

Can Vendor Managers Learn From McDonalds?

You bet they can, if they can fathom how to put a bureaucracy to work in their business.

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In our business, the value we offer our clients is a product of three interrelated elements: Providing a better product, providing it faster, and at a lower total cost than a client could get it through any other means. Most of the folks working in our business know this, which is probably why the vendor management industry is so closely associated with the Better-Faster-Cheaper mantra. Or, as I prefer to think of it, as a value triangle.

Through vendor management companies, lenders have the opportunity to reallocate resources so that they can focus on lending instead of finding appraisers, title abstractors, closing agents, and flood determination providers. To them it's simple outsourcing, converting fixed costs into variable costs, improving productivity and long-term profitability. They seek out the best value and send their work in that direction.

But you can't do that, say the skeptics. After all, haven't we all heard the consultant's favorite joke: Better, faster, cheaper-pick two! The idea is that something that is good and fast won't be cheap; fast and cheap won't be good, etc. Yet if quality, timeliness and price boil down to a pick-two choice, how do we explain McDonald's?

Building a better Better-Faster-Cheaper triangle

McDonalds offers an interesting illustration that shows us that, in reality, it's not always true that having two elements negates the possibility of the third. Were I to explain the Better-Faster-Cheaper triangle while waiting in line at the local McDonald's, and ask a nearby patron which of these three value characteristics the restaurant emphasizes, would it be fair to guess that many would choose Fast? Or Cheap? Probably, but does that mean that the same patron, or anyone for that matter, would suggest that the food is not also Good?

Founded in the 1950s by Ray Kroc, a man who sold milkshake mixers to restaurateurs, McDonald's has grown into the most successful fast food restaurant in history. This storied franchise could not have done so for very long without fusing quality, timeliness and cost. They accomplished this feat in large part by creating a tightly controlled bureaucracy. In fact, it is one of our best examples of a modern bureaucracy. That's right. McDonald's is a compelling example of bureaucracy as being a force for good.

If you ask a McDonald's manager what the firm does, you'd hear that the company provides fast food, an industry the company basically created. It's also inexpensive, as dine-out food goes. Would our consultant be justified in concluding then that its food can't be very good? But that's

not what millions of people around the world think.

In fact, McDonald's cares immensely about quality and delivers it despite the chain's equal devotion to treating customers to fast and cheap meals. The company has taken the value proposition triangle and matched up all three sides. The firm has achieved this, in part, through focus. If you approach a McDonald's counter and ask for a peanut butter and jelly sandwich, you'll probably be disappointed; so too if you ordered a Delmonico steak. The company bureaucracy is not set up to offer customized meals. Certainly, the manager could order a clerk to run to a local grocery to pick up peanut butter, jelly, and a loaf of bread. But doing so wouldn't be very fast and it wouldn't be cheap. By building its business around a specific menu of services, consistently produced and delivered (think technology, process, well-trained personnel, and stringent quality controls), McDonald's has grown into one of the most respected organizations in the world.

When we talk about bureaucracy, what we're referring to is a set of standardized and replicable procedures that require tasks to be performed in exactly the same way at prescribed times, using prescribed materials. This way of thinking about manufacturing (and service businesses in more recent times) goes all the way back to the work of Frederick Taylor, one of the first management consultants, during his groundbreaking time studies.

Virtually everything McDonald's employees do on the line is timed. They know how long to leave the fries in the grease, how many hamburgers and cheeseburgers to make in a measurement period, and the order in which condiments hit the bun. Everything is designed to ensure optimum efficiency in the production of a unique and valuable product, which is an ultimate goal of a perfect bureaucracy. For McDonald's, this means that a Big Mac in Pittsburgh tastes the same as it does in Aruba, minus the sunshine. Peanut butter and jelly doesn't fit into this system and so it's not on the menu.

Avoiding commoditization

By providing good products that are cheap and delivered fast, McDonald's avoids the trap of commoditization, which can happen to companies that offer products that are in demand but supplied without any qualitative differentiation. If the company ignored the quality metric in favor of low price and speed, it would lose its distinction in the marketplace and lose market share. That's a trap that vendor managers must avoid falling into when delivering their services.

In the vendor management industry, we commoditize our products by allowing lenders to assume that all VMCs offer good products fast-and then press us to offer our services for less. We allow ourselves to fall into that commodity zone and give up our qualitative differentiation in the market. The challenge for companies in our space is to differentiate themselves while still balancing between faster and cheaper. And saying 'no' when a client wants a peanut butter and jelly sandwich if it's not on our menu.

To do that, companies must first focus on their strengths and put a realistic value on those strengths. The next step is to align their entire organization to those strengths, creating a unique value proposition in the market. A value proposition is anything a company does that improves productivity, lowers overall operating costs, or provides the customer with a strategic advantage

not available anywhere else. It's doing in practice what you say you're going to do in selling situations... and doing so consistently.

Every company should have a process in place-part of their own bureaucracies- that deals with issues customers bring regarding products they have received. When a customer complains about the quality of a deliverable, management must take those complaints seriously and take action to learn from the mistake and write it into new processes to prevent similar problems in the future. Many successful pioneers in the vendor management industry combined standardized processes, technology and well trained personnel to produce better, faster, and cheaper title, appraisal and closing products and services.

Preparing for the future

That level of control is one of the most important benefits the vendor management industry brings to lenders. We control the vendor engagement, monitor the status of orders in the pipeline, the delivery of the work, and keep the lender and vendor at arms-length. Our ability to perfect this control is central to our value proposition. Our ability to master the bureaucracies needed to standardize these processes across geographies is what keeps us in business.

There is one important caveat. Among bureaucracy's dark sides is that it can threaten creativity. Creativity possesses an organization with better decision-making, fresh ideas, foresight into future trends, ability to learn from past mistakes and build systems to avoid their reoccurrence. It is among the most valuable qualities employees bring to a company. Bureaucracy is like a Light Saber: It cuts both ways...sometimes lopping off body parts. Thus, it is best used wisely.

A bureaucratic system that neither promotes nor celebrates creativity, especially at the top of the organization, will sacrifice a critical competitive advantage. It will also make it more difficult to recruit and keep good people. This is particularly true now, as we are entering a new age. Our society has lived through the agricultural age, the industrial age, and the information age. Now, we're entering the creativity age, also referred to by some as the age of ingenuity. It's not just the information that matters now, but the ideas that the data sparks in the minds of today's executives.

Consequently, I expect to see some companies working to be much more forward thinking in the days ahead, and avoiding some of the old school line of outdated thinking about vendor management that goes back for more than 30 years now. Do I expect to see a bunch of McDonald's clones working in the vendor management space? No, but I do expect to see tomorrow's competitors bringing something new to the market. They will use new ways to communicate with their clients and vendor partners. And they will not sacrifice any side of the value triangle.