

Logistics
management plays a
major role in
determining overall
success of compani...



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Supply chain management

“ Logistics management is an integrating function which coordinates and optimizes all logistics activities, as well as integrates logistics activities with other functions, including marketing, sales, manufacturing, finance, and information technology.”(Jonsson, 2008, p 4)

Logistics Management or Supply Chain Solutions, both play a major role in determining the overall success of a company. Major consequences are found in supply chain if there is even small variance in inventory; to overcome such consequences an effective logistics is necessary for any organisation. Logistics management involves high level of competences and expert knowledge. Managing from raw material to final stage at right place on right time is handled by logistics management. To leverage opportunity in emerging markets, companies are focusing on consolidating and aligning their supply chain management infrastructure, processes and procedures to reduce costs and improve efficiency.

A Supply chain consists of the series of activities and organisations that materials move through on their journey from initial suppliers to final customers. Every product has its own unique supply chain and these can be both long and complicated. (Waters; 2003; p. 7) There is a series of steps involved from the origin of services or product and its consumption. The steps involved in this are known as supply chains. The report will provide operations of McDonalds in UK and will emphasis on its supply chain management.

Company Background and Introduction:

McDonald's Corporation is the world's leading food service organization. The corporation started out as a small drive-through in 1948 by two brothers, Dick and Mac McDonald. In addition, McDonald's opens a new restaurant every three hours. 'Big Mac' is the biggest attraction and backbone of the corporation. Moreover, McDonald's maintains its competitive advantage by constantly creating new items to add onto its menu. This shows us that McDonald's practices an analyzer type of strategy, introducing new items and defending its existing ones.

McDonald's opened its first UK restaurant October 1974. In December 2004, there were over 1330 McDonald's restaurants operating in the UK. Around 60% of these are owned and operated by the company. The remainders are operated by franchisees. Each McDonald's restaurant is structured as an independent business, with restaurant management responsible for accounting, operations, inventory control, community relations, training and human resources.

Read more: <http://www.thetimes100.co.uk/case-study-recruiting-selecting-training-for-success-28-194-1.php#ixzz15v72oKUJ>

Supply chain management strategy:

The complete SCP model

http://www.tompkinsinc.com/publications/competitive_edge/articles/11-08-supply_chain_partnerships.asp

Supply chain management encompasses the planning and management of all activities involved in sourcing and procurement, conversion and all logistics management activities. Companies adopt supply chain management to ensure that supply chain is operating efficiently and providing high level of customer satisfaction with low cost. SCM integrates the demand and supply management within and across companies. (Jonsson; 2008; p . 5) The quick-service-restaurant (QSR) giant has built an entire process over the years for managing a sophisticated delivery system, starting on the live-animal production side and running all along the supply chain until products reach their final destination as McDonald's customers' favourite.

Nature and Operation of Organisation:

McDonalds Corporation is the world largest chain of fast food restaurant, serving more that 58millions customer every day. A McDonald's restaurant is operated by either franchisee or the corporate itself. The corporation revenue generates from rent, royalties and fees paid by franchisees and also from sales in company operated McDonalds. The menu is consists hamburgers , cheeseburgers , chicken and fish products , French fries , breakfast menu , soft drinks , shakes and desserts. (McDonalds Website n. d.)

Logistics Service Providers:

Many organisations do not perform many of their own logistics activities.

They arrange logistics service providers to take advantage of efficient and experienced specialists to look after the transport, while the organisation can concentrate on its core operations. An organisation mainly forms a partnership with other company to look after warehousing, purchase of material, material handling and many of the other functions of logistics.

When one company uses other companies to run its logistics are known as third party or 3PL or contract logistics. For McDonalds Key stone distribution works as a 3PL. (Waters; 2003; p. 90)

Keystone Distribution UK is a subsidiary of Keystone Foods LLC, which provides food manufacturing and distribution services to quite a large amount of customers in America, Asia, and Europe. Keystone distribution was formed in 1977 in partnership with McDonalds for its UK baker of hamburger bun and since then company is progressing along with McDonalds. Keystone distributor has been efficiently supplying everything to its existing client need to run the business successfully. Keystones manages a large part of McDonalds UK supply chain and replenishing its 1200 UK stores from mops and ketchup to the essential ambient , fresh , frozen foods that makes up the McDonalds menu. (Logistic Business IT Website; 09. Nov. 2009)

Structure of Supply Chain:

