Analysis of McDonalds Operations Management

ASB 2416 Operations Strategy

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Summary

McDonald's is the largest fast food chain in the world with thousands of stores in 118 countries. Its success can be attributed to the effectiveness of its operations management. McDonald's operations, which can also be defined as processes, take in food and customers as transformed inputs and staff and equipment as transforming inputs to produce value for its customers. McDonald's operations differ from similar operations in the volume of food sold, the variety of their menu, the variation in demand and the visibility of their operations to customers.

The performance of operations can be judged by their: Speed, variety, cost, quality and dependability. These five operational performance objectives mean different things for different businesses. For McDonald's speed refers to how fast customers can be served. Cost refers to the unit cost of a burger. Quality refers to the taste and consistency of food. Dependability means being open for the promised hours and being able to serve all the items on the menu. Lastly variety can be sub categorised even further to refer to the variation in the number of customers that can be served, the amount of menu items or the extent to which a customer can customise an order.

An organisations operation is developed to meet a business's goals depending on where the business is in the business life cycle. McDonalds is a mature business therefore their operations are designed differently from a business that is in its introductory or growth stage.

Just as a business goes through a cycle, operations also go through a cycle. Initially operations play a neutral role of fulfilling a business's objectives and meeting the standards of competitors operations. Then as the business develops; operations begin to play a supportive role by assisting a business to meet its competitive goals and even helping to develop the business's strategy.

Introduction

McDonald's is a multinational fast food restaurant chain, that was initially opened by two brothers Dick and Mac McDonald as a Bar-B-Q restaurant in 1940. The brothers later relaunched the restaurant, adopting the franchise business model and selling the rights to the business a few years later (corporate.mcdonalds.com, n.d.). Since then McDonald's has opened around 34,000 restaurants in 118 countries, serving more than 69 million people every day worldwide (mcdonalds.com, n.d.). In 2017 it was listed as the largest restaurant chain in the world by revenue and it is also the fourth largest employer in the world (Stimage, 2018).

For a large organisation such as Macdonald's to remain competitive for almost 80 years, they require efficient management of their operations. Operations management is the activity of managing the resources that create and deliver services and products. (Nigel Slack, 2016).

This report analyses McDonald's operations management.

