilized primary and secondary research to fully look into the supply chain and issues that McDonald's faces. The primary research that was conducted was an interview with Joseph Herzer from HAVI, which is a company that works with McDonald's in their daily supply chain operations. The secondary research was completed by looking into current news articles and web search. Our team members were given various roles to meet deadlines for the research for the team project.

Interview with Joseph Herzer

Joseph Herzer is a current employee of HAVI and his current role in the company is Senior Business Solutions Analyst. He got his bachelor's degree in Operations Management and Information Systems at Northern Illinois University in 2015. He received his Master of Business Administration at DePaul University in 2018. Herzer has been working for HAVI for three years and works daily trying to solve issues that McDonald's faces with their supply chain. Herzer also worked directly for McDonalds for a duration of four years as a swing manager earlier in his career. His credentials of work and education made him a good candidate to interview to research more about the McDonald's supply chain.

News Articles and Web Search

The articles from news sources were gathered from recent publication dates and were analyzed to make sure that they were not bias to ensure the research conducted from them was valid. Articles from web searches were also carefully chosen based on the writer of the articles to make sure they were credible enough to provide information about McDonald's supply chain and related issues. The secondary research from these articles are cited in the references to give credit where it is needed for the information that was gathered in the project.

Team Members Roles

Parth Gandhi was responsible for taking the information gathered from primary and secondary research and used it to analyze the results in the discussion section and make recommendations.

Jeff Willer was responsible for contributing to the primary and secondary research implemented into that section, completing the executive summary, checking in with group members roles, and doing final edits and revisions to the final paper.

Vanessa Lewinski was responsible for completing the research for articles that were found from news sources and web searches and input her findings in that section.

Adam Bormann was responsible for researching the company history and information, explaining the methods of conducting the research of the project, and interviewing Joseph Herzer to report the answers to the questions our group had about the McDonald's supply chain.

Marcos Carbajal was responsible for taking the information gathered from primary and secondary research and used it to analyze the results in the discussion section and make recommendations.

All group members were responsible to complete the first report by February 13, complete each individual part of the final report before the final edits by April 6, submit the final paper to blackboard by 11:59 pm on April 6, and complete the final presentation by April 8.

Results

McDonald's supply chain strategy focuses on efficiency and they offer food items, which are functional products, in their supply chain. McDonald's supply chain has managed to be successful due to the supply chain system established by founder Ray Kroc, the use of their third-party logistics providers, and collaborative nature of their supply chain.

When it comes to Ray Kroc's system that McDonald's relies on, known as the three-legged stool, in which one leg of the stool represents McDonald's employees, another represents the owners and operators of the restaurants, and the last leg represents McDonald's supplier partners. The philosophy behind this system is that if part of the structure collapses then McDonald's will too since "company employees, franchise owner/operators and suppliers each support the weight of McDonald's equally," so for one to succeed they must all succeed. (Vitasek, 2012) This "System First" approach therefore places considerable importance on

suppliers' roles at McDonald's. In fact, this value that McDonald's sees in their suppliers led them to essentially use a "supplier optimization system in which they prefer to select only a few suppliers with whom they create a solid, long-term relationship rather than having too many." (Gaetanvaujour, 2018) With this system, McDonald's is able to establish trust and loyalty with its suppliers, and in turn create an atmosphere that "enabled them to work together and innovate to keep costs as low as possible." (Ovenden, 2017)

McDonald's system has also achieved success by focusing on a set of rules, known as Vested's five rules, which both the franchise and its suppliers follow. The first rule is "Focus on outcomes, not transactions" which ties into the idea that McDonald's priority is to establish and maintain long-term relationships with suppliers in order to meet their key business goals. According to Marion Gross, the senior vice president and chief supply chain officer of North America, this concept works "because all parties build the relationships needed to infuse quality, safety and precision into the supply chain," which is essential given that McDonald's deals with more sensitive products like food. (Vitasek, 2016) McDonald's success in achieving high quality has also been recognized in a USA Today article, which claimed "McDonald's food as 'safer than a school kid's lunch' with quality standards that are five to ten times safer than state standards for school meals." (Vitasek, 2016) Additionally, the USDA had promoted McDonald's as "having the toughest food safety standards in the United States." (Vitasek, 2016) The second rule, "Focus on the what, not the how," means that McDonald's does not play a role in instructing their suppliers in their operations, but rather, they allow them to take the initiative to make their own decisions in providing ways to offer improved, cheaper, and faster ways to meet McDonald's desired goals. The third rule is "Agree on clearly defined and measurable outcomes." To define and measure outcomes, McDonald's and its suppliers use a Supplier

