

# Taking McDonald's one step beyond

Chan Chee Chin of Golden Arches Restaurants explains the rationale behind a new vision for Malaysia's McDonald's outlets.

McDonald's is fast becoming a household name in Asia, recognised for providing outstanding quality, service, cleanliness and value. It has opened some 140 restaurants in Malaysia and is adding on average 15 outlets a year. To keep in pace with new demands of Asia's new rich, there is a strong need to create comparative advantage with a strong local perspective and align to the McDonald's worldwide vision to be the best employer, deliver operational excellence and achieve enduring profitable growth.

One of the key requirements is banking. McDonald's has recently launched online banking systems at its outlets called *PAL@McDonald's* kiosks. By linking up with two big local banks, these kiosks enable banking customers to transact via its various banking products such as invest and shop, travel services, ATM access and phone banking.

While such an initiative is aimed at merging banking and investing into the lifestyles of the Malaysian people, the mushrooming of McDonald's outlets throughout Malaysia has created a need to streamline its operating procedures, cash collection and deposit services and payment and treasury functions. Therefore there is a need to seek out a best-in-class cash and treasury solution.

## Seeking the right solutions

We need a financial institution that possesses the intellectual capital and product scopes for developing and integrating solutions to respond to the massive change in trade, delivery of financial services, logistics and communications. The challenge is to develop new solutions and finance models that respond to the transforming nature of restaurant management in the new age.

Malaysia is a big country with an area of 329,750 square kilometre and

a population of 19.7m people. It is divided into two distinct parts: Peninsular Malaysia and the East Malaysian provinces of Sabah and Sarawak in North Borneo. Both regions are 650km apart, separated by the South China Sea. Peninsular Malaysia shares borders with Thailand and Singapore. Sabah and Sarawak border Kalimantan (the Indonesian part of Borneo) and Sarawak surrounds the tiny enclave of Brunei.

Although the majority of McDonald's restaurants are located in Peninsular Malaysia, we need a bank that is able to support the relatively scattered locations, as well as possess the technology to meet needs. None of the leading cash management banks has the branch network required and none of the Malaysian banks has the technology we need. It is hard to imagine that one bank could provide all we need.

The other consideration is the internal factor. McDonald's values local operating control in the individual restaurants but there needs to be consistency and some form of consolidation for cost efficiency as we continue our expansion. So the objective is to fine-tune the administrative process to

meet new requirements with effective consolidation, not centralisation.

The individual restaurants need to maintain a sufficient level of autonomy but full decentralisation could result in serious redundancy and lack of cohesion. The lack of commonality could handicap the forging of corporate strategy. The focus is on relative core purpose and core competency. As we thought, a consulting firm's expertise would be required.

Instead of using a formal request-for-proposal (RFP) process, we adopted a softer approach so as not to add more burden on our already lean staff resources. Meetings were conducted with several financial institutions, including both local and foreign banks. All banks came with proposals describing their flagship products and capabilities were all valid and good except one institution.

Instead of offering piecemeal products, JPMorgan (then The Chase Manhattan Bank) was able to articulate key matters for fiscal consideration to streamline working capital management including accounts receivable, payable and payment processing and simplify reconciliation through outsourcing. It is an end-to-end solution right from the point-of-sale at the outlets to the entry closing in our books. In addition, the bank offered a consultative approach in the design of the entire solution.

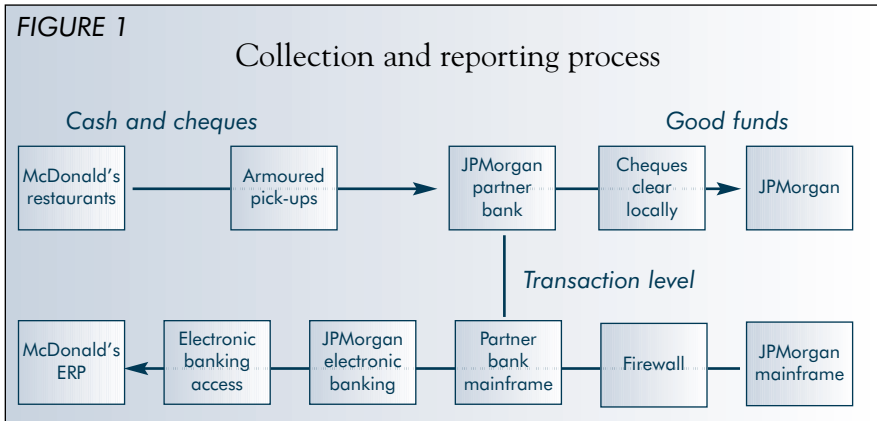
## Looking to the future

The solution consists of three components:

