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Arcos Dorados' Quest for the Digitalization of Last-Mile Delivery in Colombia

In early 2018, Francisco Staton, Managing Director of Arcos Dorados in Colombia, was reading a report on the company's options for expanding its food ordering and delivery business (called McDelivery). Arcos Dorados stood as McDonald's largest independent franchisee, and Colombia was one of the 20 markets and territories in Latin America and the Caribbean where the company operated. The report outlined the conditions under which the company would offer delivery services at its restaurants, following the announcement of the agreement entered into by McDonald's corporation and UberEats. This agreement—formalized in July 2017[1]—entailed that all McDonald's restaurants, including the ones operated by franchisees, would offer delivery services under the conditions previously agreed upon between the two American companies. Staton was about to meet with Héctor Orozco, operations director in Colombia, to discuss the opportunities and risks brought about by this agreement, as Staton still pondered the approach to pursue. The agreement with UberEats did not contemplate the local conditions in every market, and Staton wanted to review two potential alternatives that could help to offset some oversights the company's leadership had anticipated when analyzing this agreement.

The first alternative hinged on stepping up the company's efforts to consolidate its own delivery service. With this option, they would aim at fulfilling most of the orders received by McDelivery through its own channel, avoiding commissions on sales that might compromise the segment's profitability. However, despite Arcos Dorados Colombia's several years of experience in delivery, and the local team's commitment to this segment, its contribution to the country's total sales remained marginal. This lack of scale had prevented Colombia's leadership from incorporating all the changes they considered necessary for the segment to take off. They had also struggled to gauge the allocation of resources to make the segment profitable, especially regarding the courier fleet size, as the demand for deliveries varied constantly, making it hard to predict.

With the second alternative, the company would pursue partnering with last-mile delivery platforms under more favorable conditions than the ones agreed upon by the global agreement. In particular, the company was looking into a potential partnership with Rappi, a Colombian startup that was rapidly gaining market share in the country and increasing its engagement at venture capital funding rounds.[2,3] After several months of exploratory conversations with Rappi, Staton believed the

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company could negotiate better conditions with this Colombian startup in order to provide a more profitable alternative to balance the delivery segment. Yet, Staton still questioned such partnerships, especially as they implied outsourcing a key part of the company's customer experience. Partnering with last-mile delivery services entailed putting the McDonald's brand in the hands of a third-party supplier in a scheme where the company had neither complete control over operations nor a contractual relationship with couriers. Therefore, Arcos Dorados could not provide the proper oversight, either by training couriers or by adjusting their practices when they did not meet the company's high standards of food and service quality throughout the delivery process. Also, the company's previous experience working with technological startups had demonstrated that these new companies not always shared the level of standardization required by Arcos Dorados. In addition, Arcos Dorados would also be giving these third-party companies access to data of its customers, with whom the company had been nurturing a relationship for several years.

While waiting for Orozco to arrive, Staton wondered what the best alternative would be to move forward. Should he lean towards enhancing the company's efforts to strengthen its own delivery channel? Or should he advocate for a partnership with Rappi? He thought Arcos Dorados had enough scale to help shape the last-mile delivery sector with conditions that were more convenient to the company. He also believed they needed the company's strategy to be robust enough to withstand the changes that the last-mile delivery startups' emergence would eventually drive in Colombia's business landscape, especially as they continued to raise funds and to increase their market share.

Quick Service Restaurants and Last-Mile Delivery in Colombia

McDonald's Brand Positioning

With an 11.2% market share in 2017, McDonald's brand stood as the global leader in limited-service restaurants, a $790-billion industry that included outlets offering limited fast-food menus also known as quick-service restaurants (QSRs). In comparison, its largest competitors, KFC and Burger King, held respectively 3.1% and 2.6% of the global market.[4] McDonald's leadership echoed in Latin America (a $61-billion market with a population of 635 million[5]), where it held a 7.1% market share, followed by Burger King (3.6%) and Subway (3%).[6]

Instead, in Colombia (a $2-billion market with a population of 49 million), where McDonald's held a 6% market share, two local brands competed head-to-head against the global brand: El Corral, which sold burgers and boasted a 5.9% market share, and Frisby, which specialized in fried chicken and captured 5.6% of the market (see **Exhibit 1** for McDonald's brand positioning).[7] Orozco said, "Colombians have a very strong sense of regionalism, which poses an extra challenge for international brands like ours." In addition, according to Colombia's statistics agency, roughly 50% of the country's population had an informal job (see **Exhibit 2** for a map and **Exhibit 3** for key macroeconomic indicators),[8] which included informal restaurants and street vendors offering food options (at very low prices) that competed with the ones found at QSRs. Orozco elaborated, "The competition against informal players is certainly not fair, while the one against our major, formal competitors challenges our intelligence and capabilities every day. We love the latter." Unlike what happened in the U.S., in Colombia, as in the rest of Latin America, the McDonald's brand had acquired aspirational attributes, with its restaurants luring customers with its safe, fresh, and tasty food served in an appealing atmosphere.[9] Orozco concluded, "When customers go to our competitors, they get a meal. With us, they get an experience, the McDonald's experience. That's one of our key competitive advantages. Thus, we must ensure we create the environment for that experience to unfold, regardless of the channel chosen by our customers."

Online Ordering and Last-Mile Delivery Services

Mobile apps associated with third-party delivery startups became a growing trend in Latin America, as foodservice players started to outsource their deliveries with these providers.[10] The solutions that were gaining traction in the region offered customers access to multiple merchants (e.g., restaurants and grocery stores) through a single app, with messengers—largely on bicycles or motorcycles—delivering several kinds of products that fit in a box. Merchants were charged a sales commission—with percentages depending on factors such as exclusiveness, sales volume, placement in the app, or discounts—and customers would pay for the delivery service—with fees varying according to distances and delivery times. Companies offering online ordering solutions and food delivery services in Latin America were mostly local startups, including two companies from Colombia—Domicilios.com (created in 2007) and Rappi (created in 2015)—and other regional firms, such as PedidosYa (from Uruguay, created in 2009), iFood (Brazil, 2011), and Sin Delantal (Mexico, 2012).[11] International players were also entering the region, particularly UberEats, which landed in the Latin American market by launching its operations in Mexico in 2016, and Glovo, a Spanish firm that moved into the region via Chile in 2017.[12]

According to Euromonitor's estimates, online ordering at limited-service restaurants in Colombia accounted for roughly 30% of all sales in 2017, the highest share in Latin America (6% on average) and around the world (9%, see **Exhibit 4** for a graph). Staton noted, "In Colombia, delivery is a cultural trait." Orozco added, "Colombians have traditionally relied on delivery 24/7. During the day, people are used to calling their closest mom-and-pop store to order a tomato. While partying, Colombians may call and order more drinks or food, regardless of the hour. And they will find businesses offering this service, with the delivery person going to their places just for the tip." Oscar Díaz, manager of training and operations development at Arcos Dorados Colombia, said, "The size of the informal sector in our country also provides an important mass of couriers available to do deliveries for a low wage."