The 'Input-Output-Transformation' Process Model of McDonald’s

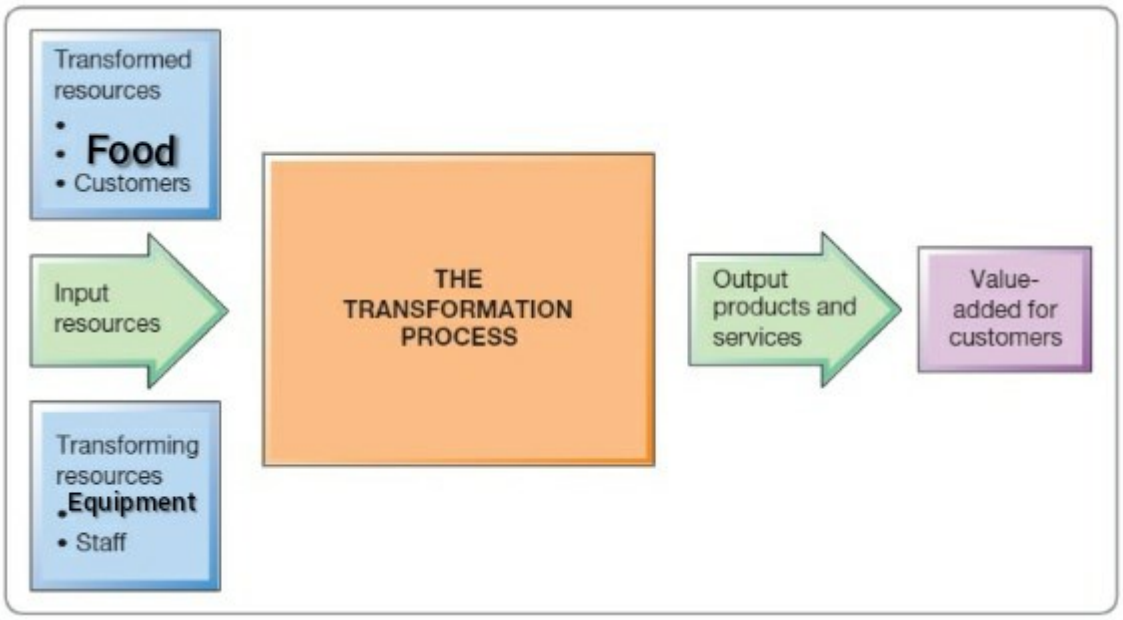


Figure 1: General input - output process of McDonald's

Operations are processes that take in a set of input resources that are used to transform or are transformed themselves into outputs of products and services (Nigel Slack, 2016). The image above shows McDonald's input-output process. A process has two sets of inputs, transformed inputs and transforming inputs. McDonald's takes in raw food products and customers as transformed inputs. These are the inputs that are changed in the process. The raw materials such as burgers, chicken nuggets etc are transformed into meals for customers and the customers are transformed from hungry to full.
McDonald's transforming inputs are its staff and the facility’s equipment. These are the inputs that assist in the transformation process. The staff provide customer service and cook the food; and the equipment e.g. fryers and grills are used to cook the food.
McDonald's inputs and outputs are like those of a Michelin star restaurant, what differs is the level of skill required by staff and the quality and quantity of the raw food products. A Michelin star restaurant requires staff with more skill. For example, the chefs must be professionally trained, and the waiters and waitresses are trained in table service. While McDonald's staff are not required to have had any formal training.

McDonald's main outputs are food products however they also produce services in the form of customer service in store. With their recent inclusion of table service, they have more of a restaurant structure in order to improve their customers experience.

McDonald’s and the Four V's

The four V's stand for volume, variety, variation and visibility. These four attributes help define the differences between operations. This is how McDonald's operations are different compared to a Michelin star restaurant.

Volume

McDonald's sell a large volume of burgers. For them to achieve this they have broken down their production processes into repetitive small tasks that are quick and easy to carry out. Their equipment is also designed for batch cooking and storage of a large amount of food. In addition, most of McDonald's raw food is delivered chilled and frozen, in large quantities; which reduces the frequency of deliveries.

In contrast a Michelin star restaurant makes food to order in small quantities. They could have their food delivered fresh as often as every day, their recipes are more complex requiring more time and although some dishes may require batch cooking, most dishes are prepared individually.

Variety

McDonald's have very little variety. Unlike a Michelin star restaurant that can list a new menu item depending on the ingredients available in the kitchen McDonald's menu is fixed. Customers can have items added or removed but the menu itself remains the same. The McDonalds menu may have new burgers added during certain seasons, but this is usually an item that is well planned for and the changes are usually the same every season, so staff know how to assemble the burgers already.

Variation

Most McDonald's stores are open for 24 hours, this means there are times of the day when demand is high and others when demand is low. To add to this, during lunch time, after school and public holidays demand increases.

McDonald's manage this high variation of customers by having more staff on duty during busy times. Their employee contracts are usually zero-hour contracts and so they can send staff home if it is not busy.

They also operate on shift basis and by overlapping the shifts during busy hours they ensure that more staff come in just as it gets busy and the other staff leave when it dies down. The batch cooking equipment also allow for them to vary the amount of food that is produced at a time and hot food storage can be increased or decreased as required.

A Michelin star restaurant has very little variation, due to the table reservation system and the high-class customers.

Visibility

This refers to the extent of which a customer is involved in the operations of a business.

McDonald's has no visibility. Their food may be customised, but their customers have no part in the design of their food.

A Michelin star restaurant may have some visibility in the event of them hosting a wedding or special event, where the customers may take part in the

design of the menu, the restaurants decor and even the staff's uniforms during the event.

