

Report on operations management restaurant mcdonalds

[Business](#), [Company](#)



Executive Summary

McDonald's, with its huge customer base and steadily increasing revenue, has proved the excellence of its operations management. Operations management can be defined as a long term strategy that shapes a company's operations in such a way that it is aligned to organisational goals, market requirements and available resources. The objective of this paper is to delve through the effective operations management strategies of McDonald's that have significantly contributed to its huge success. It studies the various components of operations management and how effectively it has been utilised in McDonald's.

The corporation is the leader in adopting latest technology in the fast food category. Its process design is such that it fairly reduces process complexity. Its production is triggered by customer demand to ensure low inventory levels. The supply chain failures are reduced by having full control on material and distribution management. Its distribution centres are strategically located to be able to reach customer outlets quickly. The latest process improvements like just-in-time inventory, lean management and total quality management are well adopted by the corporation.

A few suggestions of process improvement are recommended here. The corporation's positioning of being perceived as selling unhealthy and junk food needs to be changed. It should explore getting into the fine dining space in a big way. The corporation should avoid adding too many product lines that may add to operational complexity and reduce customer

satisfaction. Product branding limits system flexibility. Hence, McDonald's should focus on overall brand building rather than branding its products.

Introduction

McDonald's is the world's biggest fast food chain and has about 33, 000 outlets in 119 countries (McDonald's, 2010). It has its headquarters in the United States. The corporation is known for its standardisation and just-in-time service. Its fast food products have reasonable price, are served quickly and taste similar across outlets. The convenience and value for money attributes of its products have made McDonald's a highly successful brand worldwide. Given its global presence, the corporation employs about two million people (Salisbury, 2011). The employee strength is a good indicator of the extent of presence of McDonald's and its contribution to the economy.

The history of the McDonald's dates back to 1940, when Dick and Mac McDonald had opened a small fast food restaurant. Inspired by this model, Ray Kroc founded the McDonald's Corporation in 1955 and bought its exclusive rights five years later (McDonald's, n. d.). In spite of its large revenue base, the corporation has been growing steadily. According to Coleman, Gao and Kim (n. d.), revenues of McDonald's has grown steadily by 27% over the three years ending 2007. It is the market leader in the fast food segment. It is leading with a market share of 19% over its competitors like Subway and Burger King (Coleman, Gao and Kim, n. d.).

The objective of this paper is to delve through the effective operations management strategies that have significantly contributed to the huge

success of the corporation. The paper focuses on McDonald's operative strategies, its performance objectives and the way it is achieved. The paper is divided into three parts. The first section discusses the corporation's operative strategies. The second sections describes it performance objectives and the ways corporation achieves it. The third section concludes the paper.

Operative Strategy

Operation is the transformation of inputs like human labour and raw materials into a marketable product in a given environment as per a company's strategies. Operative strategy is a long term strategy that shapes its operations in such a way that it is aligned to organisational goals, market requirements and available resources. McDonald's has a multi-pronged operative strategy, which has four dimensions: volume, variety, variation and visibility.

Volume

McDonald's is the world's biggest fast food chain. It caters to more than 50 million people on a daily basis (Schmeltzer, 1994). Within five years of its foundation as a corporation, McDonald's had sold its 100 millionth hamburger (McDonald's, 2009). Thus, the corporation follows a high volume operative strategy. A fast food company sells both tangible and intangible product to its customers. Service and speed of delivery are intangible but very critical for this industry. McDonald's has a well trained staff and an efficient process for quick delivery.

Variety

Variety adds to operational complexity. At various points of time, McDonald's has to diversify its product line in an attempt to grow. In the past, the corporation has introduced new product lines like pizza and submarine sandwiches. However, the corporation has never drifted too far to lose focus from its core function of delivering speed and quality in an efficient manner.

Variation

McDonald's Corporation experiences low variation in the demand for its products. This can be contributed to lack of seasonality in its products, cost effectiveness and its presence in the fast food category segment. However, demand may vary across its outlets. McDonald's has designed a variable price structure, wherein price may vary among the geographically dispersed outlets with variation in demand.

Visibility

McDonald's has been highly successful in creating a brand that is highly visible and very well accepted especially among children. The corporation has focussed on customer pull strategy by investing on building its brand. In a fast food industry, building a highly visible brand and customer recognition play an important role. The presence of its 33,000 outlets adds a lot to the corporation's visibility quotient.

Thus, McDonald's corporation works on a high volume, medium variety, low variation and a high visibility operative strategy. Thereby, corporation's operative strategy is driven and supported by process improvements,

managing supply chain, inventory and logistics, and incorporating effective controls. This is how it achieves its performance and service objectives.

Performance Objective of McDonald's

The operations management performance objectives of McDonald's are speed of delivery, quality and cost effectiveness. The quality objective includes dimensions like standardisation, reliability and low variability. The important dimensions of performance are process design, supply chain management, logistics management, inventory management and effective controls.

