

# ***'Custom-Standardization' - Uncovering the basis for global chaining strategy in prepared food retail***

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## **Key Words**

Standardization, Customization, Global Expansion, McDonald's, Chaining, Food & Beverage

## **Abstract**

*This paper proposes a global expansion model in Food & Beverage retail based on the concept of 'Custom Standardization'. The concept explores how processed and prepared Food and Beverage can be retailed from an outlet and further how this outlet can be duplicated through chaining or franchising mode. The fundamental imperative that can dictate the pace of chaining is an operational design that is built on an element of standardization combined and integrated with an element of customization.*

*This paper restricts this basis-for-expansion model to the Food and beverage business as the data used has been derived from a best-practice in that domain. An extension of the model to other domains can be pursued through further research. Also the case research for this paper is entirely based on the most successful global Food chain, McDonald's.*

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## **Introduction**

There's no contesting McDonald's as a success story. Note the statistics (Wikinvest, 2010). In 2009, McDonalds had revenues of \$22.7 billion and operating profits of \$6.8 billion. Sales across all of its company-owned and franchised restaurants totaled \$56.9 billion. Revenues were down 3.3% over 2008, but profits were up 6.2%. Over 5 years, McDonalds has seen company revenues increase at an annual rate of 4.9%, while profits increased by 14.0% and storewide sales grew by 9.0%. McDonald's revenues for the first three quarters of 2009 (ending September 30, 2009), were \$11.4 billion, down 10.1% from the first nine months of 2008. At the same time, operating income increased 1.5% over the same period last year, reaching \$5.0 billion. The declines in revenue were offset by larger declines in operating cost.

Yet what still remains up for debate are what's behind that success. How has McDonald's been able to script a success story that's even successfully ridden the recent recession (AP, 2009), when most other businesses fumbled? In addition what gives McDonald's the crown is its consistent performance in an industry that sees numerous fast food chains, thus giving consumers opportunities ample opportunities to 'switch'. Considering its sustained success, it can be safely concluded that McDonalds' has been able

to deliver on 'value' to its targeted customers, consistently. What that value is, and how has McDonald's been able to consistently deliver on it forms the initial part of this paper. Subsequently the paper focuses on the principles that can be gleaned from what it uses as the 'basis' (we call it 'custom-standardization') for its business model and which can be successfully built and run over the years by other food and beverage businesses, also forms the 'meat' of this paper's consideration.

## **Delivering Consumer Value**

As a target consumer segment, McDonald's has in its sights mass consumers. And around the world. What value is to mass consumers whilst a purchase consideration is made is common knowledge, though delivering on such value doesn't come too easy for business firms targeting them. Quality that's high on reliability, low on attributes thus keeping costs low, and a competitive price. That is the key. This has been amply demonstrated by Wal-Mart in the Retail Industry. Every day low prices, with 'good' quality. McDonalds' in every way is the Wal-Mart of fast food.

## **Operating Efficiencies**

Take price for example. The fact is, the McDonald brothers who transplanted the assembly line technique into their food preparation process ensured that in the 40s the price of a hamburger was slashed from a competitive 30 cents to just 15 cents. The clinical focus on efficiency in their food production system lies at the heart of their efficiency abilities. This efficiency flows from the carefully crafted production system that has been mapped for least movements in the preparation of a finished food production. Time and motion studies have near perfected the number of moves that a preparer needs to take to have a finished product for an ordering customer. Though it may sound simple, managing a food production system to deliver on a standardized product at a pre-determined pace isn't easy. Which is why McDonald's was the first (Schugurensky, D. et al, 2000) to conceptualize and open a corporate training system that would train executives who would be managing McDonald's food production and delivery system. The modern incarnation of the corporate university began in 1961 with McDonald's "Hamburger University," a facility designed to prepare McDonald's executives and franchisees for running the now-famous fast-food restaurants. Since its inception, training at Hamburger University has emphasized consistent restaurant operations procedures, service, quality and cleanliness. It has become the company's global center of excellence for McDonald's operations training and leadership development.

