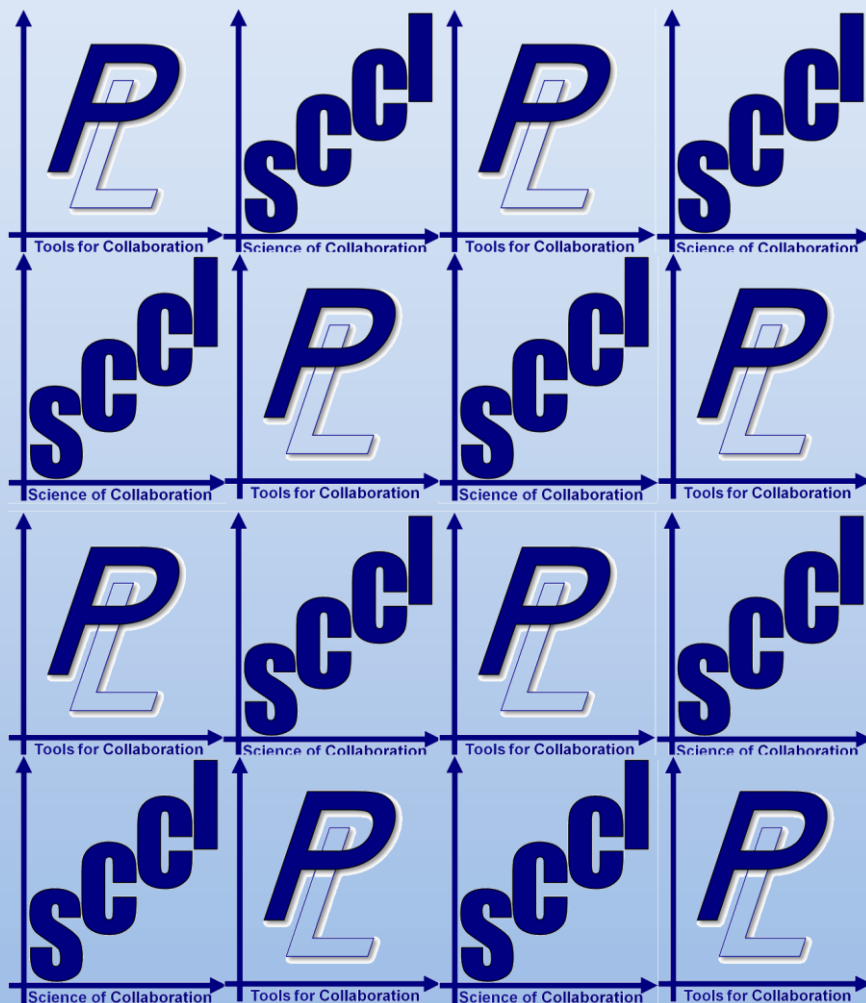


Research Summary

The Food and Beverage Sector 2005 - 2017



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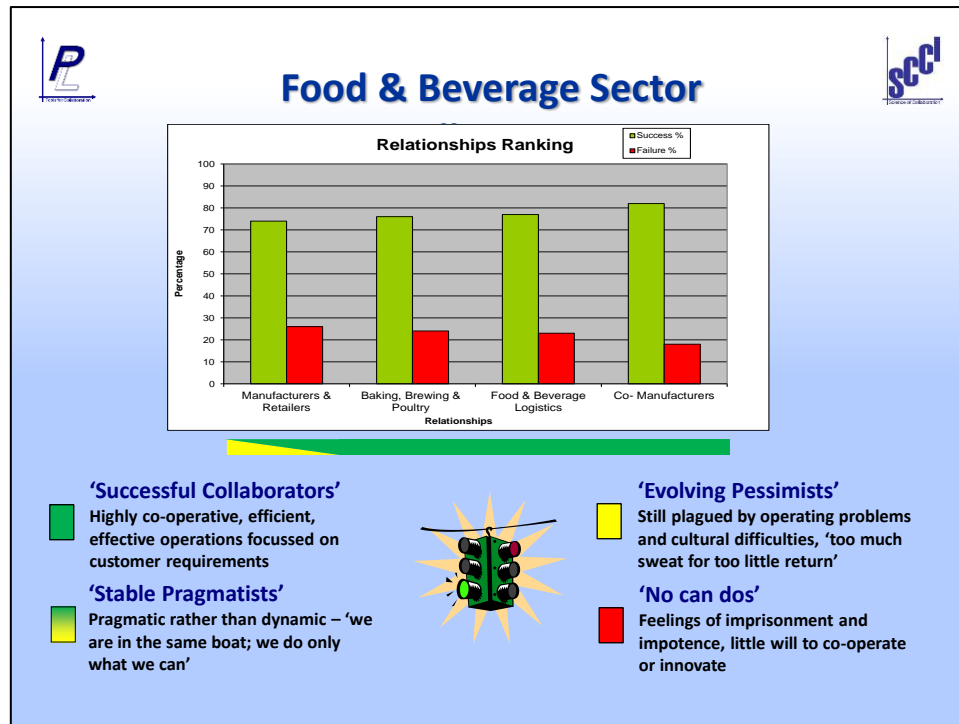
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Research Summary – The Food and Beverage Sector 2005 - 2017