Process Design

An effective process design is essential to meet a corporation's operative strategies. McDonald's is a leader in adopting latest technology in the fast food industry. Both product and service is important for a restaurant or a food joint. The synthesis of improved product and service process design helps McDonald's achieve its operative objectives.

Improvement of product process design reduces waste in the organisation without impacting its sales. There are two ways of designing a production process, the pull system and the push system. According to Karmarkar (1989), a push system is a traditional manufacturing system that initiates production in anticipation of demand, while a pull system triggers production as a reaction of the current demand. In a fast food industry, forecasted demand based manufacturing causes waste. McDonald's relies on the pull system of production. For example, a customer walks in to a McDonald's

outlet and asks for a hamburger. A server picks up one hamburger from the rack and gives it to the customer. A person is dedicated to keep a count of the stock. As the number of hamburger reaches the minimum threshold limit, the manager triggers an order for more beef. The vendor responsible for delivering ground beef does so within the specified time limit, which is then processed and hamburgers are made. Thus, customer's demand triggers the production of hamburgers.

The service process design includes extensive training to staff for best customer service experience. McDonald's employs about two million people and has a process for imparting extensive training to its employs. The training comprises of initial training at the time of joining and periodic training to sensitise them with new technologies and developments in the industry.

Supply Chain Management

Christopher (2005 cited in Jensen, 2009, p. 7) aptly defines supply chain as a “ network of connected and interdependent organisations mutually and cooperatively working to control, manage and improve the flow of materials and information from suppliers to end users”. In simple words, a supply chain is a network of organisations that come together to manage core functions of a business from raw material procurement to delivery of finished products. Supply chain management is the most important aspect of managing operations of a fast food restaurant. McDonald's relies on its wide network of franchisees, suppliers and service providers to improve its process efficiency. The improved efficiency helps in minimising cost, ensuring quick delivery,

and controlling quality, thereby increasing the corporation's profitability. The supply chain of McChicken is explained with the help of Figure 1.

Figure 1: Supply Chain of McChicken

The figure depicts the processing and flow of material through various supply chain partners for a McChicken. McDonald's is dependent on two types of suppliers for delivery of chicken patty. The Tier 1 suppliers are responsible for growing, grading (to maintain quality) and basic processing of the chicken. The Tier 2 suppliers are responsible for converting graded chicken into chicken patties. McDonald's has a dedicated network of logistics that facilitates transportation of chicken patties in refrigerated trucks to ensure quality. The buns are packed in advanced crates to ensure freshness. The buns and chicken patties are transported to distribution centres for storing and distribution to the McDonald's outlets. Quality is the prime focus at every link of the supply chain.

McDonald's takes care of contingencies or failure in any leg of supply chain through process integration techniques. The integration techniques depend upon the direction and type of integration. The direction of integration can be either upstream, integrating material management or downstream, integrating the distribution system. The two types of integration are horizontal and vertical integration. Vertical integration is expanding company's scope of operation to a different point on its supply chain, while horizontal integration is entering into a new but similar line of business at the same point of supply chain. McDonald's is almost entirely integrated vertically. They have vertically integrated both the upstream and

downstream of supply chain. It adopts contract farming structures to ensure standardised quality of raw material. It has control over material management and distribution system. Such models help bring in more consistency in the business and escape the chances of supply chain failure.

Logistics Management

The corporation has a network of trusted transporters. The stock is transported from suppliers to the distribution system in refrigerated trucks and latest packaging technology is used to ensure freshness. Mcdonald's works on a hub and spoke model of distribution. The distribution centres are strategically located to be able to reach customer outlets quickly. Also, based on extensive research, the corporation pre determines location for customer outlets to ensure efficient logistics management and achieve maximum profitability.

Inventory Management

Inventory management is managing the goods and material held by business as stock. Inventory is maintained to ensure that customer's demands are met. On the other hand, having high inventory levels increases its carrying cost and undercuts the profits. Inventories are basically of four types: buffer, pipeline, cycle and anticipatory.

Buffer inventory is kept for contingencies arising due to sudden upsurge of demand. It helps in tackling with issues of stock outs and reduces customer's waiting time. Overall it increases customer satisfaction. Pipeline inventory is required considering that transportation of material from one place to other

takes time. It helps in achieving economies of scale, thereby reducing per unit transportation costs. Cycle inventory is created in an effort to create a balance between bulk order discounts and inventory carrying costs. Ordering in batches or lots helps reduce per unit material cost. Anticipatory inventory is built up in response to predictable future events like increase in raw material cost or an approaching festival. This prevents stock outs and helps take advantage of reduced prices. The biggest disadvantage of maintain these inventories is increasing its carrying cost. Different products require a different inventory management plan. It is not wise to build inventory for more perishable items. However, it is wise to stock products that are more profitable and have good demand.