Performance Index (SPI) which helps in continuously improving performance. According to Marion Gross, “the SPI leads to insight, calibration and alignment and enables benchmarking.” (Vitasek, 2016) In a way, the SPI plays a role in McDonald’s operations strategy within their supply chain, since it is measuring performance in aims of finding ways to improve it to meet established company objectives, seemingly working to standardize the services and products within their supply chain. The fourth rule is “Pricing model/incentives for cost/service trade-offs,” which serves to ensure price stability for McDonald’s restaurants. To ensure this, suppliers “spend their energy aligning pricing protocols that provide a competitive advantage for the system and remain fair for all three legs of the stool.” (Vitasek, 2016) Given this prioritization of maintaining low costs as a competitive priority, it is more evident that McDonald’s supply chain adheres to an efficient supply strategy. The final rule, “Govern for insight, not oversight,” basically promotes the relationships between McDonald’s and its suppliers along with upholding the system that helps make their supply chain successful.

McDonald’s U.S. supply chain management is a unique, dis-integrated system, which, while “serving nearly 27 million U.S. customers each day, the company does not produce, warehouse, or transport any of its equipment, food, packaging or other supplies; all of its supply chain is outsourced.” (McCorkle, 2017) Due to this, in executing supply chain management decisions, McDonald’s uses third-party logistics providers (3PLs), which are essentially the backbone of McDonald’s supply chain. Since the needs of a local supply chain can vary, “For each region where it has restaurants, McDonald’s has a supply chain strategy and logistics partners in place to best support its franchisees.” (O’Connor, 2019) For example, one of McDonald’s largest distributors, Martin-Brower Company, “delivers supplies to almost all of the company’s 15,000 locations in North America. Each of its distribution centers provides

warehousing, transportation, and logistics services to between 250 to 700 restaurants, often making at least two deliveries to each restaurant a week.” (Ovenden, 2017) Another large supplier that McDonald’s relies on is a company named HAVI. HAVI is one of the powerhouse supplier companies in the world, as five-billion-dollar global company. HAVI is the backbone to McDonald’s everyday functionality. McDonald’s would not exist without HAVI. “They provide services for supply chain management, packaging, logistics, and recycling and waste.”

(AnyLogic). To see the impact that a company like HAVI has had on McDonald’s, the prime example is to look back at the switch from breakfast being served just in the morning to it being served all day. With the switch McDonald’s needed to equip and staff all their 14,000 North American restaurants to accomplish a positive financial yield with the menu growing with the morning items. HAVI used an analytical tool called AnyLogic, which allowed them to simulate McDonald’s expectations for this switch. After using this simulation, HAVI was able to find the best financial yield for McDonald’s to implement. Sure enough, when McDonald’s made this transition to an all-day breakfast menu, it was met with the same success as the simulation allowing McDonald’s to properly supply and staff all their restaurants while staying efficient and making a good financial profit.

McDonald’s follows a belief, and that belief begins with the collaboration on the fullest possible scale. Even with the fast food chains losing momentum to healthier eating habits, McDonald’s still has a lot of positives to look at. McDonald’s was awarded number two in Gartner’s Supply Chain Top 25 in the year 2016. Not only was this a great achievement, but it was their fourth year in a row that McDonald’s placed number two. Too add to this already accomplished list, it was the sixth year in the top 10. What makes this achievement more mind boggling is that McDonald’s manages one of the best supply chains in the world but has to

