Supply Chain Management in practice

- A Case study of McDonald's Sweden

Mårten Fristedt
Andreas Hansson
Maria Huge-Brodin
Jakob Rehme
Erik Sandberg

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Department of Management and Engineering
Logistics Management
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ABSTRACT

Although much discussed in theory, supply chain management (SCM) is often problematic to carry out in practice. One exception is McDonald's Sweden, which since its establishment has worked with suppliers and restaurants (franchisees) in a way that reminds of what SCM literature recommends. The purpose of this report is to describe and analyse the supply chain of McDonald's Sweden from suppliers to franchisees.

Based on interviews with McDonald's Sweden, suppliers and franchisees, McDonald's supply chain is described and analysed according to SCM literature. Cooper and Ellram's (1993) framework of SCM characteristics is used complemented with several other writers.

The study describes a supply chain where its members to a large extent collaborate as described in SCM literature. The report identifies and describes how significant SCM characteristics, such as information sharing, joint planning, and the sharing of risks and rewards are managed in the case. Finally, the report identifies market saturation and the search for economies of scale outside the primary supply chain as a challenge for future SCM practices. The case constitutes an interesting showcase where the ways in which the studied features are managed can inspire others businesses in succeeding in SCM.

SAMMANFATTNING

Trots att supply chain management (SCM) är väl diskuterat i teorin så är det ofta problematiskt att genomföra i praktiken. Ett undantag är McDonalds Sverige, som sedan starten arbetat med leverantörer och restauranger (franchisetagare) på ett sätt som påminner om vad litteratur inom SCM rekommenderar. Syftet med denna rapport är att beskriva och analysera McDonalds Sveriges supply chain från leverantörer till franchisetagare.

Baserat på intervjuer med McDonalds Sverige, leverantörer och franchisetagare är McDonalds försörjningskedja beskriven och analyserad utifrån SCM-litteratur. Cooper och Ellrams (1993) teorier inom SCM och dess olika egenskaper används kompletterat med flera andra författare.

Studien beskriver en försörjningskedja där medlemmarna i stor utsträckning samarbetar enligt SCM-litteraturen. I rapporten identifieras och beskrivs hur viktiga egenskaper inom SCM, såsom utbyte av information, gemensam planering och riskdelning hanteras. Slutligen identifierar rapporten marknadsmättnad och sökandet efter stordriftsfördelar utanför den primära försörjningskedjan som en utmaning för framtida SCM-praxis. Studien hur SCM fungerar i praktiken och kan inspirera andra företag i att lyckas inom området.

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1 INTRODUCTION

The concept of supply chain management (SCM) has since it was established almost three decades ago (c.f. Houlihan, 1985; Jones and Riley, 1985) been considered as an enabler for decreasing costs and improving service levels in the supply chain. During the years it has as a concept succeeded to stay relevant and has become a well-known business phenomenon in practice and a much-discussed topic in academic literature. Typically defined as "the systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole" (Mentzer et al., 2001, p. 18), the SCM concept suggests long-term collaboration and the breakdown of functional barriers in the supply chain.

Despite potential advantages SCM has shown to be difficult to implement and it could be argued that SCM is still a rare occurrence in today's business environment (Fawcett and Magnan, 2002; Marien, 2000; Sandberg, 2007a). There are several explanations for the poor adoption. Technically oriented barriers have been discussed (Jharkharia and Shankar, 2005; Marien, 2000) as well as cultural ones such as lack of trust (Khalfan et al., 2007). Despite an ongoing discussion in research as well as management journals for more than two decades, SCM remains to be an unclear expression. The large amount of research in the SCM area, and the fact that SCM spans over several disciplines (Tan, 2001), has led to a wide range of definitions, expressions and concepts (Larson and Halldorsson, 2004; Mentzer et al., 2001). The discussions and conclusions about SCM are seldom based upon rigorous theory (Bechtel and Jayaram, 1997) or empirical material (Lee and Whang, 2000; Stank et al., 2001) and SCM literature therefore often becomes superficial and comprehensive. In addition, empirical studies indicate that many of the expected positive effects of SCM have not been realised (Fawcett and Magnan, 2002; Moberg et al., 2003; Skjoett-Larsen, 1999; Skjoett-Larsen et al., 2003; Småros, 2003; Spekman et al., 1998; Stank et al., 1999). Hence there seems to be a gap between the ideal SCM theory and the performance in existing supply chains, i.e. SCM practice.

To gain further understanding into how SCM can be carried out in practice, it is important to find informative, advanced supply chains that have managed to implement SCM practices. This research therefore studies McDonald's Sweden, which since its establishment has worked with their supply chain in a way that reminds of what SCM literature recommends. Based on SCM literature, ***the purpose of this report is to describe and analyse the supply chain of McDonald's Sweden from suppliers to franchisees.*** To fully understand the principles of SCM and how it affects the supply chain of McDonald's, the purpose is divided into the following two research questions:

1. *To what extent does McDonald's apply the principles that theoretically define the SCM concept?*

SCM is often described as complex and multifaceted were the different elements and principles need to be coordinated in order to gain positive effect. Nonetheless many studies present one or a few of these elements and there is a need to study how the elements are connected. This is raised in the second research question:

2. *How are the different principles of SCM connected in the McDonald's-case?*

The framework is based on the elements of SCM according to Cooper and Ellram (1993), an often cited basic reference, and it is therefore interesting to analyse if all the elements still are valid in the context of McDonald's or if there needs to be additional elements or if some of the elements are redundant. Research question one is therefore interesting to show if McDonald's are using all the elements in SCM. SCM has been under development under a few decades and the theory contains different elements and it's therefore interesting to analyse if there could be a connection between the elements, which is investigated with research question two.

The main reason why McDonald's case is analysed with the theory of SCM is that McDonald's has indicated that they use SCM in practice in their supply chain, which is quite rare when analysing supply chains. McDonald's also seems to have realised the fundamental standpoints that characterises SCM, i.e. a small supplier base, a designated channel leader and open information sharing.

The SCM practices in McDonald's supply chain are framed in their business model, which is labelled "the three-legged stool". The model consists of the three legs (1) McDonald's Sweden, i.e. the franchiser, (2) the suppliers, and (3) the franchisees, i.e. the restaurants. The premise in this model is that the relations between these three elements must work together in order to achieve a successful business model in the long run. Similar to SCM in theory, the business model requires that participants all have a strong systems approach and strive towards joint goals. Other typical SCM features, such as trust, win-win thinking, open book accounting, and a continuous dialogue about improvement of the supply chain design are also present in McDonald's business model.

After a discussion on methodology, a model of analysis based on SCM literature is developed. This model, based on a number of important characteristics for SCM, is thereafter used to describe and analyse McDonald's supply chain. Finally, discussion follows and conclusions from the study are drawn.

2 FRAME OF REFERENCE

Over the years SCM has become a very popular research area in many different disciplines. In their literature review Croom et al. (2000) presents eleven different bodies of literature, all dealing with SCM:

- Purchasing and supply literature
- Logistics and transportation literature
- Marketing literature
- Organisational behaviour, industrial organisation, transaction cost economics and contract view literature
- Contingency theory
- Institutional sociology
- System engineering literature
- Network literature
- Best practices literature
- Strategic management literature
- Economic development literature

This report will focus on what is written in purchasing, supply, logistics and transportation literature.

2.1 Defining Supply Chain Management

An important question when defining SCM is how many companies that should be involved and to what extent they should be involved. Two main views regarding this exist in the literature. The first considers all companies from point of origin to point of consumption to be involved, while the other requires that at least three companies should be involved. But the opinion about the number of involved organisations in SCM has changed. In earlier articles, which represent the first view, the authors seem to agree that SCM covers all companies involved "from the supplier to end customer" (Houlihan, 1985, p. 26; Jones and Riley, 1985, p. 17) or that SCM involves "the entire channel and not just a few channel pairs" (Cooper and Ellram, 1993, p. 13)

In recent years however, the organisational scope of the supply chain seems to have been narrowed. The reason for this is perhaps the increased efforts in the literature and by companies to realise and implement SCM, and that a company perspective therefore is often taken instead of a supply chain perspective. Some of the older articles have very high demands on what can be called SCM and therefore it is, according to Sandberg (2007b), almost impossible to see such SCM in reality. Cooper et al. (1997a) argue instead that the supply chain can be defined as "three or more organisationally distinct handlers of products" (Cooper et al., 1997a, p. 67). They argue that the focus on the total supply chain system was

"a lofty and difficult goal to achieve. Few organisations, if any, even have a good understanding of how various functions, teams, and other units within their own organisation interact." (Cooper et al., 1997a, p. 68).

Another view is that all companies are always involved in a supply chain. For instance, Mentzer et al. (2001) do not demand more than the existence of a set of companies structured so that one organisation (or individual) supplies another and that this organisation in turn supplies another organisation, to call it a supply chain. Thus, no distinction between commodity chain and supply chain is made. The reason for this approach is the opportunity to more easily be able to distinguish between a "supply chain" and "supply chain management". They argue that: "…we draw a definite distinction between supply chains as a phenomena that exists in business and the management of those supply chains. The former is simply something that exists (often also referred to as distribution channels), while the latter requires overt management efforts by the organisations within the supply chain." (Mentzer et al., 2001, p. 4).

