

Harvard case studies – operations management essay sample

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I. INTRODUCTION

McDonalds is a very famous fast-food restaurant with more than 31, 000 worldwide branches. Its main dishes are hamburger and fries. McDonalds has limited choice of food but in turn it serves its patrons fast. However, the restaurant is about 41 years olds now and consequently it becomes penetrated and mature, it has more competitions and tough challenges.

In Operation management term, McDonalds has highly qualified operating system, its kitchen and its management, to serve high volume customers. As years goes by, the demands change. People become more mobile and have dynamically changed their schedules to eat from at dawn to midnight and also become more selective. They don't want static menus anymore. They want broader choice of sandwiches or burgers at their lunch or dinner time, and, the most crucial thing, they still expect fast service as before or even faster. To handle this challenge, McDonalds has upgraded its kitchen system into Just-In-Time kitchen System named Made-For-You. The Goals of this new system are:

Improved food quality, including health concern and food safety requirements

More flexible and compatible with new menus

Built better and faster customer service

Used human resources , e. g. crews/employees, more effective and productive

II. MADE-FOR-YOU SYSTEM VERSUS OLD PROCESS SYSTEM

II. A. TECHNOLOGY AND PROCESS DIFFERENCES

In the old way, McDonald's was used to applying Make-to-Stock for preparing its food to customers (Look at Exhibit 1)

In this process, finished products were kept in the metal warming bin (storage) until a customer order the product(s). How many products are going to be kept is its manager's prediction/forecast. In early years, demands were not so complicated, just around Big Mac and/or fried fries.

Since early 2000, McDonald's uses Make-to-Order system to meet with changing demands which need more variety, yet still want fast speed of service (Look at Exhibit 2)

In this new process, some materials are precooked and stored at WIP, for example meats are stored at " Universal Holding Cabinet". As customer places order, crew(s) assembles the order and when it's finished deliver to the customer. The new process enables McDonald's to serve its customers with fresher and more variety menus.

To execute its new process, named Made-For-You, McDonald's has replaced its kitchen equipments with newer and improved high performance machines and tools as described:

TECHNOLOGY COMPARISON

OLD TECHNOLOGY

MADE-FOR-YOU TECHNOLOGY

EQUIPMENT

CYCLE TIME

EQUIPMENT

CYCLE TIME

Grilling

Regular grill

100 seconds

Clam Shell Grill

32 Seconds

Toasting

Side Loading

20-30 seconds

Rapid-speed

11 Seconds

Warming

Heat Lamp

Universal Holding Cabinet

Information Flow

Manual, with microphone and bell

Monitor screen showing orders

The Differences

In summary, the main differences from several aspects can be explored in the following table.

DIFFERENCES

OLD PROCESS

NEW PROCESS

Overall time to serve customer

60-90 seconds

2-3 minutes (expected: 45-90 seconds)

Toast the bun

30 seconds

11 seconds

Assembly

20 seconds

Wrapping

14 seconds

Synergy among the crews

Less

More

Communication between customers and employee

Less

More

Variety of the products

Less

More

Customization of the product

Less

More

Freshness of the product

Less

More

Ordering system

Make-to-stock

Make-to-order

Marketing strategy

Push

Pull

Operation system

Non JIT

Just-In-Time kitchen

Wasted product

Up to 1% of sales

Less than 0.5% of sales

Idle time

More

Less

Price of regular hamburger

\$1. 03

\$. 79

Steps to make burger

9

11

Number of items kitchen can prepare

9

40

Average sales per store

\$1. 6 million

\$1. 5 million

II. B. COMPETITIVE ADVANTAGES OF THE NEW PROCESS

Over periods of time, McDonald's has been facing tough competition from Burger King and Wendy's as its major rivals. Recent changes in term of operation management have been made to overcome this challenge. A "Made-For-You" system has strategically positioned McDonald's once more in the top of the best fast food restaurant. First of all, Cost leadership in McDonald's is very competitive. Its menus price is relatively cheap and affordable for any layer of people. Second, a new system made order

fresher, healthy, but still fast, which becomes important issue nowadays in the market. Third, McDonald's stays focus on fast and cheap fast food industry, specialized in burger and sandwich. Lastly, McDonald's has taken the humble hamburger and added value to it in a way that sharply differentiates it from the rest and new system now can support more variety of products rather than just Big Mac.

