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[Case Study] McDonald’s Overcomes Supply Chain Issues Caused by West Coast Port Delays

Hundreds of companies had problems fulfilling their supply chain needs because of the labor disputes at west coast ports. One major company affected by the delays was McDonalds. For instance, some Japanese stores went without French fries for a time. However, McDonald's was able to quickly overcome the problem by turning to local suppliers. They have an excellent supply chain with risk mitigation plans.

Situation: West Coast Port Delays

Image via Flickr by nereocystis

West coast ports stopped operations because the Pacific Maritime Association could not come to an agreement with the International Longshore and Warehouse Union over wages and benefits.

The labor disputes took almost a year to resolve and caused major delays at the ports, including a closure period. McDonald's ships some of their food through the west coast ports and had to solve supply chain issues when this was no longer a possibility.

Approach: McDonald's Emergency Airlift of French Fries

Image via Flickr by _BuBBy_

According to the University of San Francisco, McDonald's has 35,000 restaurants around the world and they serve 70 million customers per day. They have a company goal to never be out of an item that a customer orders. This takes a very strong supply chain management strategy that involves distribution of both food and paper products. Additionally, McDonald's must plan for varying menus around the world that adapt to local food preferences.

When McDonald's ran out of French Fries in Japan because of the west coast port delays, they quickly found a way to solve the problem. They did an emergency airlift to get Japan stores the supplies they needed. 3,000 stores across the country were affected. Each of those stores carefully rationed their supply of fries until more could reach them. A McDonald's representative said, "We will continue to monitor the situation carefully to do our best to ensure stable supply of potato products."

Impact and Advantage

Image via Flickr by JeepersMedia

International businesses face bigger supply chain challenges than small businesses because of the sheer amount of miles they must transport goods. They must have strategic logistics plans and risk mitigation plans for natural disasters, labor strikes, and other things that can affect the supply chain, such as west coast port closures. These challenges are even bigger for businesses in the food industry, such as McDonald's, because food can spoil during transit. McDonald's emergency airlift was crucial to their operations.

You might be surprised to learn that McDonald's has no distribution centers of their own. They rely heavily on strategic supplier partnerships to get their products to their restaurants. McDonald's biggest partnership is with Martin-Brewer Company LLC. They handle most of the North America restaurant location needs. Each of Martin-Brewer's distribution centers supply 250 to 700 stores.

Even though McDonald's does not have their own distribution centers, they still have a supply chain team that is responsible for making plans to carry out supply chain needs and volume, in addition to making forecasts for future demands. Because of their strong supply chain infrastructure, McDonald's is ranked number 2 on the Gartner Supply Chain Top 25 list.

How India's Buy-Local Rules Jeopardize Their National Solar Program

India wants to become a solar-powered super country. They have plans to improve their solar capacity 30-fold by 2020. One of the biggest plans is to promote the use of domestic solar panels and make them affordable for consumers. However, India's buy-local rules could jeopardize their ability to do so because of World Trade Organization (WTO) complaints from the U.S.

India's National Solar Program

Image via Flickr by Port of San Diego

India's mission to deploy a national solar program started in January 2010. The country has relied too heavily on coal for energy and wanted to transition their energy reliance to renewable sources — a worthy cause that the U.S. supports. India has already grown their solar capacity by more than 2,000 megawatts and is transitioning to Phase II of the program where an additional 3,000 megawatts will be added.

India has a $306 million budget for their solar program and is looking through bids to fulfill their Phase II solar manufacturing needs. They want half of their capacity to be built in India, and the other half can be sourced from anywhere else in the world. This was the same way that Phase I was implemented.

The WTO Complaint Against India

The U.S. filed a complaint against India on February 10, 2015 with the WTO. They claimed that India is unfairly boosting the development of their solar manufacturing industry because of their "buy-local" rules. This is not the first complaint that the U.S. has filed against India. Last year, there was a complaint about India's buy-local rules for Phase I of their solar program.

India's goal to rely on more renewable energy sounds like something that the U.S. should be supporting, but according to their WTO complaint, the "buy local" portion of India's solar program is not fair. It compromises all U.S. imports of solar products. According to Article III:4 of the General Agreement on Tariffs and Trade, the buy-local rule is not allowed in countries that belong to the WTO.

India Moves Forward with Buy-Local Rule Anyway

Image via Flickr by Walmart Corporate

Despite the WTO complaint, India has decided to move forward with their buy-local rule for Phase II of their solar program. Under this rule, 50 percent of their 3,000 MW bidding process would be up for grabs by local suppliers in India. Last year, the U.S. decided not to move forward with any lawsuit over India's buy local rules during Phase I of their solar program. India is hoping for the same outcome during Phase II. They see no problem in supporting their local economy first before opening up the bid process to the rest of the world. However, India could face fines and delays that could jeopardize what they are trying to accomplish with their solar program.

India argues that the U.S. has no claim because the bidding process is not being completed by government procurement, but rather it is state run. However, the U.S. claims that a bid process of this scale for a government "mission" needs to abide by the WTO rules. If the U.S. wants to maintain friendly relationships with India, they must strongly consider whether to push the argument.

Why Does Wal-Mart Dominate Retail Supply Chain?