Executive Summary

Between 2005 and 2017 we examined 25 relationships involving companies operating in the food and beverage sector. This report summarises the findings from our research. It does not concentrate on the individual projects but rather on the particular relationship management features that characterise this sector.



We summarise this research in four parts:

- Baking, Brewing and Poultry Supply Chain
- Co-Manufacturers
- Food & Beverage Logistics
- Manufacturers & Retailers

Their relationship performance is compared in the chart above.

Overall Conclusions

- Across the sector traditional ways of operating with partners is still evident with a focus on price, and outdated methods of dealing with ‘suppliers’ and retail customers resulting in poor collaboration from both sides and self-centred behaviours
- Gradually it is dawning on the supply chain participants that collaborative working could provide increased benefits such as cost reductions, improved quality and incentives to innovate

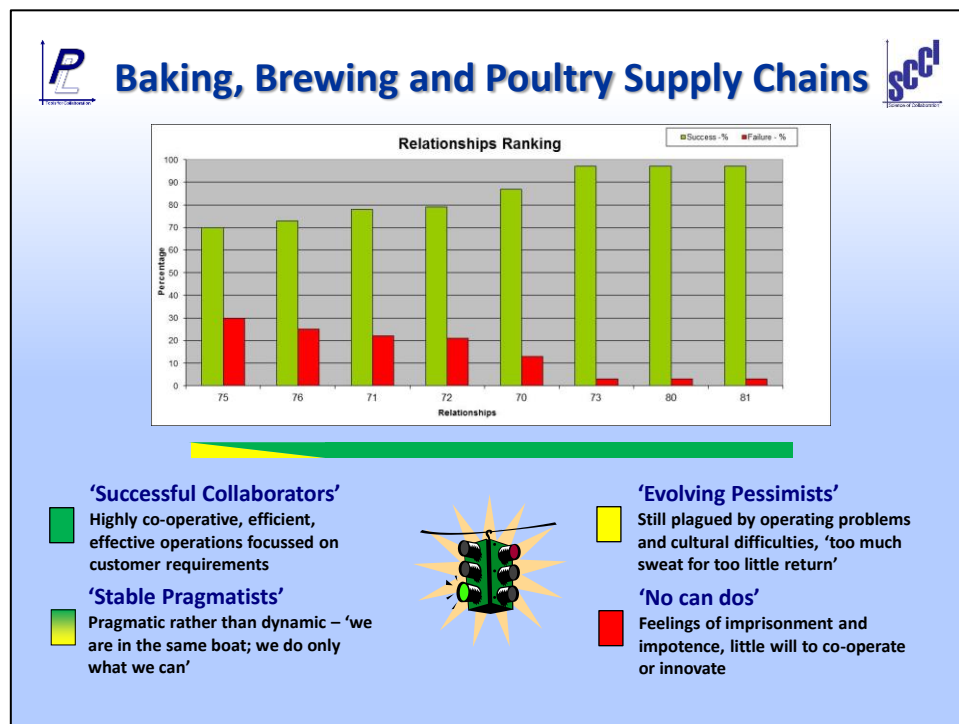
- Large companies in this sector will often ally with small specialist companies that can provide unique products and benefits and, managing these relationships will often challenge their established methods of dealing with 'suppliers'
- Co-manufacturing collaboration involves a much closer interaction which results in the growth of interdependence and as such, regardless of the size difference, there will be a levelling of the balance of power between the partners. This can cause tensions which are difficult to manage
- Where there was strong, determined leadership from relationship managers, the enterprise adapted to match changing business requirements. Where it was not present there was complacency and dissonance
- Effective collaborative management along the supply chain was often patchy. Where careful attention was devoted to the interaction processes between members considerable success was achieved both in terms of cost reduction and competitive advantage. It is clear that the ability to replicate such collaborative relationships with other partners is a valuable capability
- Sustainability was often seen as a by-product rather than a prime motivator
- Relationship management characteristics did not appear to vary, despite international locations