Overall, McDonald's adopts the principles of just-in-time (JIT) or lean inventory system. The basic idea of this system is having the right product at the right time. It helps maintaining freshness of the meat and also reduces inventory costs. With technological improvements, McDonald's is able to reduce inventory with no significant increase in waiting time. JIT reduces the holding cost of perishable items like meat and cheese, which are relatively very high. The Kanban or the pull system also helps in maintaining low levels of inventory by triggering production based on customer's demand.

Incorporating Controls

The two different approaches of incorporating controls lean management (LM) and total quality management (TQM). LM is a production practice that has been derived from the Toyota Production System (TPS). The TPS system works on the premise that any expenditure that does not add value to the

end customer is a waste and should be eliminated. Thus, lean management brings efficiency in the production system. TQM is managing quality right from the stage of planning and designing process to self-inspection based on set standards. It is a modern system of quality control. TQM started to surface in 1920s with use of statistical theories in product development process. In 1940s, Deming, Juran and Feigenbaum developed the concept of TQM. Anvari, Ismail, Hojjati (2011) mention that two concepts TPS, Kaizen and process mapping, are found in TQM. They explain that Kaizen is a Japanese word that means 'change for the better'. It is a principle of continuous improvements in operational processes to eliminate inefficiencies in the system.

McDonald's focuses on the product and service quality to ensure maximum value to the customer. Quality control is maintained at every stage of operations. Raw materials are purchased through trusted suppliers or through contract farming to maintain consistency in the quality. The detailed specification of raw material requirement is provided to suppliers and regularly monitored to avoid last minute surprises. Advanced technology is used for storage of stock. The franchisees are carefully chosen and the architecture of the outlets is minutely detailed to ensure standardisation. The service quality is controlled by imparting rigorous training to its employees. Thus, McDonald's adopts the concept of TQM for managing its operations. The lean inventory is maintained through the Kanban and JIT systems.

However, defining quality is the first step towards quality management. There are four different ways to define quality. First, the transcendent

method assumes that quality is an inherent excellence in the operations system, which cannot be defined. Second, the product based view of quality states that quality can be defined as the absence or presence of predefined product features. Third, the user-based approach opines that the quality is defined based on its value to end customers. The higher the customer satisfaction from a product, the higher is its quality. Fourth, the value based method states that a product that gives maximum value at a given price is considered a quality product. Fifth, the view of quality based on the manufacturing process defines quality as compliance to certain quality requirements. McDonald's strives to provide maximum value to the customer at a reasonable price.

The key quality measures for McDonald's are speed, . Speed and accuracy of delivery is critical in a fast food restaurant. Total time in line (TTL) is an effective tool to measure speed of delivery. TTL calculates the total time taken by from ordering to delivery of food. The second instrument to measure delivery speed is through Customer Order Displays. This precision brings in system efficiency. Quality inspections include self-checks with the help of a detailed quality measurement manual and periodic corporate inspections. To ensure compliance, the corporate imposes penalties on the outlets based on its periodic reviews. Customer feedback registers are maintained at each outlet to track customer issues and satisfaction level. The corporate may also resolve to undertake a random and unannounced inspection to ensure quality.

Capacity Planning

Capacity is the maximum outputs that a firm can produce. There are three strategies of capacity planning, lead strategy, lag strategy and level strategy. In a lead strategy, capacity is increased anticipating demand increase. In a lag strategy, production capacity is increased after a demand upsurge has been experienced. In a level strategy, production capacity is increased slowly with changing demand conditions. McDonald's uses a level production strategy by maintaining a moderate level of inventory in anticipation of peak demands.

Conclusion

McDonald's is the biggest fast food chain, globally. Maintaining speed, quality and reasonable price are the three key unique propositions of its products and it requires effective operations management. McDonald's corporation works on a high volume, medium variety, low variation and a high visibility operative strategy. It strives to improve its performance in every aspect of operations management by adopting latest technology and establishing improved processes. It adopts a pull system of process design to reduce inventory carrying cost. It relies on its wide network of franchisees, suppliers and service providers to improve its process efficiency. To manage contingencies, McDonald's has a vertically integrated supply chain structure. The distribution centres are strategically located to be able to reach customer outlets quickly. McDonald's adopts the principles of JIT or lean inventory system and incorporates controls through LM and TQM.

McDonald's uses a level production strategy by maintaining a moderate level of inventory in anticipation of peak demands.

In spite of all these, McDonald's continues to be positioned in the unhealthy fast food category, which can be a major setback with growing health consciousness in consumers and needs to be evaluated. In addition to the fast food category, the corporation should explore getting into the fine dining space in a big way. The corporation should avoid adding too many product lines to avoid complexity in the operational process. McDonald's has a complex structure of brands and sub brands. Product branding limits flexibility in the system and hence the corporation should avoid such initiatives.

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