

SCA Drives McDonald's Distribution Costs Down

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.

Solution

McDonald's chose **SCAplanner™**, 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 design
- Enable product diversity by the selective use of new manufacturing technologies

Key Benefits

SCAplanner™ 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.

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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.

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.

About SCA Technologies

Since 1999, our predictive cost modeling, optimization and cost management capabilities have **helped our clients reduce their delivered cost of goods sold (COGS) by 3% - 5%, saving over \$250 million each year. Our clients include Fortune 500 companies such as McDonald's, NCR, Church's Chicken, Bama Companies, Baldinger Bakery and H. J. Heinz.** Led by a management team of highly experienced professionals from prominent companies like Xerox, Mobil, JD Edwards, PWC, Heinz and Cartesis, SCA is the only company that combines an integrative and collaborative approach with a powerful "total cost-to-serve" methodology. SCA Technologies is headquartered in Pittsburgh, PA with offices in Chicago, IL and Delhi, India.

For more information on SCA products and solutions contact: sales@scatech.com, or visit our website at www.scatech.com.

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