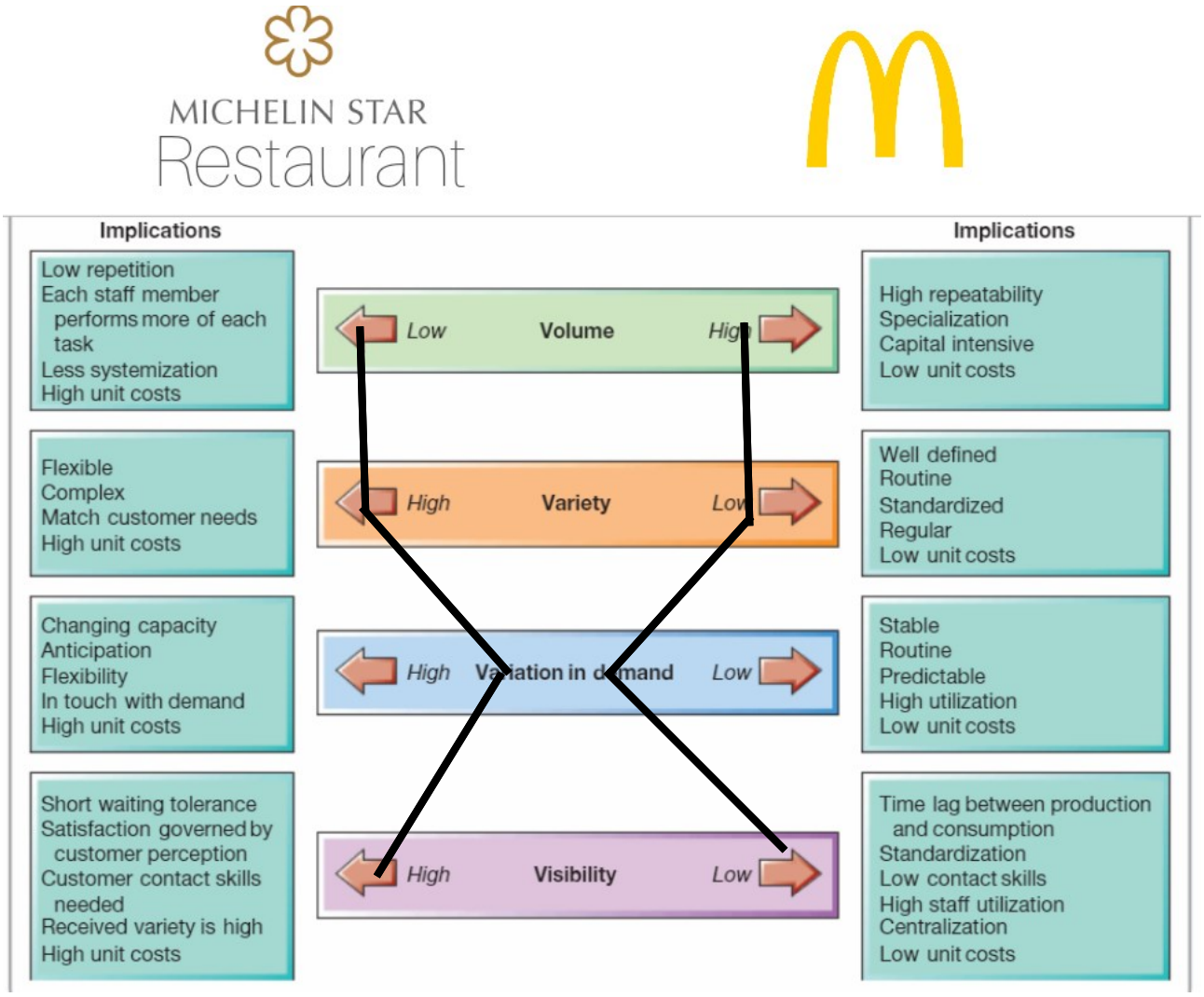


Figure 2: McDonald's compared to a Michelin star restaurant using the 4V's

McDonald's Operations Performance Objectives.

The following 5 performance objectives define what a company wants to achieve from

Cost

McDonald's compete on price, it is therefore essential for them to keep their costs low. McDonald's costs are broken down as seen in the image below.