As a part of its growth objective McDonald's hasn't shied away from acquisitions. Yet when the company sees cost efficiencies not being maintained, they have divested such operations. To ensure McDonald's remained consistent with the required operational efficiencies (Reynolds, R.J. 2005) they sold, for example, Donatos Pizzeria, a company they owned for four and half years, due to the costly operations of running the company.

## **Custom-Standardization**

Our study of global fast food chains finds no chain other than McDonalds coming close to what we term 'custom-standardization'. The concept forms the basis for what makes McDonald's successful on a global scale. Custom-Standardization dictates a business model wherein, part of the model depends on building standardization into the operating

eco-system and part is about inserting elements of customization. The standardized format within the model is what helps easy transplantation from one geographic area to another, as it entails mere duplication of the system elsewhere. There's nothing that's done from scratch. Yet the inherent paradox within the model is one that provokes the business firm to do one part of what it does from scratch. And that is the customization part. Especially when it expands operations.

In Food and Beverage and specifically to McDonald's, a differential can be established between what a front-end activity is, and what a back-end one is. The front-end is what faces the customer and delivers a finished product to him. The back-end is what facilitates the same. The front-end is where there's considerable customization, the back-end is mostly standardized. The logic's simple. The target consumer across geographies based on palates take to different tasting food products. Therefore there can't ever be a standard menu product (front-end delivery) that works across geographies. But the back-end which mostly consists of the operational methods that are put into motion for a food product to be prepared can be standardized. There may be customized required requirements in a food production system depending on the menu it caters to, yet its incidence remains minimal.

### **The 'Standardization' in Custom-Standardization**

The requirement for a strong element on standardization was first identified and put into effect by the legendary Ray Kroc at the time he saw McDonalds operating under the McDonald brothers. Ray realized that importance of standardization operations (Forbes complicating the McDonald brothers' single store was just the beginning. To build a chain, Kroc knew that he had to impose discipline on the loosely run restaurant industry. And that meant refining standardized operating procedures into easily replicable processes. Forty years earlier, Henry Ford had realized that the mass production of automobiles required the marriage of precision parts to an efficient assembly process. Kroc's insight was to apply the same rigor to the construction of burgers. Espousing the idea that "there is a science to making and serving a hamburger," Kroc endowed his beef patties with exacting specifications—fat content: below 19 percent; weight: 1.6 ounces; diameter: 3.875 inches; onions: 1/4 ounce. Kroc even built a laboratory in suburban Chicago to devise a method for making the perfect fried potato in the late 1950s.

To be fair to the McDonald's brothers, it must be noted that they were the ones who initially built an operating system (McDonald's, 2010) that both standardized on product techniques and ensured that the system therefore would be most efficient. The McDonald brothers actually designed the assembly line kitchen - twice as large as their original - by drawing an exact chalk diagram on their tennis court. They were able to place the equipment most efficiently after studying their crew members as they walked through their food preparation steps.

Another important task in ensuring there's standardization to the operating system, human intervention in the system, is only so there's the element of facilitating the system in the delivery of the final product output. At times charged as even being inhuman (Seklecki, Brian A 2005), McDonalds' has perfected a standard operating manual that has to be followed by the book by any employee in the system, and who performs a particular or a combination of tasks that culminates in a menu product. Allegedly, this value of work is diminished by the application of routine procedures to all tasks. Because humans represent

the greatest source of uncertainty in a rationalized system, complex tasks are broken down into discrete, simplified ones. Processes that can be accomplished by a machine are, and where they cannot, human behavior is converted into machine-like behavior.

To standardize human intervention (ebd, 2010) in the preparation of menu items, McDonald's 600-page training manual provides clear and detailed descriptions of the production process, with pictures showing, for instance, where the sauce should be spread on the bun, and designating the thickness of every piece of pickle.

Joel Spolsky (2001) sums it up well when he states (quote), 'The secret of Big Macs is that they're not very good, but every one is not very good in exactly the same way. If you're willing to live with not-very-goodness, you can have a Big Mac with absolutely no chance of being surprised in the slightest.