"More importantly, as delivery is also about convenience, it has quickly started to be more convenient ordering on an app than ringing a call center," Staton remarked. Indeed, last-mile delivery startups Domicilios.com and Rappi had been created to facilitate deliveries in highly congested cities like Bogotá (the nation's capital),[13] which held one of the world's highest traffic congestion rates.[14] A pioneer in this segment, Domicilios.com initially served as an online restaurant aggregator, where Bogotá's customers could find the contact information for restaurants operating in their area. In 2012, the startup evolved into an online marketplace and started its international expansion a year later, branching into Ecuador, Peru, and Argentina. In 2014, Delivery Hero—a European multinational gathering online ordering sites with brands operating around the world[15]—partnered with Domicilios.com's founders, eventually acquiring the company's total shares in 2017.[16] By then, the startup had raised nearly $40 million from multiple funds.[17]

Selected for Y-Combinator—one of the world's most prestigious business incubators—in 2016, Rappi soon turned into one of Latin America's leading companies. In early 2018, Bloomberg praised it for having become "such a hit in Bogotá and Mexico City that the company has raised $185 million—a near record in Latin America—to set up shop in each of the region's major cities."[18] At the time, the company was delivering more than 10,000 orders a day in Bogotá alone,[19] with regular customers averaging more than four orders per week.[20]

Arcos Dorados' Business

Restaurants and Menu

With the exclusive right to own, operate, and sub-franchise McDonald's restaurants in Latin America and the Caribbean since 2007, Arcos Dorados (*Golden Arches* in Spanish) was the largest independent franchisee in McDonald's system and the leading limited-service restaurant chain in the region. By 2017, operating under a Master Franchise Agreement (MFA), Arcos Dorados ran and franchised roughly 2,200 McDonald's-branded stores in 20 countries and territories across Latin America (see **Exhibit 5** for a map of Arcos Dorados' presence). More than half of restaurants were operated by the company, as requested by the MFA, with Arcos Dorados keeping their operating profits after paying 5% of their revenues in U.S. dollars to McDonald's. This fee was also charged to franchised restaurants and transferred entirely to McDonald's.[21]

By 2017, company-operated restaurants' sales accounted for 95% of Arcos Dorados' overall revenues, while revenues from franchisees provided the remaining 5% (see **Exhibit 6** for the company's key financial indicators). All restaurants—whether they were run by Arcos Dorados (nearly 1540 in total) or by franchisees (roughly 630 restaurants)—had to abide by the company's operating manual, which, in turn, followed McDonald's guidelines (adapted to local conditions) for menus, advertising, equipment, food safety, product quality, and vendor selection.

Four types of restaurants, as well as McCafés and Dessert Centers, made up Arcos Dorados' restaurant portfolio in all the markets where the company operated. Free-standing stores (47% of all its restaurants in 2017) and in-store restaurants (13%) stood as the largest ones and offered ample indoor seating, with the former also featuring a drive-thru service (called Automac) and a parking lot. The other two types of stores were located at malls, referred to as mall stores (16% of restaurants) and food-court stores (24%), with the former including a dedicated seating area (see **Exhibit 7a** for examples of Arcos Dorados stores). Arcos Dorados also ran and franchised 316 McCafé locations (adding up to 9.6% of all transactions and 6.6% of hosting restaurants' total sales) and 2,877 Dessert Centers (32.2% of all transactions and 10.6% of the company's total sales). While McCafés always stood inside a hosting restaurant, dessert Centers operated separately from existing restaurants but relied on them for supplies and support (see **Exhibit 7b**).[22]

Restaurant offerings included affordable, basic options—such as *Combo del Día* (Combo of the Day)—, as well as core menu choices—like the Big Mac, Happy Meal, and Quarter Pounder—and premium products, including burgers, chicken sandwiches, salads, or wraps. Menus were prepared at restaurants following the principles introduced by the McDonald brothers in the 1950s, when they started franchising their restaurants as "the most revolutionary development in the restaurant industry during the past 50 years," relying on almost a decade-long experience perfecting their *Speedee Service System* to streamline operations by breaking down processes into simple and repetitive tasks, as well as sticking to a limited menu.[23]

Operations and Organizational Structure

Arcos Dorados' operations were overseen by the company's Chief Operating Officer, who reported to the company's CEO, as did the other eight corporate top-executives. The company split its operations across 20 counties and territories in four geographical divisions (see **Exhibit 5**): South Latin America (SLAD), the Caribbean, North Latin America (NOLAD), and Brazil (the largest division, with more than 900 restaurants). Operations at each division were overseen by a divisional president, who reported to the company's Chief Operating Officer and supervised managing directors (MD) based in each market. Díaz elaborated, "It's a cascade approach, with objectives set by top management and passed down through a number of intermediary management roles that guarantee that all the steps required to achieve those goals are taken at every market (like Colombia) and, more importantly, at stores, where sales take place." (See **Exhibit 8** for Arcos Dorados' organizational chart.)

Colombia's operations were part of the Caribbean division, together with stores in Venezuela and the French Guiana in the continental region, as well as nine countries and territories in the Caribbean Islands. The Caribbean division encompassed 350 restaurants and generated roughly $475 million in revenues, accounting for respectively 16% and 14% of the company's total restaurants and revenues in 2017. With more than 70 restaurants and around $120 million in revenues in 2017, Colombia was the third-largest market in this division in terms of restaurants—after Venezuela (120 stores) and Puerto Rico (roughly 100 stores), and the second as measured by revenues, following Puerto Rico (which accounted for 27% of the Caribbean's revenues).[24] (See **Exhibit 9** for Arcos Dorados Colombia's key metrics.) Colombia's operations were overseen by an operations manager, who reported to the country's MD and worked with operations consultants supervising six or seven store managers each. Díaz added, "Following a cascade approach, positions at restaurants, from bottom to top, start with crew members (working at specific workstations, such as the kitchen, delivery, or the counter), who are first supervised by trainers and then by assistant or shift managers." By 2017, Arcos Dorados had approximately 78,806 employees in company-operated restaurants and staff throughout the region. About 82% of them were crew members, 16% were restaurant managers and the remainder were professional staff.