manage it on such a large scale. As mentioned previously, McDonald's has over 36,000 restaurants with 15,000 located in North America and 100 different countries. They serve over 69 million customers on a daily basis. (Ovenden, 2017) So, let's take a step back. To make sure that every one of these customers are satisfied, each location needs to be properly prepared with the current ingredients. Not one location can be improperly stocked or else they stand the chance of turning away a customer, possibly for good too. Now, take those 69 million customers daily and divide that up by the number of locations they have. On average, each McDonald's location will serve up to almost 1,917 customers a day. Obviously, these numbers will vary by location due to store location and population numbers. No matter what, it is no easy task for McDonald's to supply everything needed to give the customer the ultimate happy meal. Even since the beginning of the McDonald's corporation opening, many of the suppliers they had back then are still providing McDonald's today. So, how do they make it all work? Well it begins with constant communication and of course, collaboration. McDonald's will track any and all data and share it with company partners and the franchise owners. This data will represent important information such as restaurant stock levels, inventories, and other essential materials. What's even better is that McDonald's will meet with their suppliers to discuss new product ideas and innovation technologies to make McDonald's ahead in the fast food game. (Ovenden, 2017) McDonald's has shown how to be a top contending company, even with the use of third-party logistics. They've proven to the world that efficient supply chain strategy can exist with third-parties.

The world has been constantly evolving, and many companies have made the switch to go green. Well McDonald's and its suppliers plan to be one of those companies. In March 2018, McDonald's announced that they would be using sustainable packaging. "Recently, the Oak

Brook, Ill.-based company announced its pledge to use only sustainable packaging in all of its restaurants within the next seven years. By 2025, 100 percent of the fast food restaurant's guest packaging will come from renewable, recycled or certified sources, working with environmental organizations, such as the Forest Stewardship Council (FSC) and Program for the Endorsement of Forest Certification (PEFC)." (Herron, 2018) McDonald's is beginning to take an active and serious role within creating a better environment. McDonald's has only 10 percent of its locations that focus and enable guests to recycle. McDonald's sees the problem with recycling and they believe it has to do with the lack of infrastructure. They plan to work with their suppliers to help them support and create the proper recycling infrastructures needed. McDonald's will be also working with their beef suppliers to start producing beef with having less of an impact. The goal will be to help protect animal health and welfare, but to also improve farmer and community life. Lastly, McDonald's has been working with their suppliers to create recycled fiber. Some of McDonald's packaging cannot be sourced from renewable resources. They've asked their suppliers to start coming up with innovative technology that can help them use more sustainable packaging and allow them to recycle what they once could not. (Herron, 2018) This all supports the win-win strategy that McDonald's follows. The suppliers get the satisfaction of knowing that McDonald's won't jump ship to a different supplier just to accomplish short-term gains because McDonald's will be using their creations. It also helps the supplier because they get to work directly with McDonald's. This is when that everybody wins situation occurs, and this allows for McDonald's to have such a strong third-party logistics supply chain strategy. To find out more information about McDonald's suppliers, we interviewed Joseph Herzer, a Senior Business Solutions Analyst at HAVI. After talking with Herzer, we were able to get an inside look on McDonald's supply chain. Herzer states that most McDonald's

restaurants receive two to three deliveries per week. Other restaurants are likely to see more when customer retention is high. Herzer went on to say that McDonald's follows the efficient supply chain model. But McDonald's requires that all of their suppliers must do the same. When asked "how does HAVI utilize the efficient supply chain for McDonald's," Herzer stated that HAVI is the key player to McDonald's supply chain. They work as the "control tower" of the supply chain at McDonald's, managing core foods and managing new products and promotions. He even went on to reassure us that McDonald's has been following the core principle of the three-legged stool. "McDonald's promotes long-term wealth and competitive advantage if the whole system works together to minimize costs while maximizing quality. McDonald's challenges both their Owner Operator and Supplier communities to strive for cost savings in a variety of ways." Through a process like this, we can see that McDonald's is focused on working together with their suppliers to make sure everybody is winning. In order to make sure that this is a consistent pattern, McDonald's and HAVI have worked with each other to provide all of their suppliers with a forecasting service that is free. This allows for their suppliers to forecast and save themselves from throwing away good product or running themselves in the ground. With constant shipping, McDonald's also focuses on optimizing their distribution and transportation networks, so they can always pay for good prices surrounding freight. When asked about any problems faced within the supply chain Herzer responded with a simple, "no supply chain is perfect". He went onto say there are potential issues that can put a ripple into the McDonald's efficient supply chain. Whenever new products are launched, they struggle to forecast to find the right balance. So, food either gets tossed due to low product likeness, or the product is a hit, but the demand is higher than the supply. This results in a shortage of supply causing customers to be not satisfied. He also stated that, "Any time there is media attention to a quality issue or