Lambert and Cooper (2000) also discuss the fact that all firms participate in supply chains all the time, reaching from raw material to the ultimate consumer. However, which parts or links of the supply chain that should be managed – and how – is, according to the authors, another matter of concern that can be labelled SCM.

The increased efforts in recent years to realise SCM and make it less difficult to achieve, has also meant a discussion in literature on that all relations should not be embraced by the SCM philosophy and characterised with a collaborative atmosphere (Cooper et al., 1997a). Barratt (2004) is for example questioning collaborative relationships with all other members in a supply chain:

"What is not clear in the literature is whether we can collaborate with everybody. The answer is probably "no", but it is not as disappointing as it may sound. Organisations need to realise that the resource intense nature of collaboration means that they need to focus their attention on a small number of close relationships rather than trying to collaborate with everyone. But why would organisations want to collaborate with everyone; some relationships may well be "optimal" in the sense that they are most suited to an arm's-length, purely cost based type of relationship, i.e. collaboration would not create any further added value or benefit" (Barratt, 2004, p. 33)

To conclude, the interorganisational scope of SCM nowadays seems to be considered as at least three organisationally independent actors; in its simplest form this could be a supplier, a third party logistics provider, and the supplier's customer. This report uses the definition of SCM provided by Mentzer et al. (2001):

Supply Chain Management is: "*the systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole*" (Mentzer et al., 2001, p. 18)

2.2 Supply chain orientation

As stated and shown in the sections above, SCM can mean a broad range of activities for companies in a supply chain. However, apart from suggesting what the actors actually should do, most authors also comment on (even if they seldom discuss it extensively) and stress the importance of undertaking the actions with the "right" intentions, referring to trust, win-win thinking and common goals. In their literature review Mentzer et al. (2001) call these intentions supply chain orientation (SCO). The authors regard SCO as a first step (and a prerequisite) towards SCM and summarise it into three main characteristics of the supply chain members;

- The supply chain members should have a *systems approach* and regard the supply chain as a whole.
- A *strategic orientation* where cooperative efforts by the supply chain members should synchronise and converge operational as well as strategic capabilities into a unified whole.
- A *focus on customer value* in order to create customer satisfaction.

Mentzer et al. (2001) defines Supply Chain orientation as: "*Supply Chain Orientation is defined as the recognition by an organization of the systemic, strategic implications of the tactical activities involved in managing the various flows in a supply chain.*"

2.3 Elements of Supply Chain Management

Despite the many aspects of SCM, still, many contemporary authors tend to lean on some of the original publications, of which Cooper and Ellram (1993) is one of the most widely used, despite that others preceded them (c.f. Houlihan, 1985; Jones and Riley, 1985). Cooper and Ellram (1993) have also an appealing way of present SCM in terms of specific aspects of SCM. Therefore, we present the supply chain characteristics (Table 1) introduced by Cooper and Ellram (1993) and complement them with sources from the vast stream of SCM literature, mainly to cover slightly different approaches, and cover the past two decades of literature. The characteristics will later be used when describing and analysing the empirical data.

Table 1: Aspects that distinguish commodity chain form a supply chain (Source Cooper and Ellram, 1993, p. 16)

Element	Traditional	Supply Chain
Inventory Management Approach	Independent efforts	Joint reduction in channel inventories
Total Cost Approach	Minimize firm costs	Channel-wide cost efficiencies
Time Horizon	Short term	Long term
Amount of information sharing and monitoring	Limited to needs of the current transaction	As required for planning and monitoring processes
Amount of Coordination of Multiple Levels in the Channel	Single contact for the transaction between channel pairs	Multiple contacts between levels in firms and levels of channel
Joint Planning	Transaction-based	On-going
Compatibility of Corporate Philosophies	Not relevant	Compatible at least for key relationships
Breadth of Supplier Base	Large to increase competition and spread risk	Small to increase coordination
Channel Leadership	Not needed	Needed for coordination focus
Amount of Sharing of Risks and Rewards	Each of its own	Risks and rewards shared over the long term
Speed of Operations, information and inventory flows	"Warehouse" orientation (storage, safety stock) interrupted by barriers to flows; localized to channel pairs	"DC" orientation (inventory velocity) Interconnecting flows; JIT, Quick Response across the channel

2.3.1 Inventory management approach

As SCM originates from logistics and materials management (Houlihan, 1985; Cooper and Ellram, 1993) inventory management is still an important task for SCM (Childerhouse and

Towill, 2003). Inventory management includes a long row of logistics related tasks, such as a continuous search for elimination of redundant inventory through channel-wide management (Cooper and Ellram, 1993). Overall, it refers to how chain members design and implement adaptive and cost efficient supply chain processes (Lambert and Cooper, 2000). The processes need to be flexible in order to handle the customer needs. If the supply chain is successful in this area, there are possibilities of making the supply chain much more cost-effective with sustained service to end customer.

2.3.2 Total cost approach

With a channel-wide perspective, a total cost approach identifies and evaluates cost advantages to be enhanced in the entire supply chain. An important prerequisite for a total cost approach is proper coordination. A supply chain that is less coordinated leaves each company for itself to analyse and take care of their own expenses. A more coordinated supply chain often enjoys lower costs than its competitors, which can be used for development or to lower the price to the customer. (Cooper and Ellram, 1993)

2.3.3 Time horizon

An important prerequisite for SCM is long term planning with a long time horizon. Otherwise expensive investments in e.g. information systems will never be realised due to their extensive pay back times. Also relationships, which can be considered an investment, are in SCM to be considered as long term and not part of a temporary solution (Cooper and Ellram, 1993).

Long-term relationships, is a characteristic that has become more and more critical in business practice. The benefits of close relationship in a supply chain are among others willingness to share risks and rewards, which is facilitated by a continuous dialogue about joint supply chain improvements. The identification of key suppliers, that are strategically managed, has a positive effect on the suppliers' overall performance. (Chen and Paulraj, 2004)

2.3.4 Information sharing

In order to distribute information of importance between companies in a supply chain, the information that is shared must have a purpose and has to be relevant (Cooper and Ellram, 1993; Fawcett et al., 2008). Otherwise it's easy to spread too much information in the channel and overload the companies with information (Cooper and Ellram, 1993). Chen and Paulraj (2004) points out that information sharing and effective communication is of importance when trying to establish a successful supplier relationship. Inadequate communication between a buying firm and its supplier restricts the buying firms possibility to achieve better supplier performance and a lot of problems related to the suppliers products are due to inferior communication (Chen and Paulraj, 2004). However, it should be noted that knowledge

sometimes is costly to transfer and receive, which complicate the possibilities in sharing information (Simatupang and Sridharan, 2008).

Information sharing among the supply chain members is an important part of collaboration (Lee and Whang, 2000; Xu and Dong, 2004; Yu et al., 2001) and has a great impact on the performance in the supply chain (Barratt 2004). The general reason for this statement is that information sharing among supply chain members can reduce different kinds of uncertainties that cause higher costs. Yu et al. (2001) explain the logic behind this: "While every single member [of the supply chain] has perfect information about itself, uncertainties arise due to a lack of perfect information about other members. To reduce uncertainties, the supply chain member should obtain more information about other members. If the members are willing to share information, each of them will have more information about others. Therefore, the whole system's [supply chain's] performance will be improved because each member can gain improvement from information sharing." (Yu et al., 2001, p. 115)

The research into information sharing in supply chains is, to a great extent, based on Forrester's research about order information visibility among supply chain members and its effects on inventory levels, namely the dampening of the so-called bullwhip effect. In the literature (Larsson, 2002; Lee, 2000) it is argued that an increased knowledge about inventory levels and expected demand, i.e. forecasts, will make the flow of material through the supply chain smoother and reduce the bullwhip effect.

The development within the IT and technology sector over the last decades has had a great impact on information sharing in supply chains and is seen as an enabler. Apart from the fact that technology for effective information sharing now exists, it also exists at a reasonable price (Lee and Whang, 2000). The importance of information sharing with advanced IT tools can be seen in the concepts presented above. They are all built upon information sharing and contain massive use of IT.

Lee and Whang (2000) list and discuss a number of information types that are common for information sharing in supply chains. These are presented further below.

Inventory levels

Inventory levels are one of the most common pieces of data that is shared between actors in supply chains. This type of data is closely related to the research into the Bullwhip effect discussed above, and therefore a lot of research is being done in order to describe the effects of sharing information about inventory levels. It can be argued that inventory and communication can be substituted for each other and that access to information about inventory levels can lower the total amount of inventory in the supply chain.

Sales data

Another important piece of information that can help dampen the Bullwhip effect is sales data. The reason for this is that the variance of orders is often larger than the variance of sales data, which means that the uncertainty can be reduced if sales data is shared.