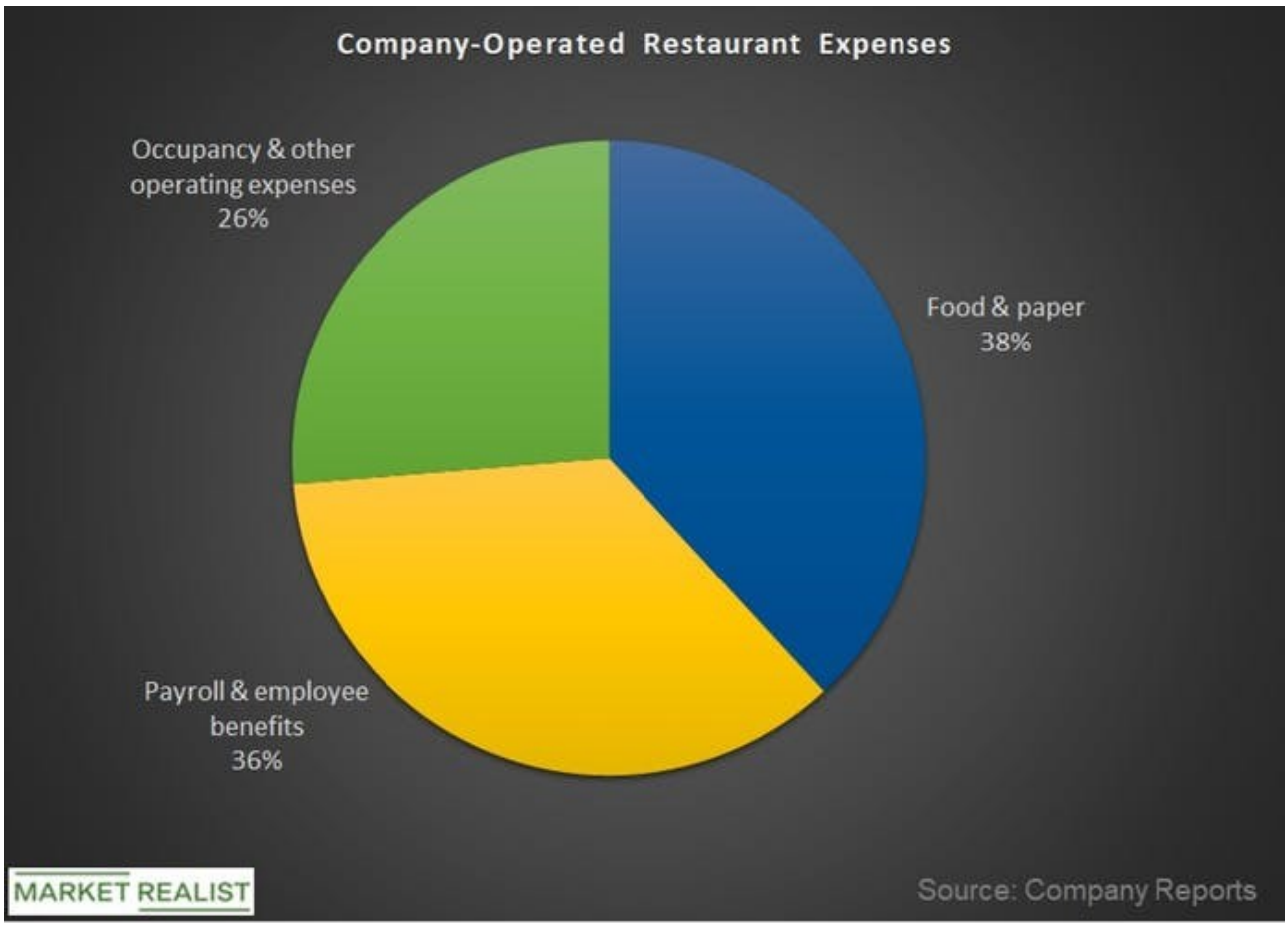


Figure 1McDonalds costs (Khandelwal, 2019)

Since most of their costs come from food and labour, McDonald's operational objectives would be to keep these costs as low as possible. Buying food in bulk helps to reduce their costs through economies of scale is kept to a minimum. For example, the saver menu burger packaging is a single sheet of paper.

Dependability

McDonald's objectives on dependability would be: to be open during the stated hours. To have all items on the menu in stock and to have functioning equipment to prepare the menu items. They work on achieving these objectives by having a stock control system and multiple equipment where possible that act as a backup during machinery breakdown. McDonald's also try and keep the restaurant open even when carrying out store maintenance and only close if it is necessary.

Speed

McDonald's compete on speed. Their objectives are to reduce the time it takes for a customer to receive their order from when they arrive. In order to meet their speed objectives McDonald's have automated some tasks in selected restaurants, such as the preparation of soft drinks. When an order is made, the drink order is passed to the drinks machine and the drink is automatically prepared. This has helped to speed up processes by reducing the number of tasks staff need to carry out. McDonald's also installed self-ordering facilities in

order to reduce queues and human error which also helps to speed up the processes.

Quality

Quality is not one of McDonald's competitive strengths. However, they still strive to produce consistent food that tastes good by using 100% beef burgers, 97% pork sausages, fresh eggs, fresh skimmed milk and fresh salad. They also have quality centres across the globe that provide suppliers with training and assess product quality for consistency and taste (corporate.mcdonalds.com, n.d.).

