



A FedEx Company

Enable Profitable, Sustainable Growth In and Beyond the Center Aisle

Transform your supply chain to meet demand
in the food and beverage market

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Food & Beverage Industry Landscape

- **U.S. median household income:**
Decreased by 6.5% since 2007¹
- **Branded food and beverage company annual growth:**
Less than 1% since 2010²
- **Supermarket store square footage:**
Down 4.6% since its peak in 2006³
- **“Center Aisle”/Dry Grocery Food sales:**
Slight reduction, as a percentage of total store sales, since 2010⁴
- **Major packaged-food companies market share:**
Lost \$4 billion in 2014 alone, \$18 billion since 2009⁵

¹ Food and Beverage Industry Report (Harris&Williams,11.2015)

² “Center Aisle of the Future” (Brand Packaging, 04.2015)

³ “Median Total Store Size” (Food Marketing Institute, www.fmi.org,12.2015)

⁴ “Supermarket Sales by Department” (Food Marketing Institute, www.fmi.org, 07.2015)

⁵ “The War on Big Food.” (FORTUNE, 05.21.2105)

The market is changing – is your business at risk?

The packaged food manufacturing industry gets more competitive and complex every day.

Shoppers are increasingly seeking fresh, healthy, and organic alternatives. In turn, manufacturers are working feverishly to create—or acquire companies that create—products to meet consumer demands, and the associated retailer requirements.

Meeting these challenges while gaining the logistics agility to ensure optimal product availability and profitability can require an overall transformation.

Recognizing the issue is simple. Creating and implementing a plan to succeed in the market is not. Consider the three steps below to begin your transformation process.

1) Begin with the profit makers

Product rationalization, consumer packaging, and sales channel development are the primary considerations for identifying products with the greatest potential for store placement, sales, and profit. Companies seeking growth through brand and product realignment were the driving force behind the majority of the 400+ merger and acquisition (M&A) transactions⁶ in the global food and beverage industry during 2015.

In order for these acquisitions—or any game-changing growth strategies—to succeed, the supply chain must enable operational efficiencies through distribution performance and reduced cost-to-serve.

2) Go next to the cost takers

To support an acquisition or significant product portfolio expansion, companies have an opportunity to assess how cost-effectively their distribution operations can serve an expanded customer base—or distribute more products to existing customers. Work with your team and consider the impact of redundant or inefficient facilities—or even the need to create a new distribution network altogether.

If your organization does not possess network analysis and scenario-building expertise as a core competency, seek professional guidance from a third party logistics (3PL) partner.

3) Gain expertise through efficiency generators

Working with a 3PL partner with a track record of integrating new products and acquired assets quickly and cost-effectively may make sense. Give thoughtful consideration to speak with providers who have the experience and expertise to meet or expedite your transformation timetable while mitigating the associated risks. Consider the value of a single provider that can perform a comprehensive range of logistics services—and the potential benefits of time savings and visibility that you can receive.

⁶Food and Beverage Industry Report (Harris&Williams,11.2015)

Elements of transformational change

After you've considered the three steps and are committed to making the change, it's time to get to work. Your plan should include all of the following elements.

Collaborate to identify inefficient infrastructure, capacity, and market response

Industry leaders recognize the impact that a strategic decision in one area of their supply chain creates on downstream efficiencies. Look for opportunities to eliminate waste and inefficiencies by considering regional distribution centers, demand-driven inventory allocation, postponement, trade customization, consolidated transportation, and direct-to-store delivery.

Visualize the ideal distribution network

Options include plant-adjacent distribution centers augmented with regional facilities that build retail-specific labeling, cases, and pallets. Leveraging inventory and order data history to construct minimum order quantities and shipment frequency can optimize store replenishment efficiency.

Anticipate frequent changes in inventory profile by engineering flexibility into your distribution center layout. Allow for pallet and case-pick efficiencies, incorporate display build capabilities, and integrate enterprise resource planning (ERP) and warehouse management systems for a seamless transition to meet changing customer order profiles.