The other secret of Big Macs is that you can have an IQ that hovers somewhere between "idiot" and "moron" (to use the technical terms) and you'll still be able to produce Big Macs that are exactly as unsurprising as all the other Big Macs in the world. That's because McDonald's real secret sauce is its huge operations manual, describing in stunning detail the exact procedure that every franchisee must follow in creating a Big Mac. If a Big Mac hamburger is fried for 37 seconds in Anchorage, Alaska, it will be fried for 37 seconds in Singapore - not 36, not 38. To make a Big Mac you just follow the damn rules.

The rules have been carefully designed by reasonably intelligent people (back at McDonald's Hamburger University) so that dumdots can follow them just as well as smart people. In fact the rules include all kinds of failsafes, like bells that go off if you keep the fries in the oil too long, which were created to compensate for more than a little human frailty. There are stopwatches and timing systems everywhere.'

### **The 'Customization' in Custom-Standardization**

The variability in the tastes of consumers has been carefully studied by McDonald's to effect the customization required so finished food products cater to local tastes (Manrodt, Karl B 2004). Standardization is not a new concept; it has been a key ingredient for success for many firms. McDonald's seeks to serve its customers with the same quality product and experience, whether that restaurant is located in Moscow, Idaho or Moscow, Russia. This requires standardized processes and similar quality ingredients. However, no firm can operate without taking into account various cultural or geographic differences. For instance, the menu in a McDonald's in Tokyo is different than the offerings in Paris, France or in the U.S.

### **Customization in India**

Indian tastes are uniquely original. The cuisines that have flourished have all had an impressive dose of pungent and sweet flavours in them. In common use is masalas that are liberally used in the preparation of dishes. McDonald's' careful study of Indian palates and tastes helped it design a near-perfect menu that has now only gotten popular. Vasant Vihar, a prosperous residential area in New Delhi, was the initial location that McDonald's opened up its first store in India in 1996. Since then, almost 60 McDonald's restaurants have been opened. One of the most successive strategies that McDonald's uses before opening up its stores is research and development of its foods. Tastes and preferences vary across the globe, therefore, the company thoroughly analyzes the preferred tastes, especially to

not offend local cultures (Mujtaba, Bahaudin et al. 2007). For example, India is a nation where beef is highly unpopular due to religious purposes; therefore, the company had to come up with burgers that were not made with beef, but rather with chicken or lamb. Furthermore, the company had to create flavors that were spicy in order to meet the general taste preferences. The other major concern was to be careful of the religious sensitives in India. Almost 80% of Indians do not eat beef, and over 150 million Indian Muslims do not eat pork, therefore, instead of supplying the normal Big Mac, which consists of beef, the company developed the Maharaja Mac that is made of two lamb patties. Other foods were also added to the non-standardized menu including McAloo Tiki Burger, and other common Indian dishes.

### **Customization in China**

It isn't just menus that are customized by McDonald's. Even the functioning of a particular McDonald's reflects the cultural constructs within which it operates. Take China for example. An adaptation that McDonalds has made is to have restaurants open 24 hours every day. Most McDonalds in China do not have parking lots but are two or three stories tall. Some have walkup counters on the sidewalk level and dining areas on a different floor. They have also added take out menus and delivery drivers (Griffin, 2008) This may be due to the high cost of retail areas in large cities. Bringing the food to the customer makes sense in places where traffic congestion makes it difficult for the customer to come to the food. As an aside, when a group was quarantined due to H1N1, the Chinese hosts brought them McDonalds food. McDonalds has absorbed the traditional Chinese cultural elements of showing respect, recognition, understanding, assimilation and amalgamation, while maintaining the substance of the Western culture of efficiency, freedom, democracy, equality and humanity, according to China Daily (2004)

### **Menu Customization across geographies**

#### **Germany**

It's bottoms up in Germany, where McDonald's serves - Beer!

#### **Canada**

In parts of Canada, one can have a lobster dinner with the McLobster lobster roll. Pardon this - "McHomard" (in French).