"They don't think that we are important. Nobody ever asks us what we can do to help."

Baking, Brewing and Poultry 2004 -2008

Background

In this section we describe 8 substantial UK relationships in the cereals supply chain. It begins with the farmers who grow, harvest and dry the grains. It is then collected by hauliers who take it to intermediaries where it is aggregated. They in turn sell it on to the manufacturers such as millers, brewers and animal feeds producers. Each of their stories is shown below using managers' own words. Their overall relationship performance is compared in the chart below, best on the right.



Farmers

"We are a very traditional business yet we have embraced new technology and produce a quality product. They sometimes treat us like commodity suppliers."

"They expect they can come with little notice to pick up my grain. They don't seem to realise that we work hard in all weathers in the depths of the countryside."

"We are always having planning and quality disputes with their operations people. They keep us in the dark."

Hauliers

"This food product needs specialist handling and must be delivered safely in optimum condition within a tight time window. If we get this wrong the load will be rejected at considerable cost and inconvenience."

"It's all about price. They negotiate until 'the pips squeak'. And they always want it done now!"

“They don’t think that we are important. Nobody ever asks us what we can do to help.”

Intermediaries

- **Transport scheduling**

“We can never get the farmers on the phone and they constantly complain that we turn up without notice.”

“Trucks don't always arrive when they are expected. Sometimes farmers won't load, sometimes they get stuck somewhere. However, they understand that dealing with trucks is not easy.”

“To improve the relationship I think we can look at the haulage issue together. It is one of our biggest costs and it can be a make or break.”

“At certain times more honesty is required from their planning department in relation to timings of deliveries and in regard to deliveries not arriving on time.”

“I think we could give them more information about arrival times, but it would be very difficult and time consuming to do it.”

- **Performance measurement**

“We have a performance measurement system with one supplier, but not with the others.”

- **Problem solving**

“There are no problems with information flows. In fact, they are very good; they give me all the information I need. We don't have a formal procedure for solving problems, but they are resolved successfully.”

“We’ve both tried to come up with further cost reduction ideas but neither side can agree.”

- **Willingness to collaborate?**

“We don't talk about anything else other than price and volume. More information would not make a huge difference. If they pay market price we are happy to supply.”

“It is a big issue when they buy from farms bypassing us. This undermines our position, gives the impression of false demand and increases prices.”

“We have started to explore building a closer relationship but we are uncertain about the customer’s understanding and long-term intentions.”

Manufacturers

- **Opportunistic business model?**

“I am buying a commodity product, which is bought against industry norms purely on price. It may be difficult to have a totally open discussion re price as my objective is to buy the cheapest possible and theirs to sell at the highest possible.”

“I would not like them to be a success at our expense.”

- **Performance measurement**

“We don't have a true and detailed view of full costs. We tend to look at costs on too crude a level.”

“We spent a lot of time developing the performance measures but I don't know how they are interpreting them or whether they are working.”

- **Collaboration**

“The quality of the product and service has improved since we started the relationship. They have understood what we want, and they deliver. Benefits are equally shared. We both get good things and we are now getting the next supply chain level involved.”

“I don't believe that concepts such as innovation are thought of as being relevant to this chain. However, I do feel we have a good working relationship in general and that both parties would be willing to investigate these 'new concepts' to introduce new benefits and exploit new opportunities.”

“There has been some proactive stuff, like bringing the farmers to see us.”

