



ROADMAP TO GROWTH IN THE FOOD & BEVERAGE AND CPG INDUSTRIES

By Junction Solutions

Introduction: Overcoming the Barriers

The goal for every company is growth and to see it reflected in revenues, profits, market share and brand influence. However, the road to growth can be bumpy and challenging due to many common business barriers, as well as others that are specific to the food and beverage and CPG industries. In a 2013 survey by KPMG¹, the food and beverage executives surveyed cited these significant growth barriers facing their company over the next year:

- Pricing pressures
- Volatile commodity and input costs
- Rising labor costs
- Regulatory and legislative pressures

This paper will outline how a well-executed strategy of technology and change management can help companies overcome these barriers and pave the way to a road of growth and profitability.

Junction Solutions



B

FOOD & BEVERAGE INDUSTRY BRIEF |

Pricing Pressure

One of the biggest obstacles to growth is when competitors maintain low prices in the marketplace. This squeezes margins and threatens a company's profitability. In this price-intensive environment, companies must find ways to increase market share by acquiring new customers, retaining existing customers, differentiating products or opening up a new sales channel.

For many companies, highly differentiated products and ones targeted to specific customer groups allows them to charge higher prices compared to their other products. One key strategy gaining popularity for food manufacturers is adding a new sales channel, such as online retail. By adding this new channel, manufacturers can increase sales, move a product that otherwise might be destroyed, or expand in new geographic markets.

Two of the most effective strategies that help retain customers and generate new ones include launching new innovative products and delivering exceptional customer service. As author Warren Greshes advises in his Supercharged Selling program, "Customers buy on price because they can't find extraordinary quality, convenience, service and value."

Whatever strategy a company chooses to increase market share, the focus should also be on optimizing operations and lowering costs. Improving production, optimizing the efficiency of a supply chain, minimizing waste and reducing costs not only lessens the impact of pricing pressures but it also enables a company to grow profitability.

Volatile Commodity and Input Costs

The inherent volatility in commodities (grain, corn, wheat, sugar, etc.) is another common growth barrier and perhaps the greatest contributor to such tight margins in the food industry. This volatility also isn't going away any time soon either due to the increased demand from emerging markets, climate issues in certain agricultural regions and the continued increase in biofuel production. Other unpredictable input costs are in energy due to instability in certain oil producing regions, hurricanes and other mitigating issues.

The strategy of product differentiation can also be an effective strategy in this barrier. For example, product differentiation gives some companies more latitude in passing along commodity price increases since their specialty customers tend to be more acceptable of this. On the other hand, the rest of a company's customer base may not be readily acceptable of any price increases. In that case, a strategy of improving operational efficiency and reducing costs, as well as a fundamental change to a business model or a certain business process, such as using less of a commodity in a recipe, can be more effective. Unlike commodity costs and market dynamics, companies can control internal operating costs.

Labor Costs

Labor is often one of the largest expenses in measuring cost of goods sold for a food company. This expense can increase due to a lack of productivity or increased overtime. Frequently, workers waste a significant amount of time searching for information and checking its accuracy. Since many workers still

perform much of data collection manually, this can slow down production and ultimately compromise customer satisfaction. An automated forecasting system, for instance, can prevent waste in terms of production man-hours and a scheduling software system can help a worker make the best use of capacity, as well as minimize products being produced on overtime.

The primary reason why automating business processes is so important is it empowers employees away from manual processing tasks to more strategic roles that directly impacts the growth of their business. Best practices in manufacturing call for delegating decision-making all the way down the ranks to the customer-facing and plant floor employees. This can only work when employees have timely access to actionable information that empowers them to make informed, real time decisions.

"This is a huge improvement over what we used to do. Our employees would receive goods and mark up the correct paperwork, but it could take at least a week—and sometimes even a month—for the shipment to be entered into the computer. Now, we're actually operating in real time," states H-E-B Group Vice President of Manufacturing, Bob McCullough.



Increased Regulatory Compliance

Indisputably, food companies operate in one of the most regulated industries with many companies having to comply with multiple food safety regulations that include HACCP, GFSI, SQF and now the new Food Safety Modernization Act (FSMA). FSMA is expected to have a significant impact on companies in terms of the cost and time needed to comply with the rigorous new record-keeping and reporting requirements. Some food segments like the seafood industry have tough additional requirements that include providing information for supplier verification, compliance and registration with the Food and Drug Administration (FDA).

Many food companies are already evaluating their internal processes to determine if they have the right management strategy and systems to comply with the new, often labor intensive and costly safety requirements. Compliance, particularly with the FSMA, will be a daunting undertaking for companies operating with multiple steps in their production processes and running outdated legacy technology or manual systems. For example, populating records with supplier data, as well as process data, is beyond the capabilities for many companies operating homegrown and outdated legacy ERP systems.