Flexibility

McDonald's have very low product flexibility, as they rarely add new items to their menu. They also have low mix flexibility, because there is a limitation on how much a customer can customise a burger.
However, McDonald's do have Volume flexibility, as they can serve a varying number of customers. Therefore, McDonald's flexibility objective is to be able to serve a varying number of customers quickly while maintaining their quality standards.

McDonald's and the Business Life Cycle

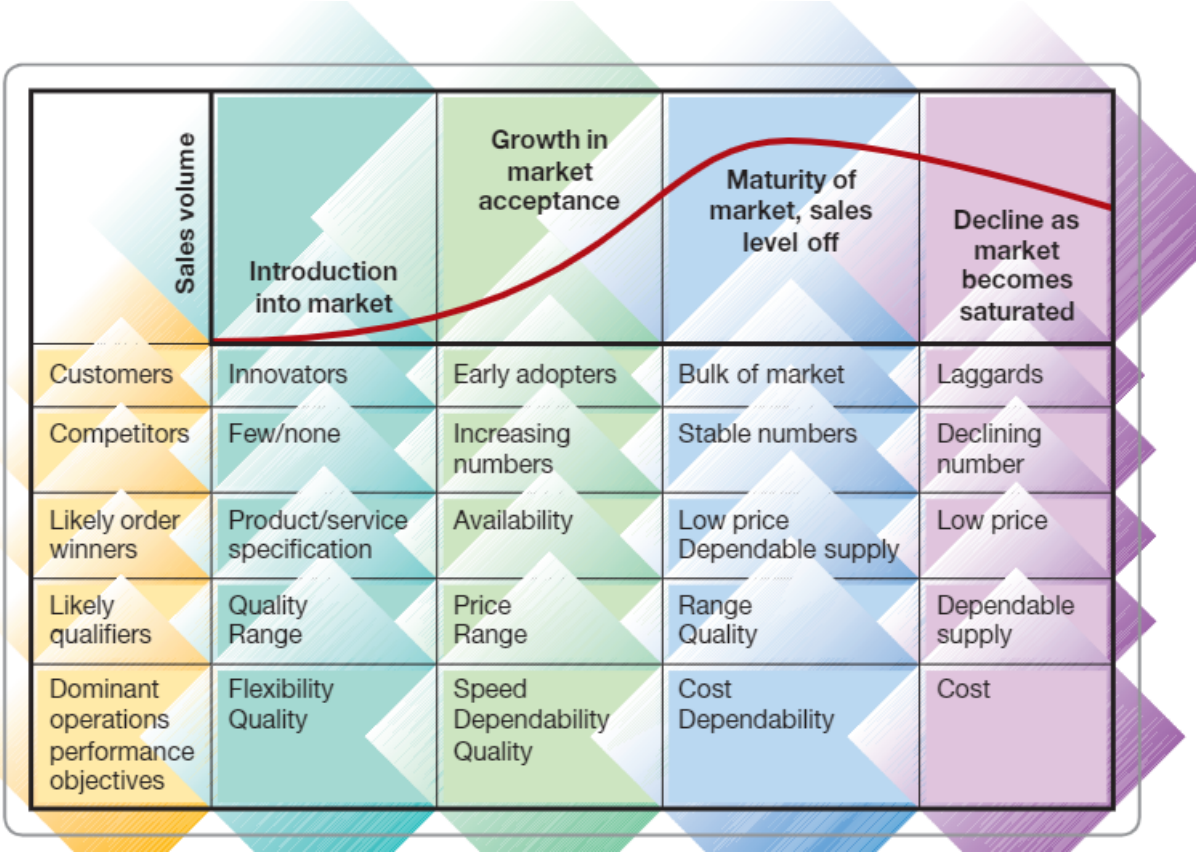


Figure 3: The effects of the product/service life cycle on operations (Nigel Slack, 2016)

The business life cycle defines the stages a business goes through, from inception to decline. As seen in figure 3, after a business is introduced into the

market it goes through a growth stage and then a maturity stage before it declines.

The following data helps to determine where a business is in the business life cycle.