product, it must be pulled from restaurants, which could result in lost sales and unhappy customers – impacting the margins for the three-legged stool.” This could hurt everyone during a process like this. The supplier doesn’t make a profit because their food quality was not met up to regulation causing them to waste resources. This also leaves McDonald’s with a loss of money and a bad reputation on their food. Finally, Herzer stated the one thing that will possibly affect the McDonald’s supply chain. “One of the biggest issues that will affect the supply chain are rising labor costs and lack of labor availability.” HAVI is currently active in trying to come up with a solution for McDonald’s, so they can avoid the issue as a whole. This interview was extremely helpful and gave us insight on the relationship McDonald’s holds with one of their biggest suppliers.

Discussion

McDonald’s supply chain management is classified as an efficient supply chain since its products are available in large quantities, sold at cheaper price, and its product demand is predictable so there is less room for forecast errors. Also, McDonald’s is classified as an efficient supply chain since its distribution partners provide consistent quality products with on time delivery to McDonald’s 36,000 restaurants at as low of cost transportation as possible. McDonald’s doesn’t run its own supply chain, logistics and packaging, instead it completely outsources it to companies who are best at performing these tasks such as HAVI & Martin-Brower Company LLC. For example, HAVI & Martin-Brower Company LLC are two main largest distributor who takes care of supply chain, logistic and packaging for McDonald’s in North America and around the world. McDonald’s doesn’t like to totally control its partners, instead it places trust on its partners to come up with innovative way to best manage supply chain by using their technologies.

McDonald's doesn't like to depend on multiple partners, instead it focuses on building long term relationships with few companies with mutual trust and loyalty which creates win-win relationships for each other because those few companies get large business from McDonald's, while McDonald's find partners who will deliver supplies on time. McDonald's has system in place that the company has been following since McDonald's inception, called the three-legged stool introduced by its late founder Ray Kroc. In this system, the three legs consist of McDonald's employees, owners/operators & supplier partners. In order for the three-legged stool system to be successful, all three legs of stool each carry the equal weight for McDonald's. This system McDonald's has in place will continue to help their business in the future because it gives McDonald's freedom to work on finding and introducing innovative products, while giving third party logistic providers also known as 3LPs the ability to support their supply chain management, and the system has been proven successful since the beginning of McDonald's. Since this freedom to innovate can allow its suppliers to work together to keep costs as low as possible, this system demonstrates the low-cost design feature of supplier selection in McDonald's efficient supply chain. We recommend McDonald's to continue to outsource its supply chain management to companies like HAVI and Martin-Brower Company LLC who are best at it and keep their focus on introducing new products in market.

While we were doing interview with a HAVI personnel, we came across interesting facts that McDonald's wants it's all suppliers to follow same efficient supply chain model that it follows so there is no room for error. McDonald's suppliers such as HAVI follows efficient supply chain principles. HAVI integrates the principle by overseeing deliveries from supplier to distribution center like a control tower to assure the McDonald's supply system is performing efficiently. In order to supply a proper number of products to their restaurants, McDonald's

provides their suppliers with a forecasting service which they can use to prepare upcoming orders and utilize the production line to reduce change across products. In essence, this standardization in their service as part of their operations strategy aligns with that of efficient supply chains. Also, McDonalds also has been able to achieve success by focusing on five rules known as Vested's five rules. The rules are: focus on outcomes not transactions, focus on the what not the how, agree on clearly defined and measurable outcomes, pricing model/incentives for cost/service trade-offs, and govern for insight not oversight. As a result, these rules allow for their suppliers to take the initiative to make their own decisions in providing ways to offer improved, cheaper, and faster ways to meet McDonald's desired goals. Also, to focus on competitive priorities, such as promoting a consistent quality environment, making them well suited for their efficient supply chain. We recommend McDonald's to continue to follow its three-legged stool system that they have in place for success amongst McDonald's employees, owners/operators and suppliers/distributors. We also recommend McDonald's to continue to focus on Vested's five rules because all these rules focus on providing best service and products to customers, and by doing so, customers will become returning customers and bring new customers along with them next time.