III. ECONOMIES OF SYSTEM

The new process of McDonalds has a tremendous impact on the demand and supply of McDonalds. As the time taken for a single burger processing has been increased, it reduced the total supply of the McDonald's. More over as the number of outlets has been decreased in number the over all growth of the McDonalds output has been reduced. As the total wait time has increased the demand has been reduced on a whole. Main motto of McDonalds is Speed and now they shifted to Freshness and more variety. This has changed the constant visitors of McDonald's and their view. The income statement of McDonalds over the years tells us that though the total net income is increased after implementing the new process, it is not that equal to what it has anticipated but very less.

A company's economic progress is best reflected by its value in the market. That is true even in the case of McDonalds. When the old process is implemented it has a share value of \$56. After implementing the new process though it's share value increased from the year 2001, it has not reached its previous position . Which is an indicator " How successful the New process is.? "

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Stock Market info. :

2006 2001 1973

stock Price 44. 49 29. 49 59. 00

Volume 6, 217, 700 7, 850, 300 105, 500

Volume Avg.: 6, 446, 00052

Market Cap (mil): 53, 133. 64

P/E Ratio: 19. 20

Dividend Yield: 2. 27%

Here are some of the other highlights: Revenues increased 9% mainly due to the global comparable sales increase of 5. 5%. Operating income rose 12%. Earnings per share were \$0. 67. McDonald's also repurchased about \$800 million, or 23. 5 millions shares of its stock.

III. A. EXPECTATIONS OF THE NEW PROCESS

In the process of improving the customer satisfaction, the bottleneck in the process is delay in order fulfillments. McDonald's wants to renovate the process. Remodeling more than half its 13, 099 U. S. restaurants, costs the company as much as \$800 million for two years is only part of CEO Jack Greenberg's plan to get bloated old Ronald McDonald back in shape. Greenberg want to lead a renewed commitment to fast and friendly service, to roll out a national " dollar value menu" and a fresh \$20 million national ad

campaign. To lay the foundation for future growth, he came up with a new idea of “ More Variety and Newer Technology”. Changing its way from “ Make to Stock” to “ Make to order” – means that it is not prepared until after the waiter takes your order, replacing an item which is made ahead of time and left sitting underneath a heat lamp until someone orders it – is the new path of McDonald’s now.

After its process, McDonalds was able to increase its taste but not as good as it has anticipated. Spending enough amount of time on the preparation on the food and serving it fresh is the best part of the new process. This new process has decreased the wastage of the food, even the inventory wastage. McDonalds also implemented a new inventory control and checking system, which gives updated information about everything, and its centralized data maintenance system is accessible from anywhere. So it gives exact information of available resources at any point of time. This reduced both the wastage and monitoring time.

For now, McDonald’s seems to be devoting most of its time and energy to improving its service, not its food. It’s keeping much closer tabs on its employees by sending what it calls “ mystery shoppers,” who have made 121, 000 visits so far this year, to spy on restaurants’ operations. In addition to the usual tutorials on how to pile on the ingredients for a Big Mac, McDonald’s is for the first time giving its employees thorough hospitality training.

III. B. PROBLEMS WITH THE NEW PROCESS

Not able to get the reputation for its taste: McDonald's is doing its best to cash in on changing tastes. In response to an outcry, McDonald's has changed its cooking oil to cut down on cholesterol-raising trans-fatty acids. Always known more for convenience and kid-friendliness than for taste – except, many would argue, when it comes to its superior fries – McDonald's still has a food problem. Despite shelling out hundreds of millions of dollars to install a new made-to-order cooking system that banished heat lamps from the kitchen, McDonald's consistently gets low ratings for the quality of its food.

Worse yet, the made-to-order system, which is supposed to give the kitchen flexibility to add new menu items, has made some McDonald's slower – adding precious seconds, if not minutes, to a customer's wait at the counter or the all-important drive through, which accounts for about half the chain's sales. A small but vocal number of franchisees – who invested thousands of their own dollars in the kitchen changes – are seething. And customers are also losing patience.