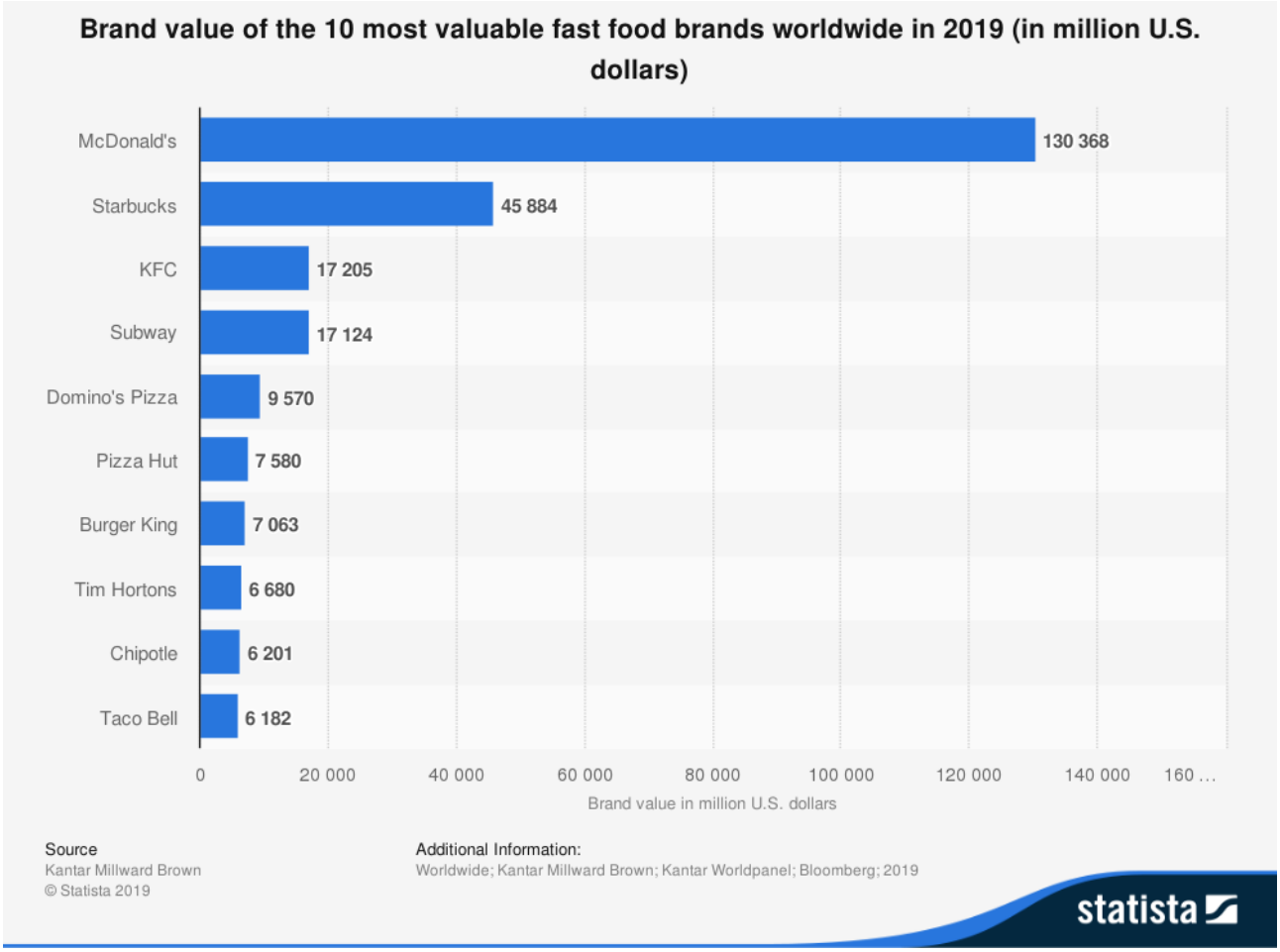
6-Year Summary

In millions, except per share and unit amounts	Years ended December 31, *2018*	*2017*	*2016*	*2015*	*2014*	*2013*
Consolidated Statement of Income Data						
Revenues						
Sales by Company-operated restaurants	**$ 10,013**	$ 12,719	$ 15,295	$ 16,488	$ 18,169	$ 18,875
Revenues from franchised restaurants	**11,012**	10,101	9,327	8,925	9,272	9,231
Total revenues	**21,025**	22,820	24,622	25,413	27,441	28,106
Operating income	**8,823**	9,553	7,745	7,146	7,949	8,764
Net income	**5,924**	5,192	4,687	4,529	4,758	5,586
Consolidated Statement of Cash Flows Data						
Cash provided by operations	**$ 6,967**	$ 5,551	$ 6,060	$ 6,539	$ 6,730	$ 7,121
Cash used for (provided by) investing activities	**2,455**	(562)	982	1,420	2,305	2,674
Capital expenditures	**2,742**	1,854	1,821	1,814	2,583	2,825
Cash used for (provided by) financing activities	**5,950**	5,311	11,262	(735)	4,618	4,043
Treasury stock purchases [1]	**5,247**	4,651	11,142	6,182	3,175	1,810
Common stock dividends	**3,256**	3,089	3,058	3,230	3,216	3,115
Financial Position						
Total assets	**$ 32,811**	$ 33,804	$ 31,024	$ 37,939	$ 34,227	$ 36,626
Total debt	**31,075**	29,536	25,956	24,122	14,936	14,130
Total shareholders' equity (deficit)	**(6,258)**	(3,268)	(2,204)	7,088	12,853	16,010
Shares outstanding	**767**	794	819	907	963	990
Per Common Share Data						
Earnings-diluted	**$ 7.54**	$ 6.37	$ 5.44	$ 4.80	$ 4.82	$ 5.55
Dividends declared	**4.19**	3.83	3.61	3.44	3.28	3.12
Market price at year end	**177.57**	172.12	121.72	118.44	93.70	97.03
Restaurant Information and Other Data						
Restaurants at year end						
Company-operated restaurants	**2,770**	3,133	5,669	6,444	6,714	6,738
Franchised restaurants	**35,085**	34,108	31,230	30,081	29,544	28,691
Total Systemwide restaurants	**37,855**	37,241	36,899	36,525	36,258	35,429
Franchised sales [2]	**$ 86,134**	$ 78,191	$ 69,707	$ 66,226	$ 69,617	$ 70,251

(1) Represents treasury stock purchases as reflected in Shareholders' equity.

(2) While franchised sales are not recorded as revenues by the Company, management believes they are important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. Franchised restaurants represent approximately 93% of McDonald's restaurants worldwide at December 31, 2018.

The chart above is a six-year summary of McDonald's financial data. McDonald's income has remained within a stable range for the past six years, which indicates a stability in sales. This means the business is not growing rapidly, like it would be in the growth stage.



This chart compares the largest fast food chains in the world by brand value in million U.S dollars.
McDonalds is the most valuable fast food brand of 2019 which means It dominates its competitors and has the most customers.