“A more dedicated resource should be made available to develop the relationship, and to increase the gap between our competitors by creating a wider point of difference because the market is catching us up.”

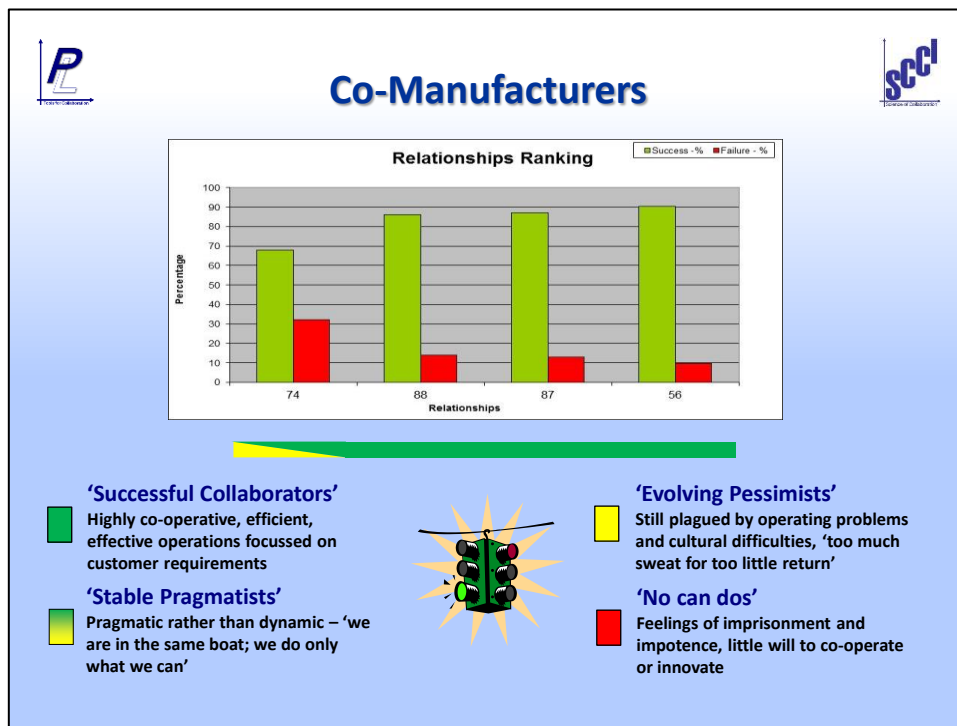
Conclusions

These agricultural supply chains were very traditional businesses that had always run on transactional lines with a strong focus on price. Gradually it was dawning on the participants that collaborative working could provide increased benefits such as: cost reductions, improved quality and incentives to innovate. Indeed a small number of relationship-building initiatives had got off the ground and were exploring ways of going further, especially as market forces were pressuring them to stay ahead of competitors.

Co-Manufacturers 2003 - 2010

Background

In this section we describe 4 European manufacturing relationships. These consisted of blue chip global food manufacturing companies and their much smaller, specialist partners. The latter were world class manufacturers in their own right. Through the relationship they acquired investment, volume production, knowledge such as quality management, access to wider markets and increased reputation. The larger partners gained access to unique, high quality products, flexible, cost efficient supply, product innovation and specialised market knowledge. The 'story' is told using quotations from the managers and categorised into positive and negative views. Their overall relationship performance is compared in the chart below.



Positive Features

- **Trust**

“The personal relationship and above all the high commitment of the team is worth mentioning. Being reasonable is key to the success of the relationship and maintaining trust.”

“Trust is high; they don't tell us about other clients so they don't tell others about us. This is very reassuring.”

“We run a very trusting system we tell them our 20 week production forecast so they know we are not selling elsewhere on the open market.”

- **Interdependence**

“We rely on them more than they rely on us. They do too much for us - if they burned down tomorrow we could not produce the product. Of all our co-manufacturers there is the most potential in this relationship. I rate them highly.”

“We are their major customer and they are our major supplier for this line. We try to help each other.”

“They tested the market to see if they could replace us but no one else came close.”

“We have much of the history and can help them to understand the market and the business better. They often look to us for advice and appreciate our help especially when they have new staff in post.”