Colombia: Pioneering Delivery Services at Arcos Dorados

Driving Solo and Skidding off the Road

Staton noted, "We've been building our delivery segment in Colombia for several years." Indeed, the media had praised Colombia as one of the earliest markets where McDonald's restaurants offered delivery services successfully, with McDelivery rolled out in 2008.[25] "One of my first assignments when I joined the company was delivering orders to customers' homes," said Orozco, who joined McDonald's in 1995 as a crew member at one of the first restaurants opened by McDonald's in the country (at the time, McDonald's itself ran and franchised its restaurants in the region). He continued, "The store manager had decided to start offering delivery services in the area closest to the restaurant, relying on crew members to do so. While not a widespread practice at McDonald's Corporation, it was an example of the perceived importance of delivery for store managers in the country." In fact, although McDonald's trademarked the word "McDelivery" in the United States in 1993 and tested the service in some restaurants there, it cancelled these rights in 2002, filing an application to trademark the word again only in 2014.[26] Sandra Bejarano, delivery manager at Arcos Dorados Colombia, noted, "In the early 2000s, store managers offered delivery using landline phones at restaurants and relying on its crew members' capacity to transcribe the orders. Sometimes, orders looked like hieroglyphics, which eventually led to customers receiving items they didn't order and complaining about it."

Under Arcos Dorados' management, in 2008 McDonald's restaurants in Colombia started offering delivery in selected locations, mostly at free-standing stores, relying on an agreement with a call center to receive orders and on a dedicated fleet of couriers trained by Arcos Dorados to deliver them. Staton noted, "We tested several schemes to offer the service early on, but with none of them our delivery was particularly efficient." Orozco elaborated, "To abide by local regulations, we had to either hire couriers directly—for no less than six hours—or enter into agreements with third-party companies that put a pool of couriers at our disposal. In both schemes we had to pay per hour, not per order delivered." Yet, defining the fleet size proved challenging. Staton explained:

> These schemes work as long as the operation cycle allows for couriers to deliver an order and come back to the restaurant before the next order is ready. But we couldn't predict the variability of this segment with the same level of accuracy as in other segments, especially over the counter. Thus, on a rainy day, our store managers would need way more couriers than those they had at their disposal; on a sunny day, instead, they would be paying a fleet of couriers to deliver just a couple of orders.

Following on McDonald's footsteps, in the early 2010s, Arcos Dorados halted delivery services in most of its markets. Yet, Colombia was one of the two markets (along with Costa Rica) where McDonald's restaurants continued to offer the service. Orozco pointed out, "There were times when the segment's productivity reached levels as low as 1.2 deliveries per hour. Yet, we kept supporting it, as it helped to improve our operating capacity—our restaurants don't run at full capacity yet—and to increase our average check." Staton explained, "Although the divisional president at the time wanted to close the segment in all markets, its sales in Colombia, though still marginal, were enough to persuade the company's top management to keep the segment alive." (See **Exhibit 10** for the delivery segment's contribution to Arcos Dorados Colombia's total revenues.) Orozco said, "This was clearly a victory for our team, but it also added pressure: we had to deliver, literally, if we wanted to keep the segment open."

To enhance the segment's productivity, Arcos Dorados Colombia started tracking systematically key performance indicators (KPIs) associated with delivery processes. Orozco elaborated, "We were able to almost double the segment's productivity level. Yet, tracking the segment in a more systematic way confirmed that to really improve our metrics we needed both, volume and density." The reduced number of orders during non-peak hours factored in as one of the variables preventing Arcos Dorados Colombia from further improving delivery productivity levels. He explained, "We still were challenged to maximize our couriers' time to reduce the cost of delivery per order. We concluded that we would have needed to add other merchants, like grocery stores or pharmacies, to our delivery operations to improve our metrics during non-peak hours. Yet, that was a solution we couldn't pursue." Staton added, "It's quite difficult to deploy a distributed network of couriers for a single brand."

Other challenges stemmed from the lack of a platform integrating orders received by third-party companies with McDonald's point-of-sale (POS) system—a standardized, mandatory system. Bejarano noted, "We were just at the beginning of the transition from analog to digital, and the lack of this integration exposed our otherwise streamlined operations to unwanted mistakes." Orozco added, "We knew issues would arise, but we also knew that we had to gain experience and learn from our mistakes to continue improving our delivery processes. So, we made sure we had a communication channel open with our customers, where they could tell us what went wrong." Staton added, "Maintaining a direct relationship with customers is of the utmost importance."

Early Experience with Digital Aggregators

In 2013, Arcos Dorados Colombia entered into an agreement with Domicilios.com, a startup offering a solution for online ordering in Colombia. Bejarano explained, "Although this company did not offer last-mile delivery solutions at the time (it provided a service more akin to a next-generation yellow pages), it was gathering momentum." Díaz added, "Domicilios.com helped us to gain some scale, as our initial approach to deliveries limited our operating capacity: our restaurants delivered as many orders as the call center working with us could process. At non-peak hours, the call center's capacity sufficed, but that wasn't the case at peak hours." Domicilios.com also developed a white-label application for Arcos Dorados to manage online orders on its own. Staton noted, "Through this partnership we also started our internal efforts to develop an online channel to handle delivery orders. At this point, our service was still pretty basic. We didn't have a map displaying where the courier was or an indicator showing the order status."

However, working with a tech startup proved challenging, especially as Arcos Dorados was used to what the company called *the McDonald's way*, which implied that all procedures were standardized and documented, with training programs tailored for every workstation. As explained by Bejarano:

> Before introducing a new procedure or changing an existing one, we gather a team of experts, research all the alternatives, design experiments, test the chosen solution in a store that serves as a laboratory, and only then we deploy it. Thus, when we partnered with Domicilios.com, a tech startup, we expected nothing short of perfection. Yet, one of the key learnings I've drawn from this early experience is that, with new technologies, nothing can't be taken for granted: oftentimes, you wouldn't get the input required to perfect the solution until you test it in the field.