Order status for tracking/tracing

Since a typical supply chain involves many different functions and independent actors, it can be difficult to track and trace an order and check its status. Lee and Whang (2000) suggest that in practice these problems can be reduced by linked web sites or access to each other's databases.

Sales forecast

The sharing of sales forecasts and its impact on performance (see e.g. Småros, 2003) has been highlighted in the literature during recent years. The basic underlying assumption is that other actors in the supply chain may have better knowledge to make better, more accurate, forecasts. A common form of forecast sharing is when actors share their forecasts with their suppliers upstream in the supply chain. In such cases, it is expected that the actor situated closest to the end customer will have better knowledge and therefore make a better judgement of future demand.

The other opposite situation is, however, also interesting sometimes. Lee and Whang (2000) take Warner-Lambert, a pharmaceutical manufacturer, as an example. This company is considered to have better knowledge about end customer demand than the retailers because of their in depth knowledge about how weather conditions influence the sales of their pharmaceutical products. Thus, Warner-Lambert is able to make accurate forecasts based on weather reports.

Production/delivery schedule

Another type of information that can have great impact on supply chain performance concerns production and delivery schedules. When a supplier shares this type of information, the customer's manufacturing processes can be improved because of better planning possibilities. The same reasoning also applies for information sharing about different types of capacities, e.g. production capacities.

Performance metrics

Performance metrics can be shared and used in order to identify bottlenecks in the supply chain and thereby function as a first step towards identifying different possibilities to improve the performance in the supply chain. This reasoning could also be compared with the discussion about the need for process related measurements in the section above.

2.3.5 Amount of coordination

According to Cooper and Ellram (1993) there are three types of coordination: across channel members, across management levels and across functions. Most of all members in the channel expect to be coordinated on the right level, for example day-to-day work will be more focused on adjacent channel members and bigger issues should involve more of the supply chain. Cooper and Ellram (1993) argue that multiple contacts between different levels in the firms in the supply chain must work properly in order to effectively break down functional silos. (Cooper and Ellram, 1993)

In order to coordinate different functions a process approach, which increases the awareness of the different activities, performed by a company and how they are related to each other is to prefer (Melan, 1993). This makes better coordination and integration possible and is therefore in line with the objectives of SCM. Furthermore, since a process approach always pays attention to what comes out to its customer, the service towards the receiver becomes more important and gets more attention in the SCM literature. The service focus is one of the main differences between the process approach and a more functional approach (Cooper et al., 1997b).

2.3.6 Joint planning

To maintain or create a successful supply chain, Cooper and Ellram (1993) mean that companies must work together on a continuous basis and participate in the planning of the supply chain. There also have to be routines regarding the planning and evaluation of the supply chain that stretches over multiple years (Cooper and Ellram, 1993). Other aspects such as reduced cost, improved quality of purchased materials, reduced product lead time and improved access to technology are mentioned when discussing the benefits that e.g. a supplier involvement can achieve (Chen and Paulraj, 2004). With cooperative relationships, i.e. joint planning, the company creates good relations and joint goals with its suppliers and with this kind of relations it is easier to build long-term collaborations (Wong, 2003).

Also in SCO, commitment, i.e. a willingness to cooperate with other supply chain members is of central concern and is also an important factor for a successful collaboration (see e.g. Hoffman and Mehra, 2000). Win-win thinking is important, otherwise the other part will not collaborate of their own free will which is a must for a true SCO.

2.3.7 Corporate philosophies

One of the challenges with SCM is to transform and unite the traditional cultures of the involved firms. Members in the supply chain have to agree on in what direction the supply chain is going and fundamental ideas of the individual companies have to be aligned. Companies with different corporate cultures have often difficulties in coordinating their work

and the companies are also less likely to strive in the same direction. (Cooper and Ellram, 1993)

A corner stone for the alignment of corporate philosophies is to have trust and commitment in the supply chain (Chen and Paulraj, 2004; Fawcett et al., 2008). Trust is described as the willingness to proceed without opportunistic behaviour and this is done through faith, reliance and confidence in the supply chain (Chen and Paulraj, 2004). Commitment implies that the partners must allocate time and energy to sustain the relationship and this makes it possible to attain the goals for the supply chain (Chen and Paulraj, 2004). To get critical decision-makers involved in the supply chain and to create an effective and successful supply chain, different kinds of councils and advisory boards within the supply chain are to prefer. (Fawcett et al., 2008)

All parties involved in SCO must share the same vision and what key processes exists in the supply chain (Spekman et al., 1998). To succeed with this a win-win thinking is a must, it is not possible to say "I win, you figure out how to win" (Ireland and Bruce, 2000). Closely related to the vision and key processes, the understanding of each other's businesses is seen as an important prerequisite for the collaboration to be successful. As an example, Hoffman and Mehra (2000) state that one of the reasons for the moderate success for the ECR concept is the low rate of understanding between the companies.

2.3.8 Supplier Base

A great shift has been seen from the traditional multiple sourcing to a use of more limited numbers of suppliers (Chen and Paulraj, 2004). A consolidation of the supplier base is a way of making it possible to develop a few chosen suppliers and a reduced supplier base is also suggested in the supply chain management approach in order to make firms more integrated with each other and with fewer relationships the coordination also becomes easier to manage (Cooper and Ellram, 1993). The benefits related to a reduction in the supplier base also consist of, e.g.: increased economics of scale, improved performance, improved buyer-supplier product design relationship, better customer service and market penetration, etc. (Chen and Paulraj, 2004).

2.3.9 Channel leadership

When a company is changing into a more collaborative culture with a supply chain approach, Fawcett et al. (2008) state that it is of great importance to manage people in a more distinct way. Otherwise organizations could be vulnerable when working in a more collaborative way with other companies (Fawcett et al., 2008). To make it possible for a supply chain to work properly the chain must have a clear leadership in order to develop and carry out strategies. The channel leader, referred to as "*the champion*", should "*have a profound effect on the character and makeup of the supply chain*", and "*strategic planning during the life of the*

supply chain will be heavily influenced by the channel leader". (Cooper and Ellram, 1993, p. 20)

2.3.10 Sharing of risks and rewards

To maintain a close and long relationship in a supply chain it's required that the members share both risk and rewards (Cooper and Ellram, 1993). According to Simatupang and Sridharan (2008) incentive alignment could be used to motivate chain members by sharing costs, risks and benefits among the members. If the chain members are aware that they can gain in their own interests even if they are doing actions for the best of the chain there are incentives that creates a competitive supply chain (Simatupang and Sridharan, 2008).

When SCO is discussed, Mentzer et al. (2001) means that in order to get an actor committed, a mutual dependence is needed since this will foster and develop a "supply chain solidarity". It is this interdependence that motivates the willingness to share things such as resources and information with other supply chain members. (Mentzer et al., 2001)

2.3.11 Speed of operations

More advanced information systems can contribute to a higher speed of operation, e.g. reduced cycle times. Traditionally these information systems, e.g. EDI or barcoding, often are used at each company but the supply chain management approach is to use it over the entire chain and not only in some channels. Another example is to have a distribution center that supplies the whole supply chain instead of having a warehouse for each supplier. (Cooper and Ellram, 1993)

3 METHODOLOGY

HAVI logistics (HAVI) together with McDonald's Sweden contacted Linköping University to question whether their way of managing a supply chain is consistent with the theory of supply chain management. A single case study was therefore performed with McDonald's, the leading fast-food restaurant chain in Sweden. According to Ellram (1996) case studies are suitable for detailed studies of real-life settings with clear boundaries such as organisations. A single case study is appropriate, when the case in itself is extreme or unique or to test a well-formulated theory (Eisenhardt, 1989; Ellram, 1996). A single case study could also determine whether the propositions of a theory are correct or if an alternative explanation maybe could be more relevant (Yin, 2008). In this research we rely on the former argument. SCM is a well-developed area and concepts are becoming established. The case per se contradicts many of the existing empirical descriptions by scope and by degree of implementation.

A total of six semi-structured interviews (see interview guide in Appendix) were conducted with the purchasing manager at McDonald's Sweden, Managing Director (MD) at FSB Sweden, MD at HAVI Logistics Sweden, MD at Salico, Environment manager at McDonald's Sweden and a franchisee in Östergötland, Sweden. The reason why the semi-structured interviews were chosen was to increase the coherence between the interviews (Eisenhardt, 1989). All the interviews were recorded and transcribed and at least three out of five researches attended the interview sessions conducted. The interviewed suppliers were chosen in collaboration with McDonald's in order to ensure that the entire supply chain was included. The respondents were also chosen because of their different knowledge and deep insights about the supply chain of McDonald's. To fully grasp the information gathered at the interviews, citations have been used when describing and analysing how SCM and its elements is perceived according to the different respondents. The starting-point when choosing respondents was that all parts in the three legged stool, i.e. suppliers, franchise (McDonald's), franchisees, of McDonald's had to be included, which they were in the sense of having respondents from all the three legs. However, a bigger variety of respondents would probably made the material more complete. Other materials, except interviews, that were used was a book about McDonald's which gave the researchers a good understanding for why McDonald's and the supply chain has been developed in a specific way.