- **Continuous improvement**

“Combining their flexibility and innovation with our know-how ensures we have a long-term, productive relationship.”

“If you go back 10 years everything was done by hand. They have automated all that and become very good at continuous improvement and process streamlining.”

“We have dramatically reduced stock in the supply chain which substantially reduces our joint costs. I am positive that there are more, significant savings to be made (total supply cost), by us taking on greater responsibility for the supply of the product to the market.”

“We have considerably improved our production techniques which has increased our ability to deliver to a variable order schedule.”

“We have agreed a three year supply contract to provide them with ordering security. It has allowed us both to invest confidently.”

“If they want a special product or innovation we do everything to make it real.”

- **Joint working**

“I have a good working relationship with everyone I deal with in their organisation. I even call their CEO himself on his cell phone when I have a problem and he will deal with it.”

“Representatives from the whole supply chain meet quarterly to better understand how we can improve. The concept is still developing but, if we want to adapt quickly to the market, we have all got to work together.”

“For some products we feed their forecasts directly into our production system.”

“When we are working on promotions with the buying team who have a broad responsibility for business performance, we get good results.”

“We trade pretty effectively so we should put our heads together. We want to be challenged.”

“We are offered production weeks during which they will do whatever we want. This is a very valuable service.”

“There are odd occasions when we visit each other's sites and we discuss openly.”

- **Levelling the power balance**

“We exercise our power over them in a paternalistic way.”

“We like to be independent and do not normally accept capital funding from our customers; this way we can offer the best service.”

Negative Features

- **Misunderstood collaboration context**

“Five years ago they changed the way our account was managed. We are no longer a strategic partner, we are treated as if we are one of their production lines, we are bombarded by trivial performance measures, issues have remained unresolved and the value of our relationship has diminished by 40%.”

“Informal, strategic conversations don't tend to happen so we miss opportunities to take a bigger view of the business.”

“We never sit down with them to have an open planning discussion about the wider issues of stockholding, demand and sales plans as I do with our other customers. We only talk about policies when there are problems.”

“There are strong differences in approach between us, which leads to misunderstandings on both sides about the motives of the other.”

“We got them out of large, expensive cold store holdings. Now they don't hold stock until the beginning of November. I wonder if they understand the competitive advantage we have given them.”

- **Inadequate planning and forecasting**

“In some categories of product we disregard their system forecasts altogether.”

“Forward plans are based on our programme and translated by our partner into packaging requirements. The problem is their suppliers are not used to this type of special order and this has resulted in us not having packaging ready when needed.”

“Our biggest issue is supply chain planning. For instance we often get orders late in the day that exceed the forecasts. Orders can go from 0 to 1000 overnight regardless of the production lead times involved. Because the supply chain is 'system driven' this causes serious problems.”

“In the main, operations relying on the Supply Chain IT system have cost us all money. Sales and sales opportunities have been missed.”

- **Communication mismatches**

“In the past year due to the workload of the co-manufacturer, the working relationship was less close than previously. They are not very good at answering emails or faxes. The best thing to do is use the phone although that is not always answered.”

“We like to think that we give out a lot of information but in actuality there is not enough detail, it is often too little, too late.”

“We are very open and honest about our mistakes and they are not. This is the basis of my mistrust. It makes me wary of exposing our business to being exploited in this relationship.”

- **Inappropriate performance measurement**

“We use the same weekly measurements that we use in our own production lines. They are not too pleased with this because their ordering and production systems are completely different.”

“Their performance measures are focussed at low levels rather than the overall outcome. This is the system they use with their own factories but it does not match the service they buy from us.”

- **Frustrated people**

“Their frequent personnel changes have limited our ability to develop new products and made dealing with them difficult over the years.”

“While the people we deal with try their best but they are at too low a level, they cannot seem to make things happen. They do not seem to have access to people with authority to make change.”

“They are rather bureaucratic which means we sometimes have to chase things for a long time before we get resolution.”