The lack of a platform that would integrate orders received from multiple sources with McDonald's POS system remained a challenge. Sometimes, there were discrepancies between the prices and promotions that customers would see displayed on online solutions and the ones that restaurants were offering that day. This created delays in operations and front-end trouble, requiring constant intervention from Arcos Dorados' team.

Store Managers' Key Role in Delivery Consolidation

Store managers' primary responsibility zeroed in on maintaining the highest quality and service standards at their restaurants, with the company providing all the guidelines required. For example, store managers were given strict protocols for cooking and handling times, which included instructions about the number of minutes an ingredient could remain out of its packaging or without refrigeration before being used, or the time a final product would sit on the counter after cooking. If any of these times were exceeded, store managers needed to make sure that the product was discarded. For the delivery segment, store managers also had to take all the steps required to guarantee food quality (e.g., product presentation, packaging, and temperature) and service quality (largely translating into delivery times and order accuracy). Managers were also responsible for staffing, hiring, and training personnel, as well as creating weekly schedules for crew members, who were assigned to a particular workstation (e.g., kitchen, counter, drive-thru, or delivery). They also supervised store inventories and ensured that restaurants had all the supplies and all the equipment required.

Bejarano remarked, "Kitchens are the heart of our business; if our kitchens don't work well, nothing works. Our cutting-edge equipment allows us to cook food in seconds, and our very sophisticated storage systems are synchronized with very robust inventory management tools. Thus, we've always felt safe to say that we have what it takes to outdo our competitors in every segment—counter, drive-thru, or delivery." Nonetheless, its lacking scale made the delivery segment rank low in the company's managerial priorities, which echoed in store managers' views on delivery and prevented them from adopting some of the measures needed to ensure that the segment continued offering McDonald's treasured experience. This required the allocation of both human and physical resources, which they could distribute according to their priorities.

Díaz elaborated, "Store managers are the ones implementing all operational measures at restaurants. Although we provide them with a detailed set of guidelines, which they must follow, they have significant leeway to run their restaurants." Regarding delivery services, store managers were responsible for taking the necessary steps to make sure that products started being prepared as soon as orders were placed or that products did not remain at the restaurants more than a given number of minutes. Orozco added,

> Yet, as sales driven by the delivery segment are too small in comparison with the ones generated at the counter, they can sometimes neglect deliveries. For example, there are restaurants that do not have a dedicated POS for delivery, sharing their POS with the counter. Details like this lower delivery times, especially during peak hours. Yet, given the volume driven by the counter, store managers are not willing to compromise it.

The training area had also observed that delivery trainings were not implemented as thoroughly as the ones focusing on other workstations, and that some store managers would allocate just one crew member to deliveries. Yendy Villamizar, store manager at one of Arcos Dorados' restaurants, noted, "We usually determine the number of crew members we need for each workstation (the counter, Automac, or McDelivery) largely based on the average number of transactions and the average ticket." As a result, when crew members assigned to the delivery station did not show up, the store manager had to relocate people from other stations, which sometimes proved difficult given the lack of properly trained crew members. She added, "When crew members with the proper training are not available, we prefer to allocate those who are trained on service-related activities to this workstation, as they are the ones with the most experience fulfilling orders in comparison as compared to crew members who specialize in cooking procedures at the kitchen." Díaz said, "This situation creates a vicious circle: as absenteeism is higher in the delivery station, crew members anticipate their work shift could extend for a couple of hours more, until crew members with the proper training are available. Knowing that, they just don't show up when they have to work on deliveries." Hence, gaining scale was regarded as an enabler to also incentivize store managers to allocate trainers to the delivery station. Diaz elaborated on the importance of training:

> If our kitchens are the heart of our operations, training is the blood stream. We have manuals and procedures for every station, which are the result of deep research and a thorough compilation of best practices. Also, repetition is the name of the game when it comes to training. Thus, we need our crew members to perform their tasks several times, always following the standard procedure. But sometimes they change it because they think their way is better, passing on these 'adjustments' to new crew members. Therein lies the importance of trainers, not only for onboarding but also for refreshing, especially in a company where turnover runs as high as 60% or 70%.

Working on crew members' motivation when assigned at the delivery station was also an issue. From a leadership standpoint, store managers also rolled out competitive reward programs to increase crew members' engagement and to improve their performance. Díaz explained, "We want our crew members to feel proud of working at Arcos Dorados. Some of the contests carried out at restaurants help to instill that pride. Yet, those contests are designed by segment, and the lack of scale in delivery also prevents store managers from fostering that pride." Dayanna Zea, store manager at one of Arcos Dorados' restaurants, commented, "Our crew members are pretty young, and they are very competitive. They like being encouraged to prove they are the best at their workstation, not only in the city but across the country. They really like the challenge."

The delivery station also implied a different approach to customer satisfaction, another metric considered in store managers' leadership assessments, and the company's management team was also working on changing this perception. As explained by Díaz,

> As our strength lies in offering the perfect environment for an unforgettable experience, watching customers' faces and body language while ordering or eating may provide some signals that catch crew members' or managers' attention. You don't see your customer while working in the delivery station. Yet, customers waiting at home have higher expectations, as their only contact with the brand hinges on delivery times and order accuracy: they want what they asked for and fast.

Staton added, "Indeed, McDelivery couriers are the only people interacting face to face with our customers, which only highlights their importance in the whole process, even if their engagement is limited to the final step. They are the only ones who might see our customers in their pajamas! That's a great responsibility."

When the challenges faced by the delivery segment in Arcos Dorados were surveyed, cultural barriers were also recognized as significant. As explained by Arcos Dorados' digital commerce manager Ingrid Marco, who oversaw most of the company's markets:

> From a technological standpoint, we can quickly respond to and incorporate the changes needed to better provide for delivery services. In the operations team, however, there are cultural barriers. In every market, these teams consist largely of people who joined the company as crew members and climbed the corporate ladder. They have the McDonald's way and the McDonald's experience embedded in their DNA. At restaurants, managers challenge every change—even those we regard as small ones, like the positioning of a screen, are very important to them. They also question if we can ensure a proper customer experience; 'Why would people want fries that aren't served at the optimal temperature?' they ask.