#### **Japan**

Japan totally reinvented McDonald's with its Ebi Filet-O (shrimp burgers), Koroke Burger (mashed potato, cabbage and katsu sauce, all in a sandwich), Ebi-Chiki (shrimp nuggets) and Green Tea-flavored milkshake!

#### **Norway**

In fish-loving Norway, they have the McLaks, a sandwich made of grilled salmon and dill sauce.

#### **Chile**

In Chile, one can dress their burgers with - not ketchup - avocado paste!

### **Costa rica**

In Costa Rica, unsurprisingly, one can order Gallo Pinto, meaning rice and beans.

### **Greece**

It's not Greek without pita, so when in Greece, one has a Greek Mac, a burger made of patties wrapped in pita.

### **Hong kong**

Rice-loving Hong Kong, has - of course - Rice Burgers, where the burgers are in between, not burger buns, but two patties of glutinous rice.

### **Israel**

Despite Jewish religious dietary laws, most McDonald's are not Kosher (there are a few exceptions), and they serve "McPitzutz" ice creams and cheeseburgers, and Israel is one of the only countries that cooks the meat over charcoal versus frying. They also have the McKebab, two patties with Middle Eastern seasonings, stuffed into a pita bread.

### **Uruguay**

In Uruguay, they have the McHuevo, which is like a regular hamburger, but is topped with a poached egg.

### **Thailand**

Thailand has the double Mcfish and Double Big Mac with 4 meat patties and 4 buns.

## **Custom-Standardization in tandem**

To understand how custom-standardization plays out, consider how a Happy Meal is manufactured and marketed (Ledyard, Mike et al. 2010) across geographical regions.

### **Standardizing the Happy Meal**

A Happy Meal is based on the set meal concept delivering five components (a box containing the main entrée, a side, a drink, and a toy). The meal is marketed to kids using the corporate branding messages and continually updated promotions. No matter where you go in the world, you can order a Happy Meal at a McDonald's restaurant. Different regions have different selections, but this meal always includes a main entrée, a side, and drink, all delivered in a box, and, of course, the all-important toy is a part of the deal. Your meal is served hot, fresh, and better yet, you can customize it according to your preferences. Quality and corporate image is maintained from region to region, and location to location. In other words, you know what you're getting even before you place your order.

### **Customizing the Happy Meal**

But when you order a McDonald's Happy Meal in another (or a particular) country, you will find that it has been changed to meet regional food choices, preparation, packaging, and labeling needs. The packaging will also reflect a local theme and language.

## **Conclusion**

Custom-Standardization forms the basis for the business model that has scripted McDonald's success story. This basis focuses as much on standardization as on customization. The standardized systems format is what's allowed McDonald's to duplicate that system all over the world. The immense speed with which this duplication has happened is testimony to its global scaling ability. Such a global scale has in turn brought immense efficiencies that have translated into lowered cost, thus competitive prices, and also fostered global consumer trust.

The McDonald's story doesn't end with its standardized systems. A careful analysis of consumer tastes across the world has allowed the fast food giant to customize both menu and operations (to a certain extent) to cater perfectly to the culture within which it operates. Understanding palate sensibilities dictated by varied cultures is of utmost importance at McDonald's. It goes to the heart of its customization capabilities.

McDonald's is the perfect benchmark to any prepared food retail operation that wants to grow to a global scale. The basis for such global growth will have to be the food firm's ability in 'custom-standardization'. This lesson holds especially true for food firms in India. Most, if not all have never been able to go beyond a few outlets. At most maybe across a few cities in India, and no more. The reason's simple. Their operations aren't standardized in a way they can be duplicated. The human intervention element as seen by reliance on speciality chefs is another reason why they can't ever duplicate their food production process. What compounds the problem is a cuisine dependence that can't ever have global acceptance, because it can't draw on customizations the way McDonald's has.

In short, what ails food firms that can't grow beyond a minimal scale is their lack of custom-standardization that would otherwise have to be built as part of their operational system, should they want to scale up. The quicker these firms design such a system, the better is their chance at global scaling and global success.

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