The Path Forward to Growth

For food and beverage companies, the road map to growth may include all or part of some of the strategies just highlighted earlier in this paper.

- Optimizing operational efficiency and reducing costs
- Promoting innovation and product differentiation
- Increasing market share by customer retention, customer acquisition and new sales channels
- Delivering a consistent, quality customer experience

Yet, the execution of these strategies poses the greatest challenge for food companies. Christian Hutter, Executive Vice President, Strategy & Products, at Junction Solutions, has led hundreds of successful change management and IT implementations in the food and beverage and CPG industries. Hutter says, *“Many companies know the strategies they would like to implement to get on the road to growth, they know their business goals, but they often don’t know where to start or how to find the right road.”* The reality is most companies don’t have the business processes and the right technology and infrastructure in place to execute their growth strategies. Many companies, for example, still rely on manual spreadsheets for tracking and managing many of their critical business activities including food safety compliance.

Perhaps the biggest challenge in executing growth strategies is the poor integration of a company’s enterprise systems, which fundamentally impairs visibility in an enterprise. Most companies operate numerous disparate systems and databases, all running on a mix of legacy, Windows and web-based platforms with aging and complex architectures.

“All too often I see companies trying to operate dozens of disparate systems with a glut of integration connections which resembles a modern day Tower of Babel. Not only are these disparate systems costly and challenging to support and upgrade but also virtually impossible to fully integrate efficiently,” Hutter notes.

A company’s complex web of under-performing legacy systems also can’t solve today’s greatest IT challenge: harnessing Big Data into timely, meaningful and actionable information that promotes operational efficiency, cost reduction, a transparent supply chain, in-depth analysis and informed decision making. This requires a flexible and scalable ERP system, which offers specific functionality addressing how a food company does business, as well as seamless integration with a company’s quality system, business intelligence/analytics, warehouse management system, and other key enterprise applications. For some companies, it may also mean moving systems to the Cloud for low total cost of ownership, increased data transparency and the transformative benefits to its business model.

Next Steps

Technology will only perform at its highest level if a company has the appropriate standardized and efficient processes in place. Since a food company’s core competency is not IT or change management, making decisions in these areas can be overwhelming. So, before investing in any

new technology or changing business processes, companies should work with their system integrators or IT partners – preferably consultants with extensive expertise in not only IT but also in the food and beverage and CPG industries – to evaluate the performance of existing systems and what new functionality will be required to execute change management effectively.

What then should companies expect from their partners? A clear and thorough IT and Process roadmap, aligned with organizational strategy and goals, should be delivered. This plan should include the following:

- complete review of operations and workflow,
- an evaluation of assets and infrastructure, people, processes, technology and IT deployment models (i.e. on-premise, hosting, cloud, or a hybrid approach)
- identification of growth opportunities to improve margins, optimize efficiency, cut costs and reduce risk.

Once the IT partner delivers its strategy and recommendations, some food enterprises may choose to wait because of potential risks in any enterprise implementation or the costs. Contrary to old perceptions, today’s new technology, especially an ERP system, is easier to implement and delivers a lower total cost of ownership compared to years ago. In reality, strategy will only take a company so far in reaching its growth goals. As microcomputer pioneer Gordon Eubanks said, *“Strategy gets you on the playing field, but execution pays the bills.”* In this case, waiting on the sidelines, even with a plan in hand, will not even put a company on the road to growth, or even stay ahead of the competition. With an experienced partner, a company can successfully execute its plan with minimal risk, cost and anxiety so it can move forward on a road to sustainable growth.

“One plant saw a 40 percent reduction in ingredient and packaging inventory since real-time information... became available. The slow manual processes occasionally led to out-of-code ingredients and emergency replacement of those ingredients,” said H-E-B’s McCullough. *“All these extra costs certainly didn’t contribute to our bottom line.”*

Junction Solutions

Junction Solutions is a leading provider of solutions and services, supporting Microsoft Dynamics AX, and specifically designed for the food and beverage, CPG, and life sciences industries. Junction Solutions’ consultants provide the industry know how, analysis, framework and guidance so enterprises can execute the strategies and change management required to achieve sustainable growth. The company’s consultants are the most experienced in the industry, with each engagement led by senior consultants with decades of experience in IT and in the food and beverage/CPG markets.

Footnotes:

1. 2013 Food and Beverage Industry Outlook Survey, KPMG LLP
2. H-E-B Case Study http://www.junctionsolutions.com/wp-content/uploads/2013/09/JS_HEB_CS_061411.Web_.pdf

For more information regarding solutions and strategies that help leading food and beverage and CPG companies grow, visit www.junctionsolutions.com or email us at webinfo@junctionsolutions.com