Most customers don't realize the time, energy, and resources that go into making a super supply chain like Wal-Mart's. Wal-Mart has 11,000 stores around the world and serves more than 130 million customers per week. They are able to dominate in the market because of their focus on technology, vendor partnerships, integrations, and cross docking and distribution management. Take a look at how Wal-Mart has perfected their supply chain.

Supply Chain Management Strategy

Image via Flickr by Walmart Corporate

Wal-Mart's supply chain management strategy is three part — they track inventory, plan the most efficient and cost-effective transportation routes, and forecast demand for goods. They also have a team of analysts, buyers, and logistics coordinators to make Wal-Mart's supply chain work. The Annual Kantar Retail Ranking report listed Wal-Mart's supply chain at the top with a 91.2 percent score. Kroger and Target were next in line, but with significantly lower percentage scores.

Wal-Mart has strong relationships with its suppliers, but they don't rely on third-party vendors to handle their logistics. Instead, Wal-Mart has a fleet of trucks and distribution facilities to move their goods around. This obviously isn't possible for smaller retail chains, but it saves Wal-Mart a lot of money. They also have more flexibility to change transportation routes because of their in-house fleet of trucks.

Technology: Wal-Mart's Exchange WMX System

Image via Flickr by JeepersMedia

The key to Wal-Mart's supply chain success is the Wal-Mart Exchange WMX. It is a platform for communicating with suppliers and analyzing data to make smart supply chain decisions based on costs. The WMX also speeds up the whole process so customers can get what they want, when they want it. One thing that differentiates Wal-Mart's supply chain WMX from others is that it connects with social media sites to collect information on customer behavior and to interface with customers through advertisements.

Chief Marketing Officer of Wal-Mart U.S., Stephen Quinn, said, "We're going to bring a lot more tools that our vendors can use with Wal-Mart that will make their digital marketing a lot more effective. If you think of a P&G and Samsung, it lets them see that their marketing is actually having an impact at Wal-Mart, and we're able to speed up reporting in real time. It's pretty much a holy grail for us as marketers."

Company Culture: Keep Costs as Low as Possible

Image via Flickr by Walmart Corporate

Sam Walton opened the first Wal-Mart store on July 2, 1962 in Rogers, Arkansas. He has grown that first store into a massive retail chain with global sales above $444 billion annually. It took 50 years to get there, but Wal-Mart has learned a lot about supply chain management. Sam Walton is notorious for his obsession with keeping costs low. He meticulously analyzed every supply chain decision to be most beneficial for his company. That's why Wal-Mart is outselling Target and its other competitors. Wal-Mart's sales are better because their supply chain is better. Their company culture focuses on keeping everything cheap, which also translates to customers.

So, what can you learn about supply chain management from Wal-Mart? Focus on keeping your logistics costs low and your prices competitive. Then, the customers will come.

China Speaks Out that Supply Exceeds Demand for Luxury Automakers

China's economy has been booming for the past 15 years, but things are really slowing down. The auto industry is feeling the slowdown, too. New-vehicle sales in China are only half of what they were a year ago. Surprisingly, automakers are not slowing down production to match demand, and dealers in China are speaking out about it.

Luxury Automakers Continue to Manufacture Cars Despite Slow Sales

Image via Flickr by David Villarreal Fernández

General Motors, Volkswagen, BMW, and other luxury automakers are still investing heavily in China. Despite the slowdown in sales, both Volkswagen and General Motors don't seem to be decreasing their manufacturing rates in China. As a matter of fact, General Motors has plans to open five new factories and invest $14 billion. BMW is in a similar situation.

Even China's domestic automakers, such as Great Wall Motors, Chery, and Geely are seeing fewer sales. They've always struggled to compete with foreign car manufacturers because of quality and safety issues, but this year seems to be worse than usual. This has caused almost all car manufacturers in China to have a surplus of goods, which is costing them money because of storage and logistics. Of course, car dealers are the ones that are really hurting.

Car Dealers Have an Overstock of Cars in Their Showrooms

Image via Flickr by atromos

Car dealers cut prices this year because of the slow sales. However, they are still obligated to buy the extra cars from manufacturers. This has hurt dealers a lot while automakers have seemingly no repercussions. Luo Lei, Deputy Secretary General of the China Automobile Dealers Association, complained to the government that this is not fair. He said, "Over the past years, carmakers, especially luxury brands, have been too aggressive in their quest for China market share. Now with the problem fully exposed, I expect to see an obvious slowdown in their pace of expansion next year."

Some auto dealers are fighting back. Reuters reported that because of the protests, BMW will pay $820 million in subsidies to dealers in China to share the costs of storing the surplus of vehicles. The overstock is at the highest level it has ever been. Other car manufacturers may need to pay similar subsidies to keep car dealers at bay.

Why Luxury Car Manufactures Are Still Betting on China

Even though China's economy has slowed down, car manufacturers still think that it is an important location to do business. Some manufacturers suspect that Chinese consumers will become more like Americans and embrace the idea of financing and leasing. This would boost auto sales and normalize the surplus of cars. The International Business Times reported that only 20 percent of Chinese buyers chose auto loans while 85 percent of Americans opted for auto loans.

The problem right now is the storage of surplus vehicles and the fact that dealers seems to be responsible for the costs instead of car manufacturers. The market most likely will normalize, but car manufacturers need to deal with their current supply chain problems instead of waiting for the market to turn around.