Structuring the supply chain requires an understanding of the demand patterns, service level requirements, distance considerations, cost elements and other related factors. (Rock ford Consulting Website N. D.) Moving of <https://assignbuster.com/logistics-management-plays-a-major-role-in-determining-overall-success-of-companies/>

material inward is upstream and outward is downward. The upward activities are divided into tiers of suppliers. A supplier that sends materials directly to the operations is first tier supplier; one that send materials to a first tier supplier is a second tier supplier; one that sends material to a second tier supplier is a third tier supplier and so on to the original source. Customers are also divided into tier. One that gets product directly from the operations is first tier customer and so on to final customers. (Waters; 2003; p. 8)

<http://www.gmtonline.com.my/solutions/B2B/pic/rosett1.jpg>

http://www.gmtonline.com.my/solutions/B2B/rosettanet_b2b_supply_chain.asp

McDonalds deals with different suppliers for its different products and ultimately which aims to provide customers great taste and on affordable price. McDonalds has been working in partnership with household brand such as with Coca cola, Tropicana and Buxton who act as second tier supplier because they supply its products to keystone distribution who works for McDonalds as first tier supplier. Also there are number of other suppliers such as Sun Valley and Moy Park who supply McDonalds with Chicken product all these works as second tier supplier for McDonalds. Also Ecsa, the makers of the beef patties who are key for success of supply chain also supplies its product to McDonalds first tier supplier (Keystone Distributors). All the different supplier deals with Keystone Distributor, who then sends material directly to McDonalds to run the business smoothly by providing on affordable prices, delivering products on time and helps in outward movement of orders and receiving payments from customers. Overall,

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keystone is an important player in the structure of the supply chain for making upward and downward activity successful. (Make up your own mind Website; March 2009)

Managing the supply chain:

As the McDonalds UK distributor, it's the responsibility of keystone to provide the perfect service and product every time they need and also to coordinate the requirements of hundreds of McDonalds around UK. They work along the supply chain ensuring the quality and reliability is kept while passing delivery to the restaurant. In order to achieve this Keystone uses the latest technology and software to work closely with McDonalds marketing and business plan. Keystone ensures managing peaks and troughs as they come along for keeping a smooth supply chain and ensures there are no out-of-stocks. On an average Keystone carries five days inventory in their store and delivers three to four times per week inventory in each restaurant. To meet that delivery they have 300 vehicles, tractors and trailers which help them to run these logistic operations within UK and including the Isle of Man and Channel Islands by delivering around one million cases each week. Their biggest challenge is to ensure those vehicles arrive at the restaurants on time and containing everything being ordered and meeting 100 percent quality of product including frozen, chilled or dry. (Business Review Europe website 10th. July. 2010)

Inventory Control at McDonalds:

McDonalds introduced in 2004 a central stock management function known as Restaurant Supply Planning Department. The team built these factors into the new planning and forecasting system called Manugistics which forecast <https://assignbuster.com/logistics-management-plays-a-major-role-in-determining-overall-success-of-companies/>

likely demand of finished menu items such as Big Macs. McDonalds deals in three types of stock like every business has:

Raw Material:

These ingredients go into producing finished product. They are buns, beef patties, paper cups and packaging in case of McDonalds. They are delivered three and five times a week. There are three sections of raw material Frozen, chilled, ambient which arrive together in one lorry so that each product can be stored at their suitable temperature.

Work-in-progress:

The process of being made into finished product is referring to as Work-in-progress. A Big Mac consists of a bun, two beef patties, lettuce, cheese, pickles, onions, sauce and a small amount of seasoning. The restaurant waits until the order is placed so that Big Macs stays hot and fresh when served.

Finished Stock:

The product ready for immediate sale to customer are known as finished products. At lunch time and busy evening hours restaurant will have range of Big Macs and chickens ready for sale to customers. First-in-first-out method is used to handle all stock whether raw material, work-in-progress, or finished product, in order to minimise waste and also it helps in providing fresh food at all time to each and every customer.

Inventory Management:

The process of making sure there is enough stock at all times to meet customer demand whilst minimising expensive waste is known as stock

management. High cost is involved in holding too much stock so McDonalds uses lean stock control method to save money.

Inventory ordering manager work with the new stock control system, Manugistics, to ensure sufficient raw stock is available. This helps restaurant to produce the meals required according to the forecasted demand. Forecast is done on the basis of restaurant historic product-mix data from last year, store-specific and national causal factors such as national promotions and school holidays, information from store managers about factors that might affect demand . e. g. road closure or local events and new promotions.

Restaurant manager need to ensure that the data they enter into the system is as accurate possible. Every day restaurant manager record opening and closing stock of key food items. Other items are recorded weekly and monthly basis. The store computers system identifies any stock count deviations from last stock count so it gives opportunity to manager to investigate missing product. For example, the manager may have missed off a box of regular meat while counting them earlier on the shift.