Conclusions

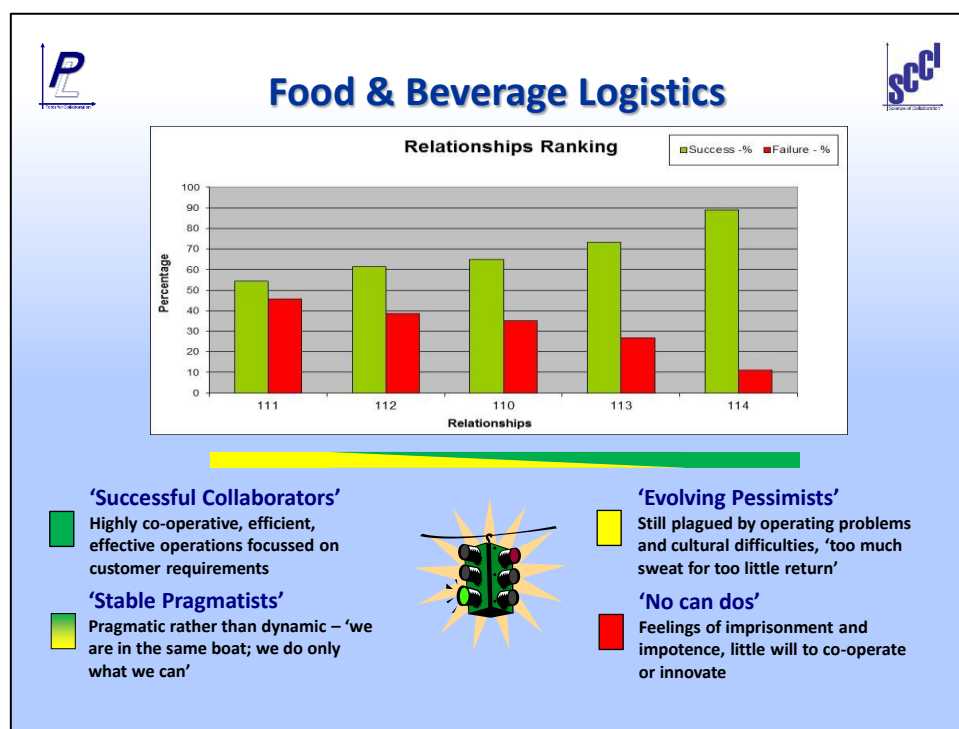
Large companies in this sector will often ally with small specialist companies that can provide unique products and benefits. However, managing these relationships will often challenge their established methods of dealing with ‘suppliers’. Co-manufacturing collaboration involves much closer interaction which results in the growth of interdependence and as such, regardless of the size difference, there will be a levelling of the balance of power between the partners. When the larger company fails to understand that they are managing a strategic relationship between equals, then serious problems can arise. A key factor in managing these, often long-term relationships, and achieving the considerable mutual benefits, is effective communication between the supply chain members.

“The two business cultures are so different in terms of accountability, openness and information sharing. We can come over as being a bit blunt and ‘in your face’ when dealing with problems. They are not used to this attitude from suppliers.”

Food & Beverage Logistics 2008 - 2016

Background

This section describes 5 long-standing, major logistics relationships in the food and beverage sector. Their aim was to optimise the logistics movement of goods with effective collaboration programmes which brought together manufacturers and third-party logistic service providers. This was revolutionary because it involved competitors working together. The highlights are described through ‘voices’ from within the organisations according to whether the relationship was seen as successful or struggling. Their overall relationship performance is compared in the chart below.



Successful Relationships

- **The business case is key**

“As a result of participating in a sustainability and carbon footprint project run by an independent broker we saw that opportunities for us abounded.”

"There is a compelling financial case for outsourcing our food logistics operations and we will derive significant financial benefits from moving to a new operational location. We chose them because they offered the most attractive and competitive solution and clearly demonstrated their commitment and desire to work with us."

“Initially the 3PLs hated the scheme because they thought it would hit their margins. Most 3PLs and 4PLs are only focused on the cost effectiveness of their operations. They are not interested in the bigger picture or sustainability.”

“We wanted to set up a hub outside of town where all the suppliers of the retailers in the city centre would deliver, and then a shuttle service would run backwards and forwards making deliveries. The main contender to run the hub wanted financial compensation because they said it was their idea in the first place. This killed the initiative.”

- **Making it happen**

“There are three main rules for this relationship. We must share benefits equally. We mustn't compromise security of product or development. Neither of us must lose out because of something the other does, such as lack of care with customer deliveries so that our partner loses sales.”