Staton illustrated store managers' views on emerging approaches to delivery services:

> As Rappi's users can ask for any of our products using the errand feature on the app, we've started to see an increasing amount of *Rappitenderos* [as couriers delivering orders placed on Rappi's app were called] at our stores. But some store managers don't necessarily appreciate this increased demand. On the contrary, they fear that families in our dining rooms might feel uncomfortable with their presence, as these couriers are standing there, waiting for an order to be prepared, wearing clothes with a logo that isn't ours, and carrying big boxes on their backs.

To enhance the segment's strategic relevance, Arcos Dorados Colombia created a mid-level position to oversee the delivery segment in the country. Díaz explained, "We can now include delivery objectives, or KPIs, for store managers." Before, the McDelivery manager's position ranked at par with store managers', while this individual was responsible for the segment at all stores across the country.

Experience of the Future: McDonald's Digital Transformation Strategy

In mid-2010, McDonald's began to pursue its Experience of the Future (EOTF) strategy to transform its restaurants' look and customer experience by investing in store updating, technology—mainly mobile platforms and digital payment means—and social media presence. Conceived as part of McDonald's vision to enhance its appeal for younger consumers, EOTF sought to elevate the customer experience with new features and services inside the chain's restaurants, such as touch-screen kiosks or food-to-table service.[27] EOTF was also intended to foster an omnichannel approach for McDonald's restaurants, combining physical and digital channels by offering customers multiple options to buy and pick up products: at restaurants, customers would be able to submit their orders from a self-ordering kiosk and dine in, or place an order through an app and then pick it up either at the front counter, at the drive-thru window, or at a curbside parking spot. The McDonald's-UberEats agreement was also part of the EOTF strategy.[28]

In partnership with McDonald's, Arcos Dorados focused on converting restaurants to EOTF, launching the first EOTF restaurant in 2016 in Argentina.[29] The company used EOTF to put renewed emphasis on improving its service model and strengthening relationships with customers, while updating stores and investing in technology and digital engagement, with developments still in progress in building a mobile ordering platform. Marco remarked, "The EOTF program has provided an extra push for the delivery segment in all our markets, as it is a corporate program that incorporates those new concepts that have been resisted internally." Orozco noted, "With our delivery experience, we are properly poised to think about our own digital channels." Yet, Arcos Dorados' overall view on the segment remained more conservative, as stated in its 2017 annual report when describing Arcos Dorados' EOTF-related endeavors: "We also continue to build on delivery initiatives, which may not generate expected returns. We may not fully realize the intended benefits of these significant investments, or these initiatives may not be well executed, and therefore our business results may suffer."[30]

Charting the Route Ahead

While waiting for Orozco to arrive, Staton had decided to place an order via Rappi's errand feature on an impulse to get some last-minute insights on the service provided by this startup. While the company was already working with another startup providing a solution for online ordering, Arcos Dorados still retained some control over the process, training couriers and stepping in whenever needed. To some extent, the McDonald's-UberEat agreement had pushed Arcos Dorados Colombia's team to consider partnering with last-mile delivery services more seriously, as well as to enhance the local team's efforts to perfect its own delivery channel.

Staton still viewed partnering with last-mile delivery startups as hazardous in terms of both brand image and risk management, especially as couriers delivering orders placed via these services did not have a contractual relationship with the company, and neither were they employed by these startups. Compounding these broad concerns, other potential setbacks troubled him when thinking about limiting Arcos Dorados Colombia's delivery offering to the McDonald's-UberEats agreement. He and Orozco had reviewed the commissions on sales agreed upon by McDonald's and UberEats and found that they exceeded the ones estimated by Arcos Dorados when it assessed the viability of working with last-mile delivery services in the country like Rappi. Staton also knew that this was a dynamic segment and that the agreements forged in present circumstances might change, as this platform continued to raise funds and to increase its market share. In addition, in their previous conversations, Staton and Orozco had also discussed that customers were already buying McDonald's products using Rappi's platform feature for running errands. Thus, by limiting its deliveries to UberEats, the company might be leaving aside a channel that Colombians already preferred.

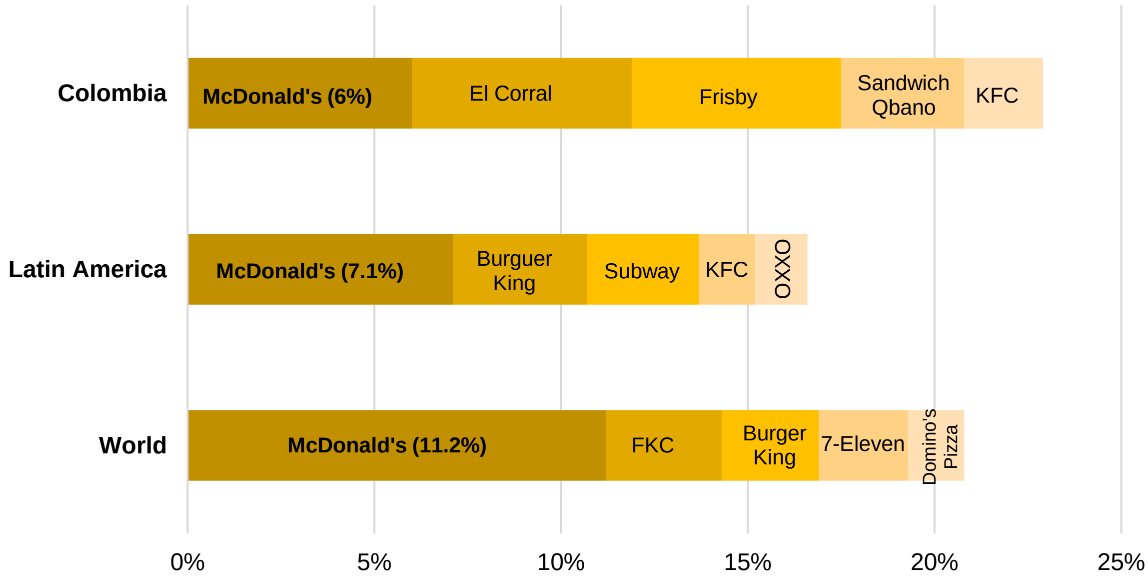
The option of revamping the company's own delivery channel also entailed some risks. Although Arcos Dorados had been able to improve the metrics of its own delivery channel in recent years, its team argued that the lack of scale was preventing store managers from taking the actions needed to guarantee that the segment was also delivering the much-treasured McDonald's experience. Staton recalled a recent meeting with his team where Orozco had said, "We know we can do better, and we know the market is larger than the one we are currently serving, but we cannot make a proper diagnosis because we haven't reached a sales volume that enables us to incorporate all the appropriate measures to promote the segment." Diaz had added,

> We have some evidence, but no patters have surface yet: each restaurant allocates resources according to its priorities, which currently favor counter operations. We are still challenged to gather evidence to answer some questions, such as: Where do the opportunities lie? Are our kitchens really responding with the speed required by the segment? Or are kitchens responding as expected, but orders remain at restaurants longer than required? Is it really a matter concerning POS integration?