From this data we can conclude that McDonald's is in the maturity stage.

Therefore, they are now focusing on retaining, regaining and converting customers (mcdonalds.com, n.d.), rather than growing their customer base. They intend to retain their customers by fortifying and extending their areas of strength. Which include serving customers quickly and providing them with value at a competitive price. This can be achieved by finding new ways to cut down on the time customers spend waiting on food and keeping costs low by reducing wastage.
Quality is not one of McDonald's competitive strengths. That's why one of their growth strategies is to improve the taste and quality of their food in order to regain lost customers. This could be done by reducing the amount of time prepared packaged food is kept in holding by assembling burgers 'to order' and anticipating busy times in order to manage the amount of staff on shift better so that they are not pressured and are able to assemble and package food better.
McDonald's also intended to convert casual customers to committed customers. They could do this by enhancing convenience for customers by having more locations stay open for longer, expanding their delivery locations

and having a separate faster checkout for customers who are only buying coffee and drinks.

McDonald’s and the Four Stage Model of Operations

The four-stage model of operations consists of these four stages

1. internal neutrality:

This is the most basic level of operations, where operations implement business strategy. For example, when McDonald's decided to begin delivering using Uber, they had to adjust their operations in order to implement the new business strategy.

2. External neutrality:

This is when an organisation begins to compare its operations with those of its competitors and can adopt best practices. McDonald's has passed this stage in most of its operations as it now sets the standards that other fast food organisations compare themselves to.

3. Internal supportive:

This stage is where an organisations operation is among the best in the industry and they support the businesses strategy and help the organisation meet its competitive goals. McDonald's is under this stage in most of its operations as it is an industry leader.

4. External supportive:

This stage goes beyond just supporting business strategy. This is where operations help to develop the businesses strategy.

Conclusion

In conclusion operations management is the organisation of the activities that produce goods and services. McDonald's operations can be compared to other operations using the 4 V's. Its operations can be judged using the 5 operational performance objectives and its operations are determined by the stage it's in, in the business life cycle.

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