High Installment Cost for the new kitchen: When McDonalds wanted to implement the “ New Kitchen” process it could able to come up with an agreement with the franchisees in a win-win agreement. But in practical the expected cost had increased by 25%. But this change was not reflected in the sales. This made the franchisees double fume. “ They're dragging the brand through the mud”, is an example for the response of these people.

Now a day the situation is getting better. The breakneck pace of new-store construction – which only a few years ago had franchisees fuming about

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nearby newcomers cannibalizing their sales – has eased. But for McDonald's to get cooking again, its marketing also has to be accessible. For the past several years, a virtual revolving door of corporate executives and an over reliance on regional campaigns have resulted in a diffuse, largely ineffective message.

IV. EFFECTS OF THE NEW PROCESS ON MARKETING, BUSINESS STRATEGY, AND PROFITABILITY

Because of the decreasing sales, McDonald's decided to use more advertisements to attract customers. In 2000 McDonald's spend \$314.9 million to advertising, a 5.7% increase from their \$298 million spent in 1999. However some of its promotions created disappointments like Campaign 55. Under the promotion, known as Campaign 55, diners could buy a featured sandwich for 55 cents when purchased with french fries and a drink. But the fast food giant found that customers just weren't biting. McDonald's also tried to beef up its own menu last year with the Arch Deluxe hamburger that was aimed at adult consumers. That promotion did not achieve the expected success too. On the other hand

McDonald's went 24/7 in Garner in April, 2005, after a push by corporate headquarters to boost profits by extending store hours. Some Franchisee had doubts at first like Fred Huebner. By catering to the area's night owls and early birds on U. S. Highway 70, Huebner, who put on his first McDonald's uniform almost 35 years ago, figures he has increased his restaurant's revenue by 4.5%, or \$90,000, over a year. Moreover,

McDonald's is aware of the fact that the eating habits of US customers is

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changing. US customers want to eat more fresh and healthy food. But McDonald's never forgets that children are very important segment of its market. So, the new advertisement which focuses on a mother and daughters' McDonald's experience, Mother eats her salad which is healthy and fresh, mean while the kid eats her favorite, is just the perfect way to attract adults and children at the same time.

McDonald's had difficult times starting between 2000 and 2003. Around 2000 the decline of the sales started. However, after 2003 McDonald's starts to beat up its closest rivals like Wendy's and S&P restaurants. McDonald's declared its net profit for the year 2006 rose to \$2. 6bn, from \$2. 2bn in 2005. (Look at Exhibit 5 and 6)

In brief, McDonald's also changed its business strategy in order to support its Made-For-You System. It modified its focus also to freshness, healthy, and customizations (high variety of choices) as well as more focus to fast service fast-food restaurant rather than its real estate business. Also, McDonald's stops concentrating in building worldwide branches. Its internal organization has also changed. Staffs and support functions have been put in five divisions in the US from its Home Office. Moreover, Research and Development function at Home Office implemented at Home Office but with responsibility in the fields (Look Exhibit 7)

V. CONCLUSION

With the new process McDonald's is able to satisfy the consumers having higher preference to freshness, health and special condiment

requirements. McDonald's also had faster service expectation from the new process. But it could not prove its effectiveness in serving those consumers as fast as earlier because of increased number of steps and time for each order. In off peak ours this process works fine but in the rush hours like lunch hours waiting time for customers has increased dramatically. Because of this, McDonald's is loosing its customers to the competitors and sales are going down. As per one survey, the number of foot count in each franchisee has been decreased by 3% per year since the new process has been implemented.

Seeing the above effects, it can be said that the change was partially a good idea in terms of ability to sever fresh and customized food but was not a good idea in terms of speed of service which was the focus and strength of McDonald's since its inception. In the days of old process it was its speed which was delivering value to the customers in the rush hours and gave a competitive advantage to McDonald's in the market. But with the new process McDonald's is loosing that advantage and (consequently) costumers.

The results of the post implementation of the new process have shown that trying to achieve both the goals – customized fresh food and prompt service – are not feasible using the new process. To do so, in future, McDonald's would adapt to a model where in it can serve customers requiring faster service with standard precooked products and serve customers requiring customized products taking more time as in the new process. So in the new model it would have some number of standard products precooked and stored to cater to the demand of rush ours and would have some materials

precooked and then assemble the customized product after receiving the order. So basically, going forward, McDonald's would move towards the model adopted by Burger King.