Ordering Process:

The ordering process involves holding a small buffer stock. This is extra amount of inventory held to meet any unexpected higher demand. Inventory manager uses a web based communication software called ' Weblog' to view and amend store order proposals. Each time of ordering weblog creates a proposed order to analyse and amend if necessary. Weblog helps managers to view what quantity have been ordered, how much is the current stock level and how much stock is due to be delivered at a particular time. The

system automatically generates a delivery note that gives the exact quantities and descriptions of the delivery. The manager has to click confirm on weblog when they finishes selecting amount of inventory they needed to use.

Serving Customer:

Competition and increasing consumer preference for variety and healthier food makes McDonalds to expand the range of menu. Customers entering into McDonalds are divided into those who know about menu and those who are new and coming to restaurant first time and are not familiar with menu. Apart from selling food items by itself McDonalds also sell Extra Value meals which consist of a burger, fries and a drink. When customers reaches the front counter and place their order, the till person applies two selling technique. The 'selling up' technique where order is changed by asking customer by suggesting larger portion and also by adding extra item such as drink and another one is 'suggestive selling' technique where any item extra is being asked to sell each and every customer. For example if customers comes and buys two three adults meal and one two children meal and they are being asked if they wanted to buy two apple pies for £1. 50.

The till person punches the order on to their till. There are some standard food items which are meant to be held in production bin, the counter person pick the food what is being ordered in a specific sequence which involves cold drinks first, and then hot drinks second, then fries and at last burgers.

If a particular food item is not available in the production bin, then the counter person calls the order to the production person who then calls the

food order to the grill area. Certain food products in slack period are cooked to order due to their less demand and to avoid waste.

When the order is not ready the till person asks the first customer to pay and wait aside if it's a take away order and if it's eat in they ask customer to take a seat and order will be brought to your table, and start dealing with the next person in the line. Every time till person completes the order there is a button 'served' which is to be punched in order to let computer know that the order is finished. As if it's not done the computer will not allow taking the next order. So every time order is done it's necessary to serve it off.

Performance Improvement:

Keystone manages the supply chain to ensure that there is always sufficient stock to fulfill demand when orders are received. The company's integrated order and management system prints colour coded descriptive picking labels which aid restaurants in stock rotation. Orders are then collated on to a purpose built trailer designed for the simultaneous delivery of frozen, chilled and ambient product stored at appropriate temperatures. This ensures that the restaurant's complete order is supplied in one delivery, whilst maintaining the product in perfect condition. This process works extremely well, but there is always room to improve processes. Keystone is working on an initiative that it hopes will further advance the efficiency of the company's operations. " We're reviewing the whole of the delivery schedule as well as the entire delivery system in conjunction with McDonald's to try and find a more cost effective and equally eco-friendly delivery schedule with them," says Assal. " That's a major project for us at the moment and we're working

on that in detail. That will be rolled out in the coming months and it will produce a major cost benefit to the whole McDonald's supply chain.”

It's also important for Keystone's environmental policy to chime with McDonald's high profile efforts in this area. “ All packaging within our distribution centres, both cardboard and plastics, is collected and recycled – we recycle everything from office stationery down to warehouse packaging. At present, we run all our vehicles on diesel that contains five percent bio-diesel. But we're working on a project to use 100 percent bio-diesel in all our vehicles by the end of this year, instead of fossil fuel diesel. We believe that will have a neutral effect on the business; it will neither be a cost benefit or a cost saving.

We also have a number of initiatives light sensitive switches, low consumption bulbs in our warehouses. We try to play our part and do what we can to reduce our carbon footprint.” It's policies like these that make Keystone a truly progressive company, and one that is moving with the times, just as McDonald's updates its operations for a changing fast service industry.

<http://www.fin.gov.on.ca/en/budget/ontariobudgets/2004/images/papere2.gif>

<http://www.fin.gov.on.ca/en/budget/ontariobudgets/2004/papere.html>

http://lh4.ggpht.com/_k0ovfY0NP70/TGAHWC5Pc-I/AAAAAAAAABdY/3kLGhdxvHNk/s800/mcdonalds.PNG

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<http://iamjamesward.wordpress.com/2010/08/09/there-is-only-one/>

The diagram below shows the forward flow of materials from upstream to downstream, the bidirectional flow of information, and the movement of money from downstream to upstream.

http://www.vivaceproject.com/showcase_html/supply%20chain%20simulation/introduction%20to%20supply%20chain_image1.jpg

Flows in the supply chain (from Spekman et al [1998])

http://www.vivaceproject.com/showcase_html/supply%20chain%20simulation/introduction%20to%20supply%20chain.htm

It is easy to see that these factors are highly variable in nature and this variability needs to be considered during the supply chain analysis process. Moreover, the interplay of these complex considerations could have a significant bearing on the outcome of the supply chain analysis process.

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