Another key tool used in McDonald's supply chain is AnyLogic, an analytical tool used by HAVI to help stimulate expectations. McDonald's used this tool when they made a transition to an all-day breakfast menu, AnyLogic helped provide McDonalds with the right supply and staff to achieve this menu while making a good financial profit. We recommend that McDonald's uses the AnyLogic tool to see how they can add more options to the all-day breakfast menu. Currently, the all-day breakfast menu has limited options, using the AnyLogic tool can help McDonalds figure out how to add more options while still making profit.

After reviewing the interview with Hazer, we do have some recommendations for McDonald's supply chain moving forward. Hazer had stated three key issues with the supply chain. New product launches cause for forecasting models to be flawed drastically, food safety and quality is always a concern especially based on other countries political climate, and freight shipments can cause for too much spending and leaving more of a carbon footprint. So, how does McDonald's fix these three issues? Our recommendation for the first issue, is for McDonald's to focus on finding a better analytical tool to determine how new products will be ingested in the market. As mentioned previously, when McDonald's launches new products, they tend to have poor forecasting data. This then leads to food being wasted or them not being able to satisfy every customer due to shortage in supply. McDonald's should start conducting more research and development before product launches, and they should also start surveying more of their customer base. By having more of a consistency in new product launches, it would allow for McDonald's to keep more of a profit without obtaining losses to wasted resources. As well, keeping customers satisfied and happy with the new products. Recently, McDonald's just launched cheesy bacon fries into their market, and so far, it has been a major success. No news has been released about demand, but as of right now they could be learning from past mistakes. McDonald's has seen some major recalls on their food in the past and needs to be warier of this issue. Some common recalls that have occurred in the past for McDonald's are the E. coli salad outbreak, plastic being found in chicken nuggets, and the burgers being tainted with chemicals. With issues like these rising, McDonald's must be questioning what their suppliers have done wrong. Our recommendation we would make, is for McDonald's to start performing quality checks on all of their suppliers manufacturing services. If they have specific suppliers who are not performing best practices, then they should dump that supplier and move on to a different

one. Another key issue with food quality and safety will revolve around political climates. Currently McDonald's has concerns over the Brexit issue in Europe. This could cause many supply issues for restaurants located in the nation. For this, McDonald's should be on high monitoring to make sure their restaurants don't crumble. Finally, the last issue that McDonald's needs to get more of a focus on is the logistic and freight problem. They have run into a common error of misloading their freighting trucks. When this happens, not only do certain resources not make it to specific restaurants, but they must reship product to that restaurant again to have enough supply. This result causes a loss of money to pay the logistics company and increases the carbon footprint of McDonald's. As a recommendation, we suggest that McDonald's do a root cause analysis. Through doing so, McDonald's can run analytical tools to see why this issue continues to happen. If they could resolve the issue, they are sure to save money on freight cost and leave less of a carbon footprint on the Earth. With using these recommendations, McDonald's can save lots of money and continue to keep their supply chain efficient as possible. Until these recommendations are made, they run the potential of losing money. As well as, run safety concerns for the customers, with the possibility of losing satisfied customers to other fast-food services.

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Appendix

Joseph Herzer, HAVI: Interview Questions

The interview questions (**bold**) and responses for Joseph Herzer, Senior Business Solutions Analyst at HAVI:

1. How often does HAVI deliver to McDonald's stores per week on average?

The average McDonald's restaurant receives 2-3 deliveries per week based off overall restaurant performance. Higher volume restaurants will receive product more often.

2. Does HAVI utilize the efficient supply chain for McDonald's?

McDonald's follows the 'Efficient Supply Chain' model within their Global Supply Chain & Sustainability group and requires that all suppliers (HAVI also being a service supplier) follow 'Efficient Supply Chain' principles. More than ever McDonald's faces cost pressures from a highly competitive 'Quick Service Restaurant' industry and relies on its efficient supply chain to reduce costs to the restaurant, decreasing the cost of a menu item over-the-counter. There are many competitors in the Quick Service Restaurant industry relying on an efficient supply chain model to provide food items at a low cost.

