“For McDonald’s, Workers Over 60 Are Precious Inventory”
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You know the principles of inventory optimization when it comes to raw materials, finished and unfinished goods, etc. You and your leaders understand the “80-20” rule -- that 80 percent of the impact of inventory optimization occurs in the most pivotal 20 percent of inventory items. You don’t ignore the other 80 percent, but the vital 20 percent receive more attention and careful management. You identify the vital 20 percent using frameworks that look at the probability, costs and benefits of things like holding inventory, being out of stock, ordering and liquidation.

What about your human capital inventory? Your people are not simply items in a warehouse, components of a product, etc. so it’s easy to assume that “we shouldn’t analyze people like inventory.” Yet, the principle still holds: Your organizational success probably depends disproportionately on a vital subset of your human capital. So, the principles of inventory management can “retool” traditional HR numbers like turnover rates, hiring costs and yield ratios, to reveal opportunities to optimize for both your organization and your people.

In 2008, David Fairhurst, chief people officer for McDonald’s restaurants in Northern Europe, invited a university study of the performance of four hundred restaurants in the United Kingdom. The study found customer satisfaction levels were 20 percent higher in outlets that employed kitchen staff and managers over age sixty (the oldest was an eighty-three- year-old woman employed in Southampton). Fairhurst attributed the result to the older workers’ additional experience, work ethic, and face-to-face customer relations skills, along with their influence on younger workers. Customer satisfaction translates into sales and profits at McDonald’s, so these results were significant. Fairhurst noted that “sixty percent of McDonald’s 75,000-strong workforce are under 21, while just 1,000 are aged over 60 . . . Some 140 people are recruited every day but only 1.0 to 1.5 percent of those are over 60.”

This shows the business value of an age-diverse workforce, and the story might end there, but it is even more profound when seen through a workforce inventory lens. Older workers are both rare and valuable. They are the “vital 20 percent” of McDonald’s human capital inventory even though both younger and older workers do the same job.

Traditional HR metrics report turnover rates by job, obscuring the vital difference. McDonald’s tracks turnover of older and younger workers separately. McDonald’s added an in-store paper-based job application system to its online recruitment system to make it easier for older workers to apply. Should it go further? Should store managers be rewarded for building up inventories of older workers? Should McDonald’s deploy its older-worker inventory differently than its younger-worker inventory?

Retooling employee turnover analysis using inventory optimization reveals some answers. There are higher “ordering costs” to attract and induce older workers, because they are rare, and the “shortage costs” of having a store without any older workers are significant. However, it’s not a simple matter of simply “more is better.” Like inventory optimization, there’s a “sweet spot.” I recently met with Rich Floersch, McDonald’s Executive

Vice President and Chief Human Resources Officer, who said that further analysis showed the positive effect peaks at about three older workers on a crew and levels off after that.

How would inventory optimization approach this? McDonald's should treat the inventory of older workers differently from that of younger workers *even if younger and older workers perform at the same level*. The inventory of older workers is like the inventory of a rare and vital ingredient or product component, with the same management implications.

Traditional employee turnover rates would show that vacancies can be filled more inexpensively and quickly using younger workers. This is the *opposite* of what is revealed by inventory analysis, because it misses the 80-20 principle. McDonald's should manage its "inventory" of older workers with longer lead times, larger investments in recruitment, a higher tolerance for surpluses and more urgency about shortages. Older workers in one store should be an inventory for other stores, avoiding imbalances and keeping the numbers at about three per store.

Where is your "vital 20 percent" human capital inventory? Are you awash in HR metrics like turnover rates, which fail to reveal optimal opportunities? Could you retool your approach to human capital using the inventory management models you already know?

You can read more about inventory management applied to human capital in John W. Boudreau's book, "Retooling HR" (Harvard Business Publishing, 2010).

You can read more about McDonald's older-worker study in, Richard Tyler, "Workers Over 60 Are Surprise Key to McDonald's Sales," *Telegraph*, August 13, 2009.
http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/6017391/Workers-over-60-are-surprise-key-to-McDonalds-sales.html

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