Staton wondered, "Could the company gain the scale required for the segment to take off if it continued to manage deliveries on its own? And could the company properly respond to such scale?

Staton and his team had already looked into partnering with last-mile delivery services to gain the scale needed to motivate store managers to fully embrace and support this segment. So, the question remained, should Arcos Dorados Colombia limit its McDelivery service to UberEats, under the conditions agreed by McDonald's Corporation? Would the company be better served by negotiating an agreement with Rappi? Or should it continue to pursue the consolidation of its own channel?

Exhibit 1 Market Share Held by Top 5 Brands in Limited-Service Restaurants, 2017



Source: "Brand Shares. Limited-Service Restaurants," Euromonitor International via Passport, accessed May 2022.

Exhibit 2 Map of Colombia

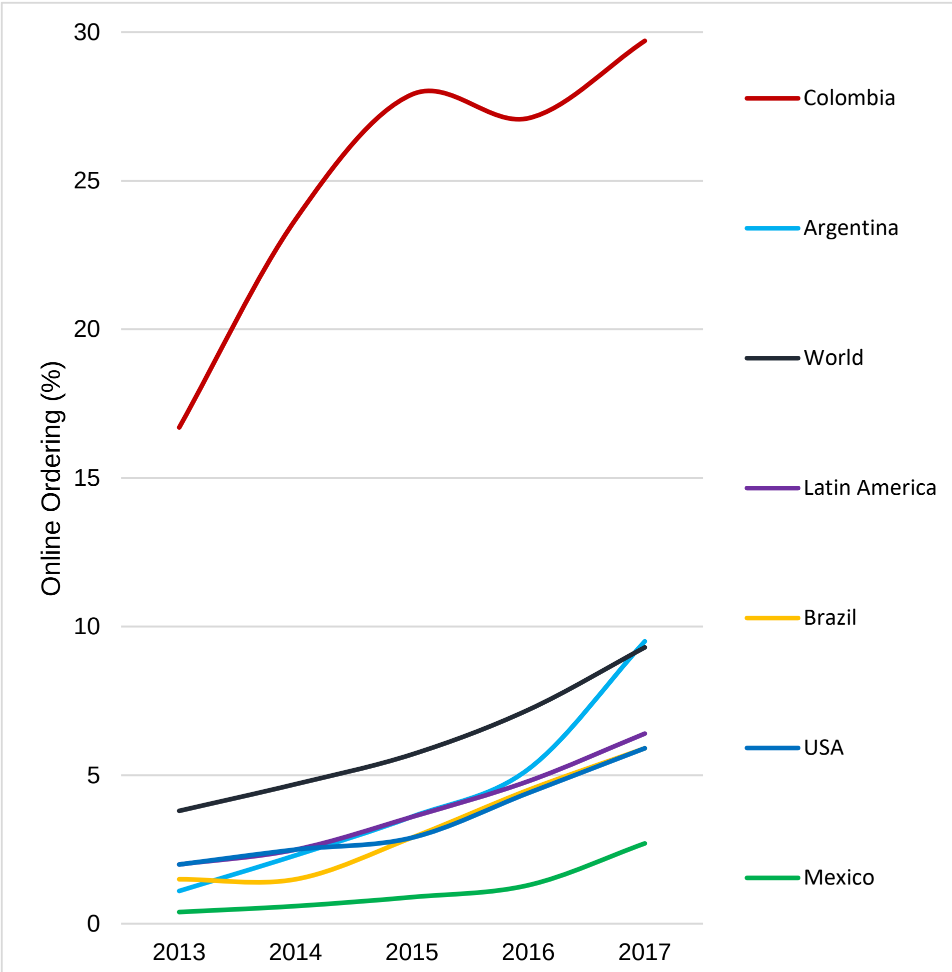
Source: "Colombia," http://www.lib.utexas.edu/maps/americas/txu-oclc-192062534-columbia_rel_2008.jpg, accessed March 2022, courtesy of the University of Texas Libraries, The University of Texas at Austin.

Exhibit 3 Colombia's Key Macroeconomic and Social Indicators, 2013-2017

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Economic Indicators											
GDP (current prices, US$ billions)	206	242	232	286	334	371	382	381	293	283	312
GDP growth (annual %)	6.8%	3.3%	1.2%	4.3%	7.4%	3.9%	4.6%	4.7%	3.0%	2.1%	1.4%
GNI per capita, Atlas method (current US$)	4,120	4,700	5,130	5,610	6,320	7,290	7,910	8,190	7,330	6,460	5,930
Trade (% of GDP)	37%	39%	35%	34%	40%	39%	38%	38%	38%	36%	35%
Exports of goods and services (% GDP)	17%	18%	16%	16%	19%	19%	18%	17%	16%	15%	15%
Imports of goods and services (% GDP)	21%	21%	19%	18%	20%	20%	20%	21%	23%	21%	20%
Final consumption expenditure (% of GDP)	82%	80%	81%	80%	79%	79%	79%	80%	83%	84%	83%
Inflation, consumer prices (annual %)	6%	7%	4%	2%	3%	3%	2%	3%	5%	8%	4%
Official exchange rate (LCU per US$, period average)	2,078	1,968	2,158	1,899	1,848	1,797	1,869	2,002	2,742	3,054	2,951
Social and Demographic Indicators											
Population, total (millions)	43.7	44.3	44.8	45.2	45.7	46.1	46.5	47.0	47.5	48.2	48.9
Urban population (as % of total)	77%	77%	78%	78%	78%	79%	79%	79%	80%	80%	80%
Unemployment, total (as % of total labor force, national estimate)	11%	11%	12%	11%	10%	10%	9%	9%	8%	9%	9%
Income share held by highest 10%	n.a.	44%	43%	44%	42%	41%	42%	42%	40%	40%	39%
Income share held by lowest 10%	n.a.	0.9%	1.1%	1.1%	1.2%	1.2%	1.2%	1.2%	1.3%	1.3%	1.4%
Poverty headcount ratio at national poverty lines (as % of population)	n.a.	42%	40%	37%	34%	33%	31%	29%	28%	28%	27%

Source: Prepared by casewriters with data from World Bank, The World Bank Database, accessed February 2022.