Finally a workshop was conducted with all the respondents to ensure that all facts where correct to triangulate according to Yin (2008) and to make it possible to deepen the analysis further with new insight from the respondents.

The frame of references used as the basis for analysing the empirical material is based on the characteristics of Cooper and Ellram (1993), this is because their characteristics are well cited and is frequently used to analyse supply chain management. Additional literature has also

been used to complement the characteristics of Cooper and Ellram (1993). The frame of reference was compared with the empirical material in order to first determine if there is a connection between McDonald's way to manage and communicate in the chain according to the theory of SCM, and second, to structure the different aspects, i.e. SCM, related to each other.

4 THE SUPPLY CHAIN OF MCDONALD'S SWEDEN

4.1 McDonald's

McDonald's is a global food service retailer and in the Swedish market and the Swedish market consist of mainly McDonalds and a few other big competitors in the hamburger fast food business. The four corner stones of McDonald's are quality, cleanliness, service and value for the customer. (Love, 1986; McDonald's, 2012)

The franchise business is structured as a rental agreement where the franchisees rent the restaurant building from McDonald's while the interior is owned by the franchisees. McDonald's is working according to a business model, called the three-legged stool. The stool is visualised in Figure 1, where the suppliers represent one leg, one leg is McDonald's and the third is the franchisees. HAVI Logistics manages the flow of supplies in the McDonald's system. According to McDonald's it is very important that these legs work together and there are many ways in which this can be managed in a satisfying way.

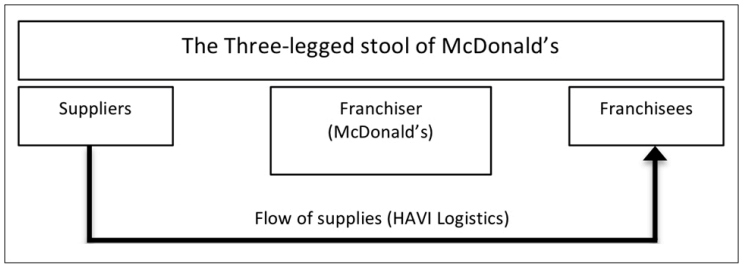

Figure 1: The Three-legged stool of McDonald's (As described in Love (1986))

Since McDonald's is a global company with many players involved it has always been important to have standardised routines and qualities everywhere. When in contact with suppliers and franchisees it is clear that the McDonald's controls are strict in comparison to many companies on the restaurant or retail market. McDonald's is characterized by long-term thinking in many ways, whether it is when managing few suppliers were there are no contracts or if it is regarding the twenty years long contracts with the franchisees. During McDonald's decades in Sweden it has always been important to have dedicated suppliers and in many cases the suppliers have been developed thanks to the volumes of McDonald's. McDonald's sees volumes as important to the business and this has been significant during the last decades of market growth.

Much of the supply chain cooperation is based on the fact that McDonald's prioritizes predictable prices. To ensure this, for them it is important to have close relations with the suppliers and to have knowledge in the commodity industry. After predictable prices they put stabile prices as a more important factor than competitive prices.

4.2 Suppliers

When HAVI logistics (HAVI) started its business with McDonald's Sweden in 1989, they were a "spin off" from McDonald's procurement department. HAVI is a provider for food and non-food logistics in Europe mainly and is established in 32 countries with over 5000 employees. HAVI is the sole logistic supplier to McDonald's, which in turn stand for over 90% of HAVI's turnover in Sweden. HAVI takes full responsibility for all McDonald's logistics, i.e. warehousing and transportation.

Fresh start Bakery (FSB) produces hamburger buns to McDonald's in the Swedish, German, Norwegian and the Danish market and globally FSB is spread around the world in 5 continents and 11 countries. FSB in Sweden produces over 230 million hamburger buns to McDonald's every year, which is approximately 90% of FSB's total production. FSB is the sole bun supplier to McDonald's Sweden.

Salico supplies washed, fresh cut and packaged vegetables to restaurants and retail industry. The company delivers products to customers in the entire Nordic region. Salico started their operations with McDonald's as their only customer in 1987, and Salico is still the only supplier for this category. The volumes to McDonald's built the company and this has been an important factor when other customers have been introduced, today McDonald's only represents 50 % of sold volumes, but they are still considered the most important customer.

4.3 Franchisee

The franchisee operates the McDonald's restaurants and rents the restaurant building from McDonald's over a time period of twenty years. McDonald's wants to have a steady and mutual exchange in their relationship with the franchisee and the long rental agreement is a way of showing the importance of having a long lasting relationship between the franchisee and McDonald's. In Sweden it's quite common that the franchisee operates more than just one restaurant. McDonald's educates the franchisee on how to run the restaurant, which for example includes taking care of the personnel, ordering supplies and to structure the business. McDonald's also provides the franchisees with the possibility to get more education for them self but also for their employees. Today McDonalds restaurants are situated all over the World, about 33 000 restaurants in total, and in Sweden there are about 220 restaurants and the highest density of restaurant exists in the metropolitan areas Stockholm, Gothenburg and Malmö. Franchisee's role in McDonald's supply chain is to provide customers with fast food, e.g. hamburgers mainly, that meets the requirements that McDonald's has decided centrally and these requirements must be consistent for all restaurants, regardless of location.

4.4 The McDonald's Supply Chain

In this section the McDonald's case is further described and analysed according to the framework based on Cooper and Ellram (1993).

4.4.1 Inventory Management

According to Cooper and Ellram (1993) inventory management is mainly about reducing redundant inventory and in the supply chain of McDonald's HAVI has the responsibility for all the logistics carried out, e.g. warehousing and transportation. In the supply chain HAVI has a well-developed system to calculate and predict the quantities in every delivery to the restaurants. In every order the restaurant manager can make changes from the predictions. This is important when a restaurant needs more supplies of goods for special occasion, like a big sport event. While some see this as vital in securing the supplies, the franchisee looks further:

"I welcome a system where HAVI owns and plans the products all the way until I sell them in my restaurant. This way I could focus on my restaurant and my customers." (Franchisee, author's translation)

According to the franchisees a lot of time is spent on managing the inventory of supplies in the restaurants, one of the reasons is that they have inventory checks at the restaurant. In the workshop discussions the possibility of lowering the amount of inventory checks came up. The franchisees want to put their focus only on their restaurant customers instead and letting someone else maintain the inventory levels, e.g. HAVI. HAVI in Sweden has one of the most sophisticated systems in Europe, which basis its analysis on historical data, when calculating how many transport is needed to each restaurant. Despite this, the orders made in Sweden by the franchisees have the highest changing rate. The main reason for the high fluctuating levels on the orders, according to HAVI, is that the franchisee doesn't trust the system and because of this the orders are changed to make sure that the storage supplies is sufficient. According to HAVI it would be better to let the system handle the size of the order in most cases without interference from the franchisees. To make this possible the MD at HAVI states that the franchisees need to trust the system and one way is to provide a proper education of how the system of McDonald's work and because of the high employee turnover at McDonald's the education has to be repeated frequently.

There is a fine line between the advantages of taking a holistic prospective and the advantages of providing and acting upon more detailed accurate information. But it's also clear that opinions differ between the franchisee with their perspective and HAVI with their perspective:

"We sometimes feel like "the system police" when the restaurant owners want more frequent deliveries but we know that the restaurant can function with fewer deliveries. It wouldn´t be

any problem by us, we get paid anyway, but it would be bad for the system." (MD HAVI*, author's translation)*

Recently HAVI tried something called invisible supplies, which means that HAVI transports supplies to the restaurants and place them on their shelves. This enable deliveries when the traffic density is lower, e.g. at nights, instead of fixed times to every restaurant. The expectations of this test were that it would generate lower cost for the system with reduced inventories in the restaurants and of course in making the transport system more flexible. This trial period didn't generate as much savings as expected according to HAVI and because of this, invisible supplies are at this time not in use today. However, the MD at HAVI, sees the potential and wants in the future try invisible supplies once more to evaluate the full potential.

This description indicates that the inventory management in the supply chain of McDonald's provides good ground for reducing redundant inventory and lower the total cost for the chain. An explanation is the total inventory management control by HAVI including a holistic forecast system referring to historical data. In connection a prerequisite is that HAVI has been allowed this responsibility by McDonald's. It has also been shown that the supply chain of McDonald's is under constant development, e.g. invisible supplies.

