

CASE STUDY

Online Purchasing at McDonald's

In 2002, when McDonald's offered to put an extra strip of bacon on any hamburger for 35 cents, it encountered drastic forecasting problems. The promotion turned out to be so popular that the company had to increase its order for pork bellies, which sent a bullwhip effect across the economy, resulting in shortages and increased costs. The source of the problem? Thousands of franchisees, each of them operating somewhat independently, using largely manual ordering systems that did not feed information to corporate headquarters on a timely basis.

The company responded by developing an online ordering system to help it plan its purchases and shipments. The system was first implemented in European stores in 2003, leading to a 30 percent reduction in raw waste, a 30 percent reduction in store inventory, and a decrease in store transfers (i.e., shipments of bacon between stores because of shortages) from 8 percent to 4 percent. In addition, order times for each store were cut in half, saving 60 minutes per week. Annual savings per store were \$5,585, which equates to \$11.5 million for the 2,072 restaurants in France and Germany.

McDonald's is leading a shift to "demand chain planning" by fast-food restaurants. In 2003, the National Restaurant Association estimated that only 12 percent of restaurants ordered food supplies electronically, and only 10 percent ordered nonfood supplies electronically. With more than 31,000 restaurants serving more than 46 million customers per day in 119 countries, McDonald's has thousands of trucks on the road delivering food and supplies to its franchisees. With its Happy Meals promotions, McDonald's is one of the largest toy distributors in the world. Each store receives supplies one to three times per week.

McDonald's has several major challenges in integrating its supply chain. First, the majority of its restaurants are owned by franchisees, limiting the company's ability to control the adoption and implementation of new technologies. According to Robert Bauer, information technology director for McDonald's global supply chain, "It's difficult to get the res-

taurants to give us information. They look at us as a big brother: 'you are going to do bad things to me.'" The franchisees do not have to agree to use the software. Thus, while there are about 13,000 restaurants in the United States, only 12,100 use the online system. Second, the entire supply chain is outsourced, from hamburger and French fry production to warehousing and transportation. The company began revamping its supply chain in 1996 with software and technology from Manugistics, Oracle, and Sun. Several years were spent primarily collecting and organizing data. McDonald's worked closely with its two major distribution contractors, Martin-Brower and Perseco. The technology works well for everyday projects but hits snags with limited-supply items like Happy Meal toys, where the promotions run for 28 days, yet the toys must be produced 12 months in advance. There is no chance to correct for poor forecasts once the promotion has started.

QUESTIONS

1. Getting franchisees to adopt the online ordering system is a major challenge. What techniques would you use to encourage adoption?
2. Draw a supply chain map showing the various parties in McDonald's supply chain: food growers, manufacturers, distributors, corporate headquarters, and restaurants. Describe the type of information that needs to be exchanged between the partners in each pair of partners. What is each organization looking for in its information systems?
3. Describe differences in how McDonald's should handle information and planning for (1) regular food items, (2) nonfood items like wrappers or napkins, and (3) promotional or one-time items like Happy Meal toys.

Source: K. Hickey, "McDonald's Tall Order," *Traffic World*, January 5, 2004, pp. 1-4.