Exhibit 4 Online Ordering in Limited-Service Restaurants as a Percentage of Total Sales, 2013-2018



Source: "Online vs. Offline Ordering. Limited-Service Restaurants," Euromonitor International via Passport, accessed February 2022.

Exhibit 5 Map of Arcos Dorados' Presence in Latin America and the Caribbean

Total Portfolio in 2017: 2,188 restaurants, 316 McCafé Locations, 2,877 Dessert Centers

NORTH LATAM (NOLAD)	
Costa Rica, Mexico, and Panama	
Restaurants	**519**
Company Operated	**363**
Freestanding	274
Food Court	138
In-Store	52
Mall Store	54
Franchised	146
Developmental License	10
McCafé Locations	**50**
Dessert Centers	**641**

SOUTH LATAM (SLAD)	
Argentina, Chile, Ecuador, Peru, and Uruguay	
Restaurants	**390**
Company Operated	**326**
Freestanding	119
Food Court	66
In-Store	112
Mall Store	92
Joint Venture	15
Franchised	49
McCafé Locations	**138**
Dessert Centers	**347**

CARIBBEAN	
Caribbean Islands, Colombia, French Guiana, and Venezuela	
Restaurants	**350**
Company Operated	**263**
Freestanding	231
Food Court	25
In-Store	40
Mall Store	54
Franchised	86
Developmental License	1
McCafé Locations	**37**
Dessert Centers	**306**

BRAZIL	
Restaurants	**929**
Company Operated	**579**
Freestanding	409
Food Court	292
In-Store	87
Mall Store	141
Franchised	350
McCafé Locations	**91**
Dessert Centers	**1,583**

Source: Prepared by casewriters with data from Arcos Dorados, 2017 Annual Report, p.38.

Exhibit 6 Arcos Dorados' Financials and Key Financial Metrics

Balance Sheet (US$ millions) (as of December 31)	2015	2016	2017
Assets			
Cash and short-term investments	112.5	194.8	328.1
Receivables	98.5	112.1	147.3
Inventories	44.6	48.9	82.7
Other current assets	123.3	89.4	94.9
Total Current Assets	**379.0**	**445.2**	**653.1**
Net property, plant & equipment	833.4	848.0	890.7
Long-term investments	6.7	-	7.8
Goodwill	12.3	7.1	7.1
Other non-current assets	171.9	204.8	245.1
Total Non-Current Assets	**1,024.2**	**1,059.9**	**1,150.7**
Total Assets	**1,403.2**	**1,505.1**	**1,803.8**
Liabilities			
Accounts payable	187.7	217.9	303.5
Accrued expense	186.2	203.5	217.6
Other current liabilities	203.4	126.8	84.5
Total Current Liabilities	**577.3**	**548.3**	**605.6**
Long-term debt	491.3	562.2	636.6
Long-term leases	-	-	-
Other non-current liabilities	47.7	43.0	65.4
Total Non-Current Liabilities	**539.0**	**605.2**	**702.0**
Total Liabilities	**1,116.3**	**1,153.5**	**1,307.6**
Equity			
Common stock	504.8	506.9	509.6
Additional paid-in capital	12.6	13.8	14.2
Comprehensive Inc. and others	(230.5)	(169.0)	(27.7)
Total Equity	**286.9**	**351.6**	**496.2**
Total Liabilities and Equity	**1,403.2**	**1,505.1**	**1,803.8**

Income Statement (US$ millions) (as of December 31)	2015	2016	2017
Revenues	**3,052.7**	**2,928.6**	**3,319.5**
Food and paper	(1,037.5)	(1,013.0)	(1,110.2)
Payroll and employee benefits	(660.8)	(607.1)	(684.0)
Occupancy and other operating expenses	(793.6)	(752.4)	(842.5)
Royalty fees	(149.1)	(142.8)	(164.0)
Franchised restaurants' occupancy expenses	(54.2)	(55.1)	(69.8)
General and administrative expenses	(270.7)	(221.1)	(244.7)
Other operating income (expenses), net	6.6	41.4	68.6
Operating Income	**93.4**	**178.6**	**272.9**
Net interest expense	(64.4)	(66.9)	(68.4)
Foreign currency exchange results	(54.0)	32.4	(14.3)
Impairments and other usual and unusual items	(3.5)	(5.4)	(7.5)
Earning before Tax	**(28.6)**	**138.6**	**182.8**
Income tax expense	(22.8)	(59.6)	(53.3)
Net Income from Continuing Operations	**(51.4)**	**79.0**	**129.5**
Minority interest in earnings	(0.3)	(0.2)	(0.3)
Net Income	**(51.7)**	**78.8**	**129.2**

Cash Flow Statement (US$ millions) (as of December 31)	2015	2016	2017
Net income	**(51.7)**	**78.8**	**129.2**
Depreciation & amortization	110.7	93.0	99.4
Other adjustments in operating activities	53.7	(7.5)	26.6
Cash from Operations	**112.7**	**164.3**	**255.2**
Capital expenditure	(91.0)	(92.3)	(174.8)
Other investing activities	30.8	115.3	50.3
Cash from Investing Activities	**(60.2)**	**23.0**	**(124.5)**
Debt issued/repaid	(40.8)	(94.7)	46.6
Dividends paid	(12.5)	-	-
Other financing activities	11.0	(18.3)	(50.0)
Cash from Financing Activities	**(42.3)**	**(113.0)**	**(3.4)**
Foreign exchange rate adjustments	(36.8)	8.1	(13.6)
Net Change in Cash	**(26.6)**	**82.4**	**113.7**

Key Financial Metrics	2015	2016	2017
Revenue growth over prior year	(14.7%)	(4.1%)	13.3%
Operating margin	3.1%	6.1%	8.2%
Adjusted EBITDA (US$ millions)	230.2	283.4	304.9
EBITDA margin	7.5%	9.7%	9.2%
Net income margin	(1.7%)	2.7%	3.9%
Capital expenditure	92.06	92.28	175.64
Dividends reported per common share	-	-	-
Return on Equity (ROE)	(18.0%)	22.4%	26.0%
Return on Assets (ROA)	(3.7%)	5.2%	7.2%

Source: Data originally from Arcos Dorados 2019 annual report, as excerpted from Forest Reinhardt, Jose B. Alvarez, Jenyfeer Martinez Buitrago, and Mariana Cal, "Arcos Dorados: A QSR Recovery Plan." HBS No. 721-023, December. 2020.