4.4.2 Total Cost

In the case of McDonald's supply chain, an important task is to lower the total cost for the whole system, including franchisees and suppliers. McDonald's has had suppliers that uniquely supplied McDonald's, but now a discussion has begun with suppliers, for example FSB, in letting them produce products to other companies in order to achieve increased economies of scale. Earlier FSB only produced hamburger bread for McDonald's which meant that McDonald's stood for all the fixed cost, even if the bakery didn´t use the entire capacity. The MD of FSB points out that FSB has had discussions with competitors to McDonald's, almost all the big players in the hamburger business in Sweden. McDonald's has been very frank that they don't want FSB to provide the competitors with products. This makes the situation in finding new customers for the suppliers more complex, because other competitors in the hamburger business would in a strict economic of scale scope be a good match. However, McDonald's is focused on volume and the Swedish market doesn't have others companies in the same size as McDonald's, especially if all competitors in the same business is excluded. FSB has a global goal in getting McDonald's to only be 50 % of FSB turn over. But in Sweden that is not possible, the necessary market volumes do not exist. The MD of FSB explains:

"I'm happy if McDonald's only stood for 70 % of our turn over. Then it would be possible for us to invest in a new bakery in Stockholm with the same speed as the one in Malmö. With a

new bakery in Stockholm we could bake bread to a lower cost" (MD FSB, author's translation)

HAVI is in the same situation. They need to get new customers to make them more independent from McDonald's but also in lowering the fixed costs. The MD of HAVI states that it's sometimes problematic to only have one big customer:

"You easily become blind when you only have one big customer. The ambition of HAVI *is to develop the business with McDonald's with the purpose of letting new influences and competition into the company (HAVI) but also relieving McDonald's from some of the fixed costs." (MD* HAVI*, author's translation)*

The MD of Salico, praises McDonald's quality standard however McDonald's have reached a very high level of quality and this makes it almost impossible for Salico to sell their products to normal restaurants, because the restaurants think the salad is too expensive. Another important aspect is that the franchisees must understand that it's not positive for the system if the franchisees buy products from other suppliers than HAVI. This isn't always easy to fully understand for the franchisees, because for example if the milk runs out in a restaurant it could be tempting to buy the milk from the local food store instead of HAVI. Because the milk would probably be cheaper at the local food store but for the whole system of McDonald's the total cost would be much higher. It is important to understand the needs of the franchisees in McDonald's system and to get volumes and scale benefits every franchisee has to use HAVI as their provider of products. However, the MD of Salico points out that they have to provide and make sure that the franchisees get what the need no matter what.

In the discussion at the workshop it emerged that it was important to illustrate and explain how McDonald's system works in terms of total cost. To get a cost efficient supply chain, it can sometimes require changes that will mean that some costs increases, but that the overall costs are lower. This is seen as difficult to grasp as franchisee, often because McDonald's headquarter has not communicated how everything is connected to the system regarding the total costs and how the franchisee benefit from the change. When discussing this matter with a franchisee it's hard for them to understand who benefits from the savings of for example less frequent transport. A franchisee in Sweden, invested in a freezer a couple of years ago, and the franchisee wonders where the money from saved transports did go?

"Earlier I had three deliveries per week, but when I built a new freezer, it was possible to only get deliveries twice a week. Where did the resource disappear? Did I benefit from this investment? Did McDonald's headquarter or HAVI benefit from this?" (Franchisee in Sweden, author's translation)

An important factor according to the purchasing manager of McDonald's is the loyalty for the system regarding sharing the total cost in the chain, which is a great strength for the supply

chain. But sometimes it could also be a weakness when a higher cost, e.g. more frequent transports, is driven by a party and everyone in the chain has to pay for this. Without the proper information why the cost is higher the loyalty of the system could in the long run be damaged.

McDonald's is searching for total cost advantages in the chain, which is according to the theory of SCM claims to be good SCM. However, McDonald's has gone a step further and tries to reduce total costs by taking advantage of other supply chains, accessed via the suppliers. This suggests an understanding of the importance of taking a total cost approach not only in the existing supply chain but also to evaluate the potential of other supply chains that are connected. In this case HAVI facilitates the total supply chain management, which is related to the close relation to McDonald's.

4.4.3 Time Horizon

Many of McDonalds´s suppliers have been there from the beginning or at least for decades. It has also been important from McDonald's side to make the suppliers realize the possibilities of long-term relationships. The purchasing manager at McDonald's has his clear view of McDonalds´ business:

"No one gets rich in the short term by working with McDonald's. Not our franchisees, nor our suppliers and definitely not McDonald's Sweden. This is no bargaining industry and volume is the linchpin." (Purchasing manager at McDonald's, author's translation)

Although there are no contracts in McDonald's and HAVI´s business, they work very closely together and there is a general belief that McDonald's future is HAVI´s future. This is a quite unique situation because most suppliers demand a contract. For many years McDonald's was FSB's only customer. The MD of FSB sees no problem in the fact that there are no contracts, he sees no end in the cooperation between FSB and McDonald's. The MD of Salico, believes that it is important to have a long-term mindset when you are in business with McDonald's, the volume is most important:

"There are no quick wins." (MD Salico, author's translation)

The reason why there are no contracts are historically based and built on mutual trust and the problem of written contracts is that it often creates a lower confidence between the parties according to the purchasing manager at McDonald's. Another interesting aspect regarding the time horizon in the McDonald's supply chain is that many franchisees are willing to invest in the buildings even though McDonald's Corporation owns them:

"If I pay 60 % of the investment and McDonald's Corporation pays 40 %, I do this because I believe in the investment, in the future and in our brand." (Franchisee, author's translation)

The agreements between McDonald's and the franchisees are much more distinct compared to those with suppliers. For example, the franchisee rents the restaurant building from McDonald's and the rental agreement is often for 20 years. This shows that McDonald's wants the relationship to be long lasting, which is important for both McDonald's and the franchisee when starting up and maintaining the business. An important feature to make the long-term relationship with suppliers work, according to the purchasing manager at McDonald's, is that the suppliers have to agree on the requirements set by McDonald's. The requirements could for example be a certain quality standard.

All the parties in the McDonald's supply chain seem to have realised the importance of long-time relationships, one example is the willingness of franchisees to make the major investment when starting a new restaurant. This is consistent with what Cooper and Ellram (1993) argue for to be of importance. The long-term commitment, which by all evidence is mutual, builds trust between the members of the supply chain.

4.4.4 Information sharing

In the supply chain of McDonald's HAVI has most of the operative contact in the system in the day-to-day work e.g. warehousing and distribution between the franchisees and suppliers. The most important information for franchisees is when the deliveries are going to arrive. In the case of information sharing between McDonald's headquarter and HAVI it's more about strategic questions. The MD of HAVI describes that all information is shared between HAVI and McDonald's:

"HAVI is like a logistic department of McDonald's and all information regarding the business with McDonald's is totally transparent, total fixation of the price up and down. Open books." (MD HAVI*, author's translation)*

The purchasing manager at McDonald's states that it is both good and bad to have open books and sharing all information, for instance it is often hard to draw the line between who is going to act and who is responsible. HAVI is dependent on how much volume McDonald's can sell and this makes it a win-win situation, because if McDonald's sells more HAVI needs to deliver more. Sometimes there is information that is sensitive between the franchisee and McDonald's headquarter, all information can't be shared at once. Every franchisee is an own company and that's why HAVI can't discuss all matters directly with McDonald's headquarters. Suppliers, such as FSB, points out that they have become more formal when discussing business with McDonald's which depends on that the FSB nowadays has other customers. The MD at FSB, clarifies that information regarding other customer is not discussed with McDonald's in detail:

"McDonald's has nothing to do with all our detail contracts with other customers. McDonald's doesn't want this information either. However they (McDonald's) demands that

we are totally honest and frank when we divide the fixed cost depending on the volume, which is good." (MD FSB, author's translation)

Salico also has other customers and McDonald's wants to see how the business goes as total but they don't want to see detailed information about the contracts. This way of sharing information is more or less the same as for FSB. Because of the openness in the supply chain of McDonald's regarding sharing information some times small issues get unreasonably large proportions relative to how important it actually is. One of the reasons, according to McDonald's, is that communication culture in the supply chain is informal, which makes it easy for parties to call for instance the purchasing manager of McDonald's if a problem evolves instead of trying to deal with the problem first. Information sharing, according to Cooper and Ellram (1993), must have a purpose and in the supply chain of McDonald's it occasionally seems to be a problem in sharing too much information and also sharing the correct amount of information with different parties, e.g. McDonald's and HAVI. This could overload the information channels of the supply chain and a clearer approach when communicating in the chain could positively influence the effectiveness. One option would be to establishing a standard, which information to exchange.

4.4.5 Amount of Coordination

The McDonald's supply chain is in constant need of coordination since there are many important components, from suppliers to customers. The fact that HAVI expanded their operations in the chain even led to some problems for suppliers, Salico for example. They had, what they experienced, established relations with the restaurants since they delivered their products on their own. Today HAVI handles most of the coordination in the supply chain regarding supplies and this has meant that the natural direct contact between suppliers and franchisees has declined steadily. To overcome this problem, Salico has employed a key account manager to ensure good relations with the restaurants.

