

Big mac's supply chain success



**ASSIGN
BUSTER**

The seed of McDonald's success was sown in 1990 – six years before it started its actual operations. Sanjeev Bhar traces its supply chain management that played a vital role in its growth. About two decades ago, the QSR wouldn't have meant much to the Indian F&B segment. Today, the acronym has been seamlessly absorbed in the industry lingo. McDonald's, arguably, one of the first brands that left a strong imprint on the Indian QSR history, has much to do with this.

And its success is credited to its well-established supply management chain. According to Vikram Bakshi, managing director and joint venture partner of McDonald's India (North & East), the company invested about Rs 400 crore even before its first restaurant commenced operations in October 1996. “ We had to ensure that we had the back-end linked up to the farm level for delivery commitment. ” The company also deployed the latest state-of-the-art food processing technology for having a sound supply chain.

The transition towards the latest technology, which has been subsequently noticed in other QSRs as well, changed the Indian fast food scenario to match international standards. Tracing its success path McDonald's had been working critically on its supply chain part. Considering, an international brand trying to make inroads into the Indian consciousness, its Indian supplier partners were developed in such a manner that made them stay with the company from the beginning.

Bakshi explains, “ The success of McDonald's India is a result of its commitment to sourcing almost all its products from within the country. For this purpose, it has developed local Indian businesses, which can supply

them the highest quality products required for their Indian operations. ” As per today's standings, McDonald's India works with as many as 38 Indian suppliers on a long-term basis, besides several others standalone restaurants working with it, for various requirements.

In the supply chain management for a QSR, the distribution centres hold special place for bringing food right to the outlet counters. For McDonald's India, the distribution centres came in the following order: Noida and Kalamboli (Mumbai) in 1996, Bangalore in 2004, and the latest one in Kolkata (2007). McDonald's entered its first distribution partnership agreement with Radha Krishna Foodland, a part of the Radha Krishna Group engaged in food-related service businesses. The association goes back to July 1993, when it studied the nuances of McDonald's operations and requirements for the Indian market.

Recalling the association, Bakshi remarks, “ Better facilities and infrastructures were created along with new systems by them to satisfy McDonald's high demands, which finally culminated into an agreement with McDonald's India, for Radha Krishna Foodland to serve as distribution centres for our restaurants in Delhi and Mumbai. ” As distribution centres, the company was responsible for procurement, the quality inspection programme, storage, inventory management, deliveries to the restaurants and data collection, recording and reporting.

Value-added services like shredding of lettuce, re-packing of promotional items continued since then at the centres playing a vital role in maintaining the integrity of the products throughout the entire ‘ cold chain’. The

operations and accounting is totally transparent and is subject to regular audits. “ McDonald's had worked aggressively to attain the right suppliers and systems that ensured that 90 per cent of yield was indigenous before the doors were opened to consumers.

The only products that we used to import were oil and fries, for which we have had made arrangements to manufacture the oil in India. We ensured that the products developed locally abide by global McDonald's standards,” informs Bakshi. Over the last 10 years, the company has gained experience and adopted procedures that helped in maintaining a continuous supply of food products irrespective of the climatic conditions. Bakshi proclaims, “ Our logistics and warehousing system is robust that prepares us to deliver products at the same temperature throughout, without a single break in the cold chain. “

Suppliers are proclaimed to be the backbone of any good business as they are the individual units that build supply chain. On them depends the health of the overall business cycle. Highlighting McDonald's role in developing its supply chain network, Bakshi says, “ Cremica Industries (which provide liquid condiments, batter and breading), for example, worked with another McDonald's supplier from Europe to develop technology and expertise that allowed the company to expand its business from baking to providing breading and batters to McDonald's India and other companies as well.

Another benefit in the company's favour was its expertise in the areas of agriculture, which allowed it, along with its suppliers, to work with farmers in Ooty, Pune, Dehradun and other regions to cultivate high quality iceberg

lettuce. Bakshi says, “ There has been a substantial effort on sharing advanced agricultural technology and expertise with farmers/suppliers like utilisation of drip irrigation systems (for less water consumption), better seeds and agricultural management practices for greater yields. Another area of concern is the sensitive price indexes of the food materials that McDonald's uses and to tackle price fluctuations, the company goes with yearly rate agreements with suppliers. McDonald's took special care in identifying the positives of their suppliers and added their expertise to improve on their existing standard.

Trikaya Agriculture, a major supplier of iceberg lettuce to McDonald's India, is one such enterprise that is an intrinsic part of the cold chain. “ Initially, lettuce could only be grown during the winter months but with McDonald's intervention, it is now able to grow the crop throughout the year,” says Bakshi. Also, some of its suppliers with concerns over cultural sensitivities, segregated with a separate work force for the vegetarian and non-vegetarian processing lines.

Setting up extensive cold chain distribution system forms the lifeline of any fast food business. In this regard, McDonald's incorporated state-of-the-art food processing technology along with its international suppliers to pioneering Indian entrepreneurs, who are today an integral part of the cold chain, avers Bakshi.

He says, “ We have imparted technical training to all our suppliers on how to operate the imported machineries, educated them on the McDonald's philosophy of Quality, Service, Cleanliness and Value (QSCV) in order to

provide standardised food to our customers. The ' cold chain', on which the QSR major has spent more than six years for setting up the same in India, has brought about a veritable revolution, immensely benefiting the farmers at one end and enabling customers at retail counters. McDonald's finding the factor of cold room being vital ensured that even before vegetable from farms enters the refrigerated zones, they are locked in a pre-cooling room to remove field heat.

Vegetables are placed in the pre-cooling room within half an hour of harvesting where rapid cooling decreases the field temperature of vegetables to 2° C within 90 minutes. Then a large cold room (a refrigerated van) is used for transportation to the distribution centers. In the van, the temperature and relative humidity of crop is maintained at 1-4° C and 95 per cent, respectively and the flavours and freshness are locked at -35°C. Even in this field, McDonald's takes the big pie of credit for developing the concept of cold chain.

Bakshi claims, " Prior to McDonald's arrival in India, the concept of a cold chain for the distribution of food and dairy products from the farm to the end supplier, in predetermined and stringently enforced climactic and hygienic conditions, was at a very nascent stage of development. For five years prior to opening our first restaurant, McDonald's pioneered the effort to develop this aforementioned cold chain so that our high standards would be assured.

Various Indian and international players later adopted this system to deliver quality fresh produce to consumers. McDonald's also kept a tab on quality control. McDonald's, as a rule, throws away burger puffs kept for more than

30 minutes after the final preparation during service. To avoid any wastage, Bakshi says, " The crew is trained and equipped to forecast the requirements at various stages of the day. At the suppliers' level, care is taken to guard against any possible contamination or interruption in the cold chain that can break the link and have a detrimental effect on the quality of our product. "