- using armoured courier pickups for cash deposits and coins delivery needs at all outlets;
- using electronic banking with end-to-end automation that interfaces with McDonald's enterprise resource planning (ERP) system; and



Chan Chee Chin with Yeo Leng Tiong of JPMorgan Treasury Services



- adopting an account structure that optimises cash positions.

Deposit of cash proceeds and supply of coins to the restaurants have always been a concern. Although McDonald's was using a single courier company, there was no integrated process in place. Often the individual restaurant managers had to handle their own cash management needs with their own banks.

The concentration of nationwide collection through JPMorgan has facilitated the development of a central liquidity management structure to eliminate trapped liquidity in multiple accounts maintained by the individual restaurants with different financial institutions and has resulted in an improvement of McDonald's Malaysia's liquidity. Figure 1 shows the collection and reporting process.

The solution involves JPMorgan Kuala Lumpur and its partner bank in

Malaysia to collect and process cash and cheques from McDonald's restaurants nationwide. The JPMorgan partner bank arrangement offers more than just an extension of its correspondent banking relationship to corporate clients. There is a formal arrangement on a series of predetermined processes supported by the partner bank whereby JPMorgan is our single point of contact.

Cash can be deposited directly with the partner bank branch or via an armoured vehicle pick-up service from the restaurants. Collected funds are then transferred into McDonald's account with JPMorgan. McDonald's needs to deal only with JPMorgan and JPMorgan's client service unit in most cases.

Along with the collections are deposit information such as a unique restaurant number which is captured and sent to JPMorgan by the partner bank for consolidation with other remittance details collected directly by

JPMorgan. Individual deposit information at a transactional level is available for review on JPMorgan's electronic banking system which can be uploaded to McDonald's ERP system.

The partner bank also supplies coins to the restaurants. McDonald's can ask for coins in standard bags with different denominations to be delivered at regular intervals to the restaurants.

In addition to the collection process, JPMorgan's electronic banking system has several value-added modules that are useful in cash forecasting, maximising yield on surplus funds, asset and liability management and other foreign exchange management. Most electronic banking systems in the market provide only standard account reporting and payment initiation and some linkages to client accounting systems.

To complete the working capital process, McDonald's processes all payments centrally at the head office level. The JPMorgan payment outsourcing system offers a truly single interface system that accepts payment instructions with different value dates, currencies and payment methods.

**Clearing systems in Malaysia**

There are a total of 15 clearing zones throughout the country, but the key cities are linked to the main clearing, the Kuala Lumpur Automated Clearing House (KLACH).

Table 1 shows the types of clearing available in Malaysia and the respective funds availability. Day 'T' is the day the payment is made.

Interbank Giro (Giro) is the high volume, low value inter-bank payment that is less than RM50,000 per transaction. Giro is intended to fill the gap between Rentas and traditional check clearing, which will eventually replace the cheque-based Paper Giro.

Introduced in November 2000, it is currently used by seven big Malaysian banks – Maybank, Public Bank, RHB Bank, Bank Islam Malaysia, BumiCommerce Bank, Hong Leong Bank and Hong Leong Finance, one of which is the JPMorgan's partner Bank. The Giro system today offers only direct credit (payment). ■

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Type of clearing	Drawing location	Funds availability
Cheque	Drawn on bank within the same clearing zone	T + 1
	Drawn on bank in a different clearing zone, ie inter-region cheque	T + 5
	Drawn on bank in a different clearing zone ie inter-region cheque deposited in remote towns	T + 8 to T + 14
Paper Giro (mainly used for payroll and other small value transfers)	Drawn on bank within the same clearing zone and deposited directly by the issuing bank	T + 1
Rentas (formerly Speeds) Real-time gross settlement system	Country wide	T
Giro (effective Nov 2000) Malaysia electronic payment system	Country wide	T + 1