Another example of coordination in the McDonald's supply chain is the European supply council were the biggest suppliers of McDonald's have a forum were they can discuss future sourcing strategies and future product development, mostly regarding food quality. The MD of FSB has experienced fruitful coordinating discussions together with HAVI and McDonald's were future system changes have been well discussed and decided for the benefit of the entire system. Production costs can for example be higher if another cost element is lower. The franchisee, on the other hand, is experiencing an absence of these kinds of forums and there is an urgent need of a development team to discuss new ideas and utilize the potential of the entire supply chain, which could be better coordinated. For example, reclamations that are made today are normally channelled through HAVI but this interface has a bit more to expect. When a problem occurs, the franchisee sometimes doesn't talk to HAVI, at first instead a call is placed to the purchasing manager at McDonald's or the involved

supplier. According to the purchasing manager at McDonald's it would be more effective if the franchisees contacted HAVI at first and if the problem is not solved a discussion could be made with McDonald's headquarters.

In McDonald's supply chain coordination between different companies (across channel members) is carried out frequently on management levels as well as regarding operative flow coordination. Although we can identify substantial coordination between some of the members of the supply chain that are directly connected and there seems to be a potential in increasing the coordination between for instance suppliers and franchisees.

4.4.6 Joint Planning

HAVI is the link between the restaurant and supplier as well as the link between the restaurant and McDonald's headquarters. This means that HAVI has a responsibility regarding the cost for the transports and warehousing and sometimes HAVI is placed in the position that the franchisees want more delivers and it's up to HAVI to determine if the franchisee need supplies more frequent or not. If there is a possibility to lower the cost for the system of McDonald's, a possible solution is presented to McDonald's headquarter and to the concerned franchisees. Then it's up to them to decide what action to take.

Joint planning between HAVI and franchisees is well developed regarding the transportation of supplies to the restaurants. However between HAVI and their suppliers the planning seems to be more based on forecasts and standardized procedures, which could indicate that there is less need for joint planning in this part of the supply chain. According to Cooper and Ellram (1993) this situation would qualify as dyadic joint planning rather than supply chain planning.

4.4.7 Corporate Philosophies

According to Cooper and Ellram (1993) compatible corporate philosophies implies "agreement of basic direction for the channel" (p.17). In the McDonald's case the studied companies have emerged on the joint business why corporate philosophies presumably match between the companies. McDonald's seldom changes their prices radically for the end customers and it is important that all parties understand this in the supply chain, i.e. franchisees and suppliers. This becomes very clear when, for example, commodity prices change, particularly when there is an increase of commodity prices as it may be attractive for franchisees to increase the final price for restaurant customers.

On a European level McDonald's has got a discussion group called European Food Improvement. This improvement group looks on how McDonald's core products could be better without compromising on the quality. The purchasing manager at McDonald's, means that the most important is to have a shared vision with suppliers:

"We (McDonald's) mean that it's not about we and them (suppliers), it's about us together. When the suppliers do something that is good for the system then they are in line with McDonald's." (Purchasing manager at McDonald's, author's translation)

The supply chain of McDonald's has a shared vision with mutual goals, e.g. maintain quality standards for core products. To enable the attainment of objectives in the chain, McDonald's is helping the suppliers by providing support in form of discussions for example on which levels to fix the prices of commodities over a which time period. This demonstrates that McDonald's and suppliers are striving in the same direction, which is what Cooper and Ellram (1993) argue is of importance.

4.4.8 Supplier Base

McDonald's has from the establishment in Sweden only used a few suppliers or where McDonald's even was the only customer, e.g. FSB and HAVI. These suppliers was created and built through the volumes of McDonald's. In the studied supply chain the suppliers constitute the sole suppliers per type of goods and service indicated a narrow supplier base (compare with Cooper and Ellram 1993). This can explain why these suppliers and McDonald's have close ties. McDonald's opinion is that it is very important to invest time and resources in the relations to their suppliers. It is important to make them realize that you help each other out between the McDonald's suppliers.

"Would we be prioritized in the case of production failure or some kind of shortage? Yes, maybe we will not always be the biggest customer but we will always be an important one for our suppliers." (Magnus Leydner, purchasing manager at McDonald's, author's translation)

The MD of HAVI has another way to express it:

"In our culture we do not have customers, we have partners and you do not burn an existing partner." (MD HAVI*, author's translation)*

The MD of Salico believes in a future increased cooperation between the suppliers and the restaurants since he is experiencing a closer cooperation between the restaurants and the headquarters. Connected to this McDonald's has also stated that they want their suppliers to find other customers in order to find economies of scale. Another aspect that has to be considered, according to the purchasing manager at McDonald's, when letting the suppliers of McDonald's have other customers is that new innovations can be evolved from the new customers because of their demands and needs. This can be problematic in the context that McDonald's at the same time want their suppliers to be important partners. Since McDonald's also see their suppliers' top quality as competitive advantages, this could problematize more, especially if the supplier want´s to be big in innovations:

"Say I have a number of customers, McDonald's still the biggest. If I come up with a market changing innovation, would McDonald's want me to sell this to the competitor? Probably not, but they are my customer to, how can I explain that to them?" (MD Salico, author's translation)

None of McDonald's suppliers has any written contracts with McDonald's and it is more of a gentlemen agreement. Meaning that McDonald's and the supplier know what they have to perform to live up to the agreement. HAVI has a vision to be the preferred partner to food companies, especially restaurants and catering businesses. Since 2008 HAVI has a strategy divided in two parts, one part is the McDonald's business and the other part is to find customers that together are equal in size as the business with McDonald's. This wasn't the case a couple of years ago, then HAVI didn't have permission to have other customers. But the business with McDonald's is still the most important business HAVI has got, and the MD at HAVI emphasises that McDonald's is a unique partner:

"It's one thing to have an open business model or open books with McDonald's but we can't have this type of openness against other customers, that would be to administrative heavy for us. Then we would have, in practical terms, two companies." (MD HAVI*, author's translation)*

There has always been few partners, suppliers, in the supply chain of McDonald's. This is one of the fundamental ways of McDonald's to manage their chain and goes hand in hand with the theory of SCM. McDonald's also shows a good understanding for developing their partners. None of the suppliers has any contract with McDonald's, which is rare in the market today. This demonstrates that they find great confidence in each other, which has been enabled by the low number of suppliers.

4.4.9 Channel Leadership

McDonald's is a clear leader in the supply chain and this is the understanding of FSB, Salico and HAVI. The purchasing manager at McDonald's, emphasises that our core products must uphold a standard:

"With our core products we (McDonald's) have a certain standard and this is the way it must be. We understand the challenge but simultaneously it's a possibility for suppliers that have performed under our standard to evolve and improve… But we are still the captain". (Purchasing manager at McDonald's, author's translation)

An example of McDonald's channel leadership role is when McDonald's introduced breakfast in Sweden, it was hard to sell this concept to the franchisees especially when the franchisees needed to do investments in new expensive coffee machines and at that time coffee was a small product. McDonald's showed statistics that the breakfast stood for almost 30 % of the turn over in the United States so the franchisees didn't have any choice. The MD of Salico, explains the importance of McDonald's function in the system as a channel leader:

"Today coffee is served in big volumes at McDonald's. If that day comes, when the franchisees is the only one left in the system there will be problems. The coffee example is a typical example of why McDonald's leadership role is needed. It could be hard for the franchisees to take a step back and realise what is needed" (MD Salico, author's translation)

Another example of the leadership is McDonald's view on quality, which has been a very important part in the evolvement of suppliers belonging to the supply chain according to MD at FSB. McDonald's leads the way for the supply chain but there are a lot of dialog to get to the goal. When the European managers from HAVI meets once every year to have a discussion McDonald's participate the first day in the meeting and lays out their vision. After that HAVI tries to break it down to what they need to do to realise McDonald's vision. The MD of HAVI, also see McDonald's as the leader of the supply chain:

"McDonald's is the captain of the channel, but it is not a military command" (MD HAVI*, author's translation)*

Every party in the supply chain agrees that McDonald's is the leader of the chain, this is according to Cooper and Ellram (1993) important in order to develop and carry out strategies. The leadership also proves to be fruitful for the chain, e.g. introducing coffee in Sweden at McDonald's. Although the captain role is undisputed, the SCM described also illustrates numerous ideas of how team leadership can be realised.

4.4.10 Sharing of risks and rewards

McDonald's have several ways in which they share risk and rewards with their partners, e.g. HAVI has a fixed profit. This means that McDonald's pay HAVI extra expenses in those cases there are. HAVI has a variable connected to the weight of transported products, which lead to the fact that HAVI earns less money when McDonald's earns less money. A risk that must be avoided is absence of raw material. This is McDonald's Sweden and the restaurants very clear about:

"You will never be punished for doing everything in your power to assure supply." (MD HAVI*, author's translation)*

A new incentive for HAVI, called Gain Share, has been introduced which is about making smart and profitable solutions for the system and for this HAVI is rewarded during the first three years. Under the first year HAVI gets 50 % of the savings, 30 % year two and 20 % year three and to be classified as a Gain Share the solution has to be structural and long-term. One example is the switching to more environmental friendly fuel. In this case the Gain Share could help the initiative takers with a kick back, the risk without gain share is otherwise that the initiative takers don´t profit from the idea. The new incentive for HAVI, i.e. Gain Share, is consistent with what theory denounces is beneficial for a supply chain, which shows an example how the supply chain shares both risk and rewards. McDonald's and its suppliers' also appear to have a great trust for each other, which could be considered as a prerequisite

for sharing risk and rewards with supply chain partners. This incentive is a way for HAVI to make a profit for new smart solutions, but there are no incentives for the specific franchisee. This is something that is requested by the franchisees and according to McDonald's this is the next step for the supply chain. However, solutions that are made on corporate level generate savings that are significant for the entire supply chain as a whole, but for the individual franchisee the savings are small. This is a delicate problem that McDonald's still is tampering with today and another problematic area is what should be classified as gain share or as a continuous improvement.