Note: Comprehensive Income (Loss) is defined by Arcos Dorados as including "net income as currently reported under generally accepted accounting principles and also including the impact of other events and circumstances from non-owner sources which are recorded as a separate component of shareholders' equity. The Company reports foreign currency translation gains and losses, unrealized results on cash flow hedges as well as unrecognized post-retirement benefits as components of comprehensive income (loss)."

Adjusted EBITDA is defined by Arcos Dorados as "our operating income plus depreciation and amortization plus/minus the following losses/gains included within other operating income (expenses), net, and within general and administrative expenses in our income statement: gains from sale or insurance recovery of property and equipment; property and equipment write-offs; impairment of long-lived assets and goodwill; stock-based compensation for IPO-related special awards under the 2011 Equity Incentive Plan; reorganization and optimization plan expenses; and incremental compensation as a result of changes to our 2008 long-term incentive plan."

Exhibit 7 Examples of Arcos Dorados' Restaurants and Locations

a) Store Categories

Freestanding

In-Store

Mall Store

Food Court

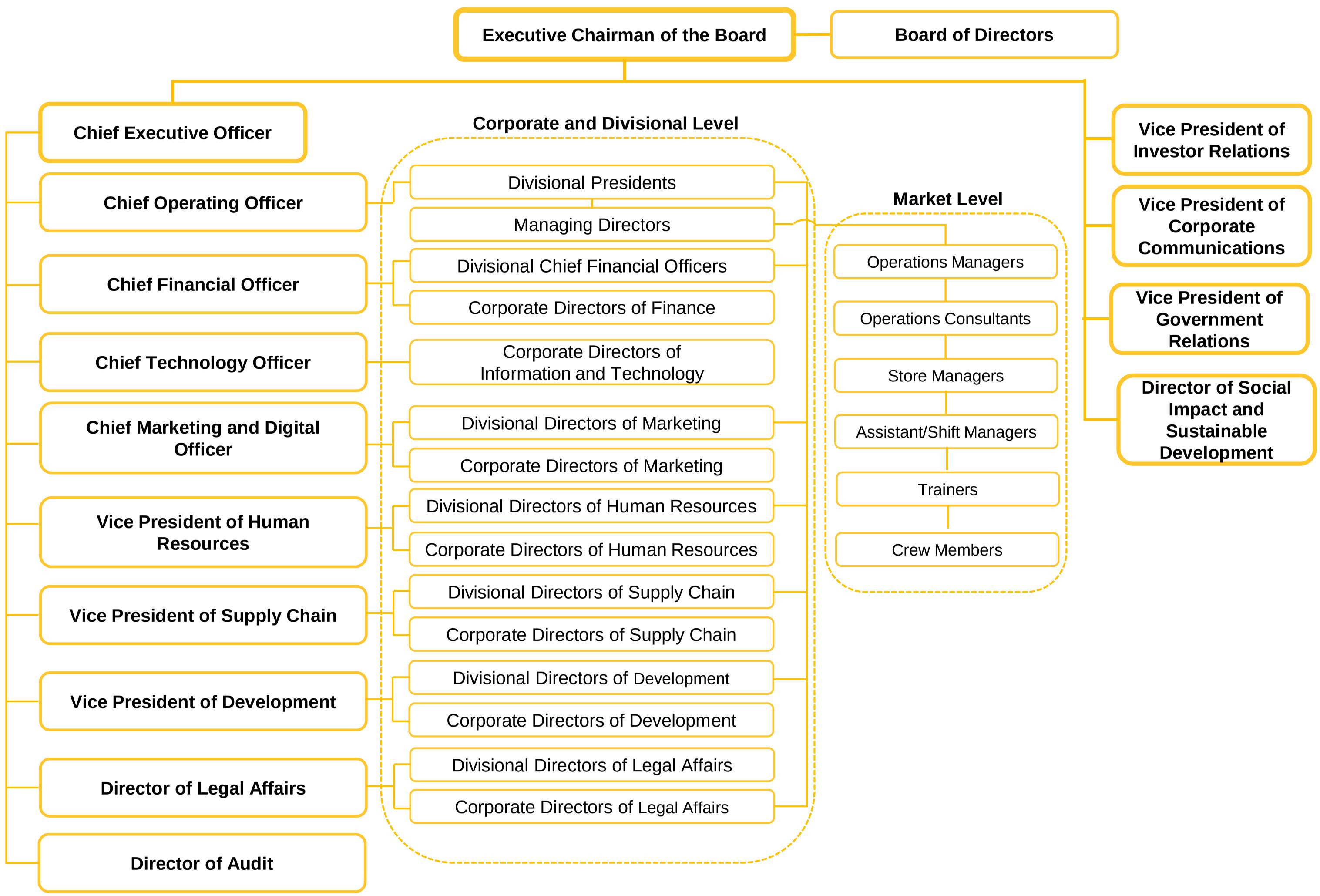
b) McCafé Locations and Dessert Centers

McCafé Locations

Dessert Center - Ice Cube

Source: Arcos Dorados, "2018 Annual Report," pp. 31-33.

Exhibit 8 Arcos Dorados' Organizational Chart.



Source: Prepared by casewriters with information from company's documents.

Note: Positions from bottom to top are displayed only for the operations team and do not include all direct reports—there were other positions at corporate, divisional, and market levels, such as coordinators of marketing, training, human resources, delivery, IT, etc. In some cases, these positions reported to corporate or divisional directors but worked closely with the operations team.

Exhibit 9 Arcos Dorados Colombia's Key Metrics in 2017 (Monthly Average per Store)

	Units Sold	Sales ($)
Whole Store	89,690	137,000
Lunch	24,501	37,966
Dinner	23,601	38,983
Breakfast	2,877	4,305
Extended Hours	2,565	5,458
Afternoon	37,388	52,542

Source: Prepared by casewriters with data provided by the company.

Exhibit 10 Contribution to Arcos Dorados Colombia's Revenues by Segment in 2017

Segment	Contribution (%)
Counter	56%
Kiosk	27%
Automac	12%
McDelivery	4%
McCafe	1%

Source: Prepared by casewriters with data provided by the company.

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