SCA Drives McDonald's Distribution Costs Down

Overview

McDonald's is the leading global foodservice retailer with more than 33,000 local restaurants serving more than 64 million people in 118 countries each day. More than 80% of McDonald's restaurants worldwide are owned and operated by independent local men and women.

Challenge

The McDonald's complex, multi-tier distribution system services thousands of stores in the United States and is utilized for thousands of Stock Keeping Units that are shipped from hundreds of vendors through a major network of distribution centers.

The products distributed to McDonald's stores range from short shelf life items such as produce to items which have seasonal and unpredictable demand, like toys. Sales volumes, supplier lead times and inventory requirements for these products also vary significantly. Above all, McDonald's must maintain consistently high service levels and food quality standards.

The challenge was to design the optimal distribution network that could improve upon the freshness of products (food items), handle expected demands from current and future stores, reduce total distribution system costs, and support and enable their long term acquisition strategy.

Key Benefits

SCA Planner™ helped McDonald's to restructure its distribution system and drive a 6% - 8% savings in various markets. In addition, it has enabled McDonald's to improve product freshness and reduce cycle times for time-sensitive items. The process model also helped the company to arrive at the right long-term design for their supply chain while considering their long-term acquisition strategy.

About SCA

For over a decade, SCA Technologies has provided category sourcing and cost management solutions that help industry leaders maximize profits by better managing market, supply and demand volatility. Supply chain, procurement, finance and corporate social responsibility professionals use the unique cross-functional approach of the SCA Planner™ suite to make better decisions for billions in category spend each year. With our patented technology, customers can finally address the tough challenges of volatile commodity prices, extended supply chain networks and corporate social responsibility tradeoffs in a coordinated manner. Our innovative, cloud-based solutions deliver increased visibility and quicker response, leading to an average 3-5% reduction in the cost of goods sold on an annual basis. Learn more at www.scatech.com

Solution

McDonald's chose SCA Planner™, SCA's predictive, cost-modeling software suite, because it is the one of the only software suites in the industry that can strategically manage their complex distribution system, given the overwhelming number of options The tool provides an holistic view of the supply chain, and enables optimization of the entire system. It integrates decisions such as: capacity levels at each distribution center, distribution process choices, exclusivity levels, store assignments, and setting delivery frequencies. Broadly, the solution provides the following:

- Optimize the number, location and capacity of the plants for total supply chain performance
- Incorporate contingency needs in the supply chain Enable product diversity by the selective use of new manufacturing technologies

Implementation

SCA started working with McDonald's on their distribution strategy in 2000. The early phase of the project involved obtaining a consensus from the distributor community on the scope of optimization analysis, data definition, validation processes, and the range of issues that could be considered for analysis. Later on, an activity-based costing and optimization model was constructed using the information gathered. The model was extensively validated both by McDonald's and the distributors for accuracy in predicting changes in the system costs under different scenarios. Since then, the validated model has been run under various scenarios of store assignments, varying delivery frequencies and other business decisions. Using the model, McDonald's has been able to arrive at the right DC-store assignments and delivery frequencies in various markets. The resulting design allows McDonald's to deliver to different stores in the same market at various frequencies. The design also helps in reducing distribution costs while maintaining high service and product quality levels.