4.4.11 Speed of Operations

The theory regarding speed of operation is mainly about reducing cycle time, which could be conducted in different ways, such as bar coding or even using fewer warehousing facilitates. In McDonald's supply chain HAVI is managing all the warehousing and the transportation, which gives the chain great competitive advantages against main rivals and competitors. The franchisees need to have the possibility of changing the orders, i.e. supplies from HAVI, in the last minute without getting any delays or have to pay more. This is possible in chain of McDonald's because of the logistic system where all parties pay the equal amount of money for every delivery of supplies no matter how far the supplies has to be transported.

5 CONCLUDING DISCUSSION

The purpose of this study has been to describe and analyse the supply chain of McDonald's Sweden from suppliers to franchisees. In order to fully answer the purpose it has been divided into two research questions. Each research question will be answered and discussed separately in the following paragraphs.

5.1 To what extent does McDonald's apply the principles that theoretically define the SCM concept?

Based on Cooper and Ellram's (1993) framework of SCM, McDonald's SCM practices have been elaborated in the previous section. As such, the case constitutes an interesting showcase where SCM principles are part of day-to-day business operations throughout the supply chain. The case demonstrates the relevance of Cooper and Ellram's (1993) framework, although developed almost two decades ago. The analysis shows that the framework, i.e. all elements, to a large extent still is valid and relevant as a tool for describing SCM practices. However, it differs in the extent to which the elements are used and their significance for McDonald's.

It's clear that the supply chain of McDonald's has a distinct channel leadership that upholds the corporate philosophy along the parties in the supply chain. To fit in the supply chain of McDonald's, new and existing parties must have a long time horizon. Otherwise is could be hard to maintain an effective supply chain that shares the total cost in the way like in the supply chain of McDonald's. Total cost is an important element for McDonald's and without the system where all the franchisees share the total cost, e.g. transports to the restaurant, McDonald's would be having problems in having the same prices on every restaurant in Sweden. The total cost approach also goes hand in hand with the corporate philosophy of McDonald's, which is about providing high quality fast food meals with stable prices that doesn't vary depending on where the restaurant is situated.

The coordination and joint planning between parties in the supply chain are well developed but it could perhaps be of interest to further analyse how deep the joint planning has to be between different parties, i.e. HAVI and suppliers. The supply chain of McDonald's has come a long way in developing their inventory management and reducing redundant inventories and speed of operations. This is due in large part because HAVI is managing all the logistics in the supply chain, without the amount of coordination that is available in the supply chain the total cost would probably be higher. However, which have been discussed, it could be of interest to evaluate if HAVI could take more responsibility when providing the restaurant with supplies. For instance it could be more effective in letting HAVI use their forecasting system when providing the franchisees with supplies instead of letting the franchisees change

their orders. This is a trust issue between HAVI and the franchisee, and the next step could be to further educate the franchisee regarding how the forecast system works.

The information shared in the supply chain is in most cases transparent especially between HAVI and McDonald's and this is of great importance for McDonald's. According to Cooper and Ellram (1993) the information shared in the supply chain must have a purpose, otherwise parties in the supply chain could be overloaded with irrelevant information. This is a problem in the supply chain of McDonald's, and maybe a more distinct channel leadership would be the solution. From the beginning the supplier base of McDonald's has been narrow, which allows the supply chain to share information between every party more easily, and a small supplier base also makes is possibly in maintaining a long time horizon.

The elements of Cooper and Ellram (1993) do not include the service aspect, e.g. customer value, implicit, although it could be argued that the service aspect is implicit included in most of the elements. However, according to Mentzer et al. (2001) the aspect of customer value is one of the objectives of SCM. It has also been shown in this study that the service aspect has a significant impact on McDonald's and one of the backbones of McDonald's is that there should not be any shortage of raw materials in a restaurant and the food must maintain a high and consistent quality. This study provides insights that the elements of SCM, according to Cooper and Ellram (1993), ought to be expanded and include the service element. It is no surprise that the service aspect should be included in what is called SCM, it follows the development of logistics concerning what has been the focus of improvements in different time periods. When the framework of Cooper and Ellram (1993) was introduced the main focus area was total cost and over the recent years, total cost still is of great importance but the service aspect has also been shown to have an impact on the supply chain.

Another aspect that has been shown to be relevant for McDonald's supply chain is the element of trust between all the parties, e.g. suppliers, McDonald's and franchisee. This element is not explicitly discussed by Cooper and Ellram (1993) although trust towards partner is perhaps one of the most commonly mentioned prerequisites and cornerstones of the SCM philosophy. Trust will contribute to stability and long term relationships between the parties (Barratt, 2004; Waller et al., 1999). The importance of trust between the participating actors has also been shown empirically in a Danish study where trust is considered as the most important prerequisite for successful collaboration (Skjoett-Larsen et al., 2003). However, one could argue for that trust is included in the element called sharing of risk and rewards. The long-term relationship that is common for the supply chain of McDonald's and having a mutual trust of each party in the supply chain is a fundamental stage in order to have long relationships that are fruitful for all parties and also benefits the entire supply chain.

McDonald's shows that they have a good understanding in how to control and improve there supply chain. McDonald's supply chain also meets all the basic elements that Cooper and

Ellram (1993) describes as important in a supply chain according to SCM. In summary McDonald's could claim they are good at SCM overall, but they have some areas of improvement e.g. trust, service and information sharing.

5.2 How are the different principles of SCM connected in the McDonald's-case?

In the article by Cooper and Ellram (1993) it is stated, *"It is not known whether all the characteristics…are necessary for a supply chain management approach to exist or whether some supersede others."* (Cooper and Ellram, 1993, p, 22). The analysis in this study supports the necessity of having all SCM characteristics in place, i.e. the study indicates the importance of working not only with one or a few characteristics of SCM but with all. The reason for this is that the different characteristics in our case positively influence each other. To reap out the full potential of positive benefits of the multi-faceted SCM philosophy there seems to exist positive correlations between the different characteristics.

Based on the analysis in this study it is however difficult to judge whether some characteristics supersede the others. For instance, *on the one hand*, our case indicates that channel leadership, supplier base (few numbers of partners) and corporate philosophies (common goals) are important prerequisites when forming an effective supply chain. Speed of operations, sharing of risk and rewards, joint planning, amount of coordination, information sharing, time horizon and inventory management could in turn be considered the enablers to maintain a well working SCM, where the achievement of total cost advantages is an important goal. According to the discussion above, the service element also seems to be an important goal. However, *on the other hand*, one could argue that information sharing, joint planning and the sharing of risks and rewards are important drivers for e.g. improved alignment of corporate philosophies.

Leadership is important for the chain to function effectively, but strong leadership with a broader perspective is particularly interesting from a development perspective. There also seams to be a connection between McDonald's leadership (Channel Captain) and how the chain of communication is coordinated. McDonald's supply chain shows that it is controlled in a manner that is consistent according to the theory of SCM. There is a clear leader in the chain, McDonald's, and the parties in the supply chain are sharing information in a transparent manner. This enables the supply chain to be constantly updated about changes that are occurring and if problems arise, it is easier to solve them. However, there should be clearer directive regarding what information and to whom the information will be disseminated to avoid supply chain partners to be overloaded with none-vital information. The leadership of McDonald's also enables the coordination of the supply chain to work fully but the day-to-day work is coordinated by HAVI, which sometimes makes it hard for the franchisees to

understand who's in charge. Thus, there seems to be potential for the supply chain of improving and rearranging the structure of the leadership in the chain.

In summary, there is a connection between the various elements of the framework of Cooper and Ellram (1993), but this study can not evaluate whether there are redundant elements or whether some elements are prerequisites for the supply chain in making the supply chain function more effectively. However, it has emerged in this study that trust and service seems to be the backbone that enables McDonald's supply chain to be developed. In addition, it also appears that a major challenge ahead is to convey information in the supply chain to all parties in a structured way without the vital information is lost along the way.

6 FURTHER RESEARCH

Our research presented in this paper has been limited to an analysis of the present state of McDonalds. Although there is a need for more longitudinal data, an important complementary study of that at hand would be to further penetrate how environmental factors such as market saturation impact SCM practices over time. Although not focused during the interviews to this research, a returning topic has been McDonald's Sweden's journey from market introduction, rapid growth, to a present situation with a high degree of market maturity. Together with some key suppliers McDonald's has grown rapidly for a long period of time, and investments have been decided upon on a continuous basis with short pay-off times.