3. If they do then, how does HAVI utilizes the efficient supply chain for McDonald's?

HAVI is one of McDonald's key supply chain partners/suppliers that contributes to their efficient supply chain model. HAVI can be looked at as the 'control tower' of McDonald's supply chain, especially when it comes to supplier management of core foods and management of New Products & Promotions. HAVI oversees Supplier to Distribution Center deliveries and assures supply for the McDonald's system. One-way McDonald's utilizes the efficient supply chain model is under the principle of the 'three-legged stool'. It is a model that McDonald's has instilled in their supply chain culture since the beginning. The idea is that McDonald's suppliers, McDonald's employees, and McDonald's Owner Operators form a great relationship on trust and loyalty. McDonald's truly invests in their supplier relationships and with the Owner Operator community to ensure that everybody is making money. If the Owner Operators are able to grow sales at the restaurant level, McDonald's corporate will be able to grow sales, and Suppliers will benefit from increased sales, so everybody is making money. McDonald's promotes long-term wealth and competitive advantage if the whole system works together to minimize costs while maximizing quality. McDonald's challenges both their Owner Operator and Supplier communities to strive for cost savings in a variety of ways. McDonald's is very open to new ideas and often implements new initiatives and programs based off Owner Operator or supplier feedback.

One-way McDonald's sets their suppliers up for success is by providing their suppliers with a forecasting service that HAVI actually provides at no cost to the suppliers. With suppliers receiving a demand signal, they are able to prepare for upcoming orders and optimize their production lines to reduce change over by product. The high volumes needed by McDonald's really helps the suppliers reduce changeover during production and allows for optimal output – resulting in a lower cost of product to McDonald's than other customers. The suppliers rely on high levels of forecast accuracy otherwise they may be throwing away product or running out of product, hurting the margins for them as well as McDonald's. McDonald's also focuses on optimizing their distribution networks and transportation on a regular basis to ensure they are always paying the most optimal prices for food and freight.

4. Do they face any problems while implementing this efficient supply chain for McDonald's?

No supply chain is perfect and that is the same for McDonald's. Often when there is a new

product launch, it could be difficult for McDonald's & HAVI's forecasting teams to get a perfect forecast. When this happens, product could be thrown away (Due to lower-than-planned volumes) or demand suppresses expectations resulting in outages

Source: <https://www.businessinsider.com/mcdonalds-buttermilk-crispy-chicken-tenders-sold-out-2017-11>.

Even though McDonald's is committed to the highest standards of food safety and quality control there has recently been quality issues within the produce category.

Source: <https://news.mcdonalds.com/media-statements/our-food-details/statement-on-salads-illness>

Any time there is media attention to a quality issue or product must be pulled from restaurants that could result in lost sales and unhappy customers – impacting the margins for the three-legged stool.

Other issues revolve around freight. There are some instances in which product may not be able to be shipped in a 'Full truck load' resulting in a higher cost per case for freight. McDonald's strives to optimize truck loads in order to save freight dollars and reduce its carbon footprint, but it is not able to be done 100% of the time.

5. Can you provide us with visuals that shows where McDonald's is facing problems that HAVI is looking for solutions? Please included them if you are allowed to provide such visuals for education purposes in our Supply Chain Management class.

I don't have any McDonald's specific visuals to share—but one of the biggest issues that will affect the supply chain are rising labor costs and lack of labor availability. HAVI is actively participating in multiple initiatives to help drive labor reduction around the McDonald's supply chain. One example of how HAVI is able to reduce labor costs is by automating our new warehouse at HAVI Kansai's hub

<https://vimeo.com/204038809>

6. What exactly does HAVI provide to McDonalds through their services and products?

HAVI is a global, privately owned company focused on innovating, optimizing and managing the supply chains of leading brands. HAVI offers services in marketing analytics, packaging, supply chain management and logistics and we partner with companies such as McDonald's to address challenges big and small across the supply chain, from commodity to customer.