Evaluate alternatives to optimize customer service while containing costs

When companies grow or downsize significantly, in-house distribution network analysis expertise may not be available. Partnering with experts in transportation, facility layout, workforce management, systems integration, and emerging technology implementation can help. This allows your company to focus more on your core competencies, such as product development, manufacturing, sourcing, and sales & marketing.

Investigate technology for flexibility, scalability, and visibility

Company growth continues to be generated by acquisitions. These transactions are executed on the premise of growth and profitability, but pose significant systems challenges. To achieve the flexibility, scalability, and visibility that is required to support growth, seek help from 3PL providers who possess the expertise and experience within the industry.

Identify a 3PL provider that has implemented a broad range of systems successfully and has a dedicated IT staff to support integration and maintenance to mitigate facility disruptions.

Implement a distribution network to handle the future

The greatest supply chain cost is uncertainty. Today you are dealing with SKU proliferation and emerging distribution channels. Tomorrow will bring a new challenge. For example, how soon will you need to accommodate direct to consumer delivery? When will you have the agility to support retailers who are offering same-day delivery but are constrained in terms of distribution center size?

Changes in order profile—from full pallet, to mixed pallet, to case-pick, to each pick—have a huge impact on distribution infrastructure and costs. When your current operation lacks flexibility and expertise to control costs, outsourcing all or part of your network can help.

How can an outsourced logistics partner address your challenges?

	BUSINESS ISSUE	OPERATIONS CHALLENGE	HOW A LOGISTICS PARTNER CAN HELP
1	Mature Market	Reduce SG&A	Industry growth has become stagnant. Outsource existing distribution centers to capitalize on the cost structure—including leveraging assets, upgrading technology, gaining operations expertise, and improving productivity at lower costs.
2	M&A Activity	Increase Network Efficiency	<p>M&A activities and divestitures can create operations and distribution chaos. Realign network to decrease cost-to-serve and improve customer service.</p> <p>Gain expertise in local transportation infrastructure, state and local taxation, commercial real estate availability and cost, and workforce wages and availability.</p>
3	SKU Proliferation, Product Segmentation	Improve Inventory Visibility	<p>When companies introduce new products, the inventory complexity leads to higher costs and greater supply chain risks.</p> <p>Upgrading technology improves inventory visibility and operations flexibility. It also simplifies inventory re-slotting, which leads to reduced worker travel time and costs. Implementing optimal material handling systems and automation can improve throughput to meet seasonal spikes.</p> <p>Postponing packaging and retail display enables manufacturers to expand their product line cost-effectively, while optimizing retail promotion profitability.</p>
4	New Channels	Mitigate Service Risk	<p>Retailers have created a variety of new formats, including smaller urban stores, specialty grocery chains, and ecommerce subscription options for household basics. This has created additional distribution complexity in inventory profile, order picking, and transportation.</p> <p>Reduce the risks—inaccurate orders, missed shipments, and lost retail customers—by leveraging a 3PL or investing in facilities and systems for data-driven inventory and order management.</p> <p>The return on technology investment is predictable, reliable, and long-lasting</p>

Transform to achieve profitable growth

The supply chain must continue to transform to meet ongoing industry challenges—market maturity, SKU proliferation, M&A activity, divestitures, brand re-alignment, and ever-growing retail channel complexities. Your ability to address this complexity while containing costs will play a huge role in your future profitability—inside or outside of the center aisle.

About GENCO

GENCO, A FedEx Company is a leading supply chain solution provider specializing in Product Lifecycle Logistics® for technology, retail, consumer and industrial goods, and healthcare industries. Operating more than 38 million square feet throughout North America, GENCO provides a comprehensive range of integrated logistics services to enable growth, minimize cost, mitigate supply chain risk, and improve customer service. Services include inbound logistics, warehousing and distribution, fulfillment, contract packaging and product configuration, systems integration, returns processing and disposition, test, repair, refurbishment, product liquidation, and managed transportation. Visit www.genco.com or www.gencomarketplace.com for more information.

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