The fact that McDonald's nowadays operates in a mature and saturated market means that investments have got longer pay-off times and are associated with higher risks. The question is therefore whether investments in the supply chain will decrease, and eventually lead to a stagnating supply chain.

Market saturation also means that new ways are searched for to continue growth and, in the extension, ensure more economies of scale. For McDonald's, one important ingredient for this has in recent years been to encourage suppliers to increase their customer base, i.e. encourage them to have other customers than McDonald's. With other customers beside McDonald's, but still McDonald's as their main customer, the intention is to gain further economies of scale and scope and thus share e.g. investments with other customers.

There is a risk however, that new customers, although they are not competitors to McDonald's, will challenge the SCM practices described in this research. To increase the suppliers' customer base, without loosing power and influence over the suppliers, may be a problematic act of balance. In terms of Cooper and Ellram's (1993) SCM characteristics, it is therefore important to understand the way in which companies manages issues such as joint planning, corporate philosophies, as well as information sharing when third parties join the supply chain network with their own agenda, with specific demands on e.g. services, investments and quality.

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8 APPENDIX - INTERVJUGUIDE

8.1 Leverantörer

1. Hur ser McDonald's på antalet leverantörer? (Är leverantörsutbudet brett för att öka konkurrensen eller smalt för enkelt kunna koordinera?)
2. Vilken roll har leverantörerna i systemet?
    a. Gentemot McDonalds och mot Havilog
    b. Vilka effekter kan en förändrad roll få?
    c. Vilken roll vill McD respektive Havilog att leverantören ska ha?
        i. Finns det en skillnad i vad HAVI och McDonalds vill?
3. Agerar leverantörerna proaktivt i värdekedjan?
    d. Förslag på förbättringar
4. Hur har leverantörerna utvecklats tillsammans med McDonald's
5. Hur ser leverantörerna på framtiden?
    e. Utökat samarbete med McDonalds? Risker/vinster med detta?
    f. Hur lång är tidshorisonten med befintliga leverantörer (avtalsmässigt)? (s. 44)

8.2 McDonalds centralt/franchisegivare

6. Hur är McDonald's befintliga affärsmodell uppbyggd?
    a. Vad innebär den?
    b. Hur mycket används affärsmodellen i dagsläget?
    c. Vilken plats har leverantörer och Havilog i affärsmodellen?
7. Hur ser McDonald's försörjningskedja ut?
    a. Det fysiska flödet och ansvars-/rollfördelning
    b. Antal leverantörer, geografisk placering, etc.

En del frågor rörande skillnader mellan "traditionella kedjor" och "supply chains" enligt Cooper and Ellram 1993:

8. Hur ser McDonalds tillsammans med leverantörer och franchisetagare på lagernivåer, regleras det enskilt eller tas hela systemet hänsyn?
9. Finns det likheter mellan McDonald's och Havilogs/övriga leverantörers övergripande företagsstrategier, i så fall vilka?

8.3 Marknad och tillväxt

10. Hur har företaget hanterat beslut historiskt i en tillväxtmarknad och vid mer mättad marknad?
    a. Exempelvis genom en förändrad syn på hur och när investeringar kan och får genomföras (Brödlager i Malmö)
11. Vid aktiva åtgärder har märkts av?
    a. Utvidgad kundbas

8.4 Havilog

12. Hur länge har samarbetet mellan McDonald's och Havilog pågått?

13. Hur stor del av Havilogs omsättning står McDonald's för i dagsläget?
14. Hur ser Havilogs affärsmodell ut och vad är företagets övergripande strategi? (s. 44)
    a. Finns det en koppling till McDonalds affärsmodell och strategi?
15. Hur påverkas Havilog av relationen franchisegivare – franchisetagare?
    a. Möjlighet att påverka vid förändringar
    b. Samtal med flera parter?
16. Hur ofta sker leveranser till restaurangerna (veckobasis)?
    a. Vad sker om om brist uppstår (dynamiskt)?
17. Vem pratar HAVI med, endast kontakter via McDonalds eller även utvecklade direktkontakter?

VMI etc

18. Coca Cola kör VMI, vem är kunden och hur ter sig detta samarbete?
    g. Exemplifiera (McDonald's)
19. Vilka andra typer av relationer finns med de olika leverantörerna (Cross docking)?
    h. Vilka resursförändringar skulle en relations/rollförändring innebära (exempelvis om VMI skulle användas för fler leverantörer etc.)?

8.5 Samarbete

20. Ni pratar om "öppna böcker" i samarbetet mellan McDonalds och HAVI, vad innebär detta mer specifikt, samt i vilken utsträckning delar ni information med leverantörer och franschisetagare?
    a. Är det någon information som ni ogärna förmedlar och varför?
21. Vilken tidshorisont används i samarbeten med leverantörer?
    a. Hur länge har befintliga samarbeten funnits?
22. Har Havilog gemensam planering för exempelvis leveranser med McDonald's och leverantörer? (s. 44)
    a. Vem har det övergripande ansvaret och bestämmanderätten över ruttplaneringen? (McD eller Havilog? – Kaptenen i kedjan)
23. Relationen som sådan med olika aspekter enligt underfrågor
    a. Delger ni information gällande förändrade prisbilder och varför?
    b. Hur arbetas med förtroendet ifrån båda parter? (s. 63-64)
        i. Tydligt ledarskap,
        ii. Gemensam vision
        iii. Självständiga (till viss del)
        iv. Likartad företagskultur (underlättar)
    c. Vilka former av prismodeller används i form av fördelning av risker/riskhantering alternativt vinstfördelning?
        v. Gäller leverans-, finansiella och skaderisker etc.
        vi. Ska Havilog premieras om de lyckas bättre än prognosticerat?
        vii. Hur ses på totalkostnaden för systemet, vilket perspektiv används?
    d. Ponera att Havilog expanderar kraftigt och utökar kundfloran
        viii. Hur ser parterna på prioritering av McDonald's i relation till övriga kunder?

ix. Hur mycket får leverantörerna växa (med vilka kunder) och vet leverantörerna/HAVI gränsen?

24. Vad är den viktigaste parametern i ert samarbete McDonald's/Havilog?
    a. Systemsynsättet (vad är systemet för er?; kostnadsfördelning?
    b. Öppna böcker?
    c. Lönsamhet?
25. Hur ser parterna på framtiden?
    a. Utökning av samarbetet i form av nya uppdrag för Havilog?
    b. Utökning av samarbetet med leverantörer och kopplingen till dagens samarbete mellan Havilog och McDonalds

Informationsdelning

26. I vilken utsträckning sker informationsspridning?
    a. Genom hela kedjan eller endast mellan berörda parter? (s. 44)
    b. Vem äger varor och sköter avrop var?
        i. Delas info om lagernivåer?
        ii. Säljsiffror?
        iii. Var finns varor, integrerade affärssystem?
        iv. Säljprognoser?
        v. Inte helt ovanligt att relevant info kan komma ifrån de delar som är närmast slutkunden, hur tas detta hänsyn?
        vi. Sker info även nedåt, dvs. kommer info om hur leverantörerna tänker producera etc.?
    c. Mätetal:
        a. Vilka används?
        b. Varför?
        c. Hur används de?
        d. Förmedlas de?

8.6 Franchisegivare/franchisetagare

27. Vad är franchisetagarnas roll?
    a. Hur ser gränsytan ut gentemot franchisegivaren/HAVI/leverantörer generellt?
    b. Hur fungerar samarbetet, franchisegivare, Havilog/leverantörer generellt, franchisetagare, är franchisetagarna med på tåget?
    c. Hur inkluderas franchisetagaren i försörjningskedjans riskfördelning?
    d. Finns incitament eller endast regler (exempelvis beträffande att köpa billig mjölk)?
        a. Borde franchisetagare lite mer på McDonalds/HAVI?
    e. Hur önskar franchisetagarna att rollfördelningen ska se ut?
    f. Hur har franchisetagarnas roll förändrats över tid?
        a. Exempelvis vid prognostisering kontra avrop

8.7 Power

28. Channel leadership, not needed, needed for coordination focus?
29. Finns det en uttalad maktfördelning med en uttalad ledare, kapten, i kedjan? (s. 44)

a. På vilket sätt artar sig detta ledarskap?

Intressanta frågeställningar kring vad en supply chain är och vad som i så fall existerar i McDonalds fall (Mer åt Mentzers approach och ut i fyrfältaren med hur många organisationer som ingår samt om en SC alltid finns.)

30. Är McDonalds supply chain endast en kedja eller styrs den (management) och i så fall; peka på explicit form av styrning?
    a. Hur fungerar koordineringen inom kedjan, endast via McDonalds och HAVI eller även inom andra led i kedjan?

8.8 Miljö

31. Hur arbetar McDonald's respektive Havilog med miljöfrågan idag?
    a. Vilka områden prioriteras och vad görs konkret?
    b. Vem äger frågan, eller är det fördelat?
        x. Vem står för finansieringen?
    c. Vad är det som driver att man arbetar med frågan och hur får man med franchisetagarna?
    d. Vilka hinder och barriärer finns?
    e. Hur syns miljöfrågan i affärsmodellen?