“Interoperability of computer systems such as SAP was the enabler.”

“Geographical synergies between the distribution networks of the companies played an important role. We realised that our operating models and objectives were similar and therefore we could work together. There was common understanding between us – your direct competitor can be your best partner.”

“There was a common bond that we were all kind of in it together and therefore anything we could do to help each other was a good thing.”

*“Thank God my boss doesn't come over here very often. I've been doing collaborative deals with Boots and anybody else; anything that we could get to backload. It's what was keeping the depot profitable. As long as the head office can't see it, you can do what you *** well like!”*

- **Scope of operations**

“We took a very pragmatic approach to the thing at the beginning and said we weren't going to overcomplicate it. We started small to see if it would catch on. It was just 2 runs a week on an ad-hoc basis.”

“By consolidating our loads we have eliminated 28,000kms of empty trailer journeys, saved 95,000 litres of fuel, cut 250 tonnes of CO2 and saved £300,000 in fuel and other costs year on year.”

“We have to be very careful with some of the European legislation. Commercial relationships with third parties have to be done by individual companies.”

- **Breaking the mould**

“People were used to one-way deliveries. We tried to get people to think outside the box on what they could actually backload.”

“The independents were closer to the front line and the profits because it's their own money. When you actually get into some of the bigger boys they're so removed from it that the politics gets in the way of common sense and profit.”

“They really couldn’t see that we were trying to get to the point where instead of them all hunting for work on a daily basis, having to go for spot rates, they could actually get a degree of stability and then the profit would start.”

“Sure, you’ve got a big contract, but actually you’re making no money on it. You invested in the kit for a high maintenance retail customer and your trucks are only 30% full.”

“They were petrified that if they shared a truck they would lose control over who got the first delivery.”

- **How important is branding in logistics?**

“If I’m driving down a motorway and a Sainsbury’s truck is in front of me that’s not going to entice me to go in to the store. What will entice me is the product range, the service offering and the quality and value for money.”

“What is their truck doing in our yard, is it lost?”

- **Exploiting competitive capability**

“We have learned a lot from our collaboration and have taken the concept to other partners. These operations are now worth £22m per year.”

“We are both in-synch going forward with a new initiative on short lead time deliveries to the retailers of non-competing products. This also satisfies our need to maximise the use of our vehicles that are run 24/7.”

“We are ideally positioned to offer flexible solutions to support their growth in a dynamic market. We look forward to working in close partnership, and adding value to their supply chain.”

Struggling Relationships

- **Customer frustrations**

“We used to be a traditional business providing a standard offering to our customers but in the face of greater competition we are changing and becoming more innovative. We need a different logistics service that is more dynamic.”

“Requests to our logistics team do not result in any changes to the way the businesses operate; I therefore assume they are not acted on.”

“Alignment between the businesses seems to be stuck at a logistics level i.e. how much effort goes into wider business engagement? As long as the costs and mechanics behind the contract remain a mystery to us, it may prove difficult to get real traction behind business improvement initiatives outside of the core logistics team.”

“Our business is growing rapidly and we are opening new outlets weekly. Our logistics service is not keeping up!”

- **HQ view of logistics**

“Our business has changed dramatically since the start of the contract with our logistics provider, and whilst I believe that they are committed to supporting our business, I feel that they do not fully understand the intricacies of each of our brands and sub brands. This can inhibit their ability to fully support the strategic objectives of our business.”

“Our logistics provider tends to be reactive and unwilling to generate ideas. However the customers are also vague as to what they want and the communications systems that support finance, procurement and planning from both sides are not great.”

“I am committed to mapping out and putting in place processes that touch my team and our logistics supplier, and look forward to building new relationships with them.”

- **Logistics provider in the dark**

“Their systems creak to contend with the information needs. They take a limited view of analysis and understanding of the costs.”

“Improved Management reporting is essential as is a clearer breakdown by individual brand.”

“There does not appear to be a forum to discuss their vision for the future and what the joint strategy between us should be to achieve this. With many brand owners, potentially wanting different levels of service, it is not always easy to deliver what everyone is looking for or least having an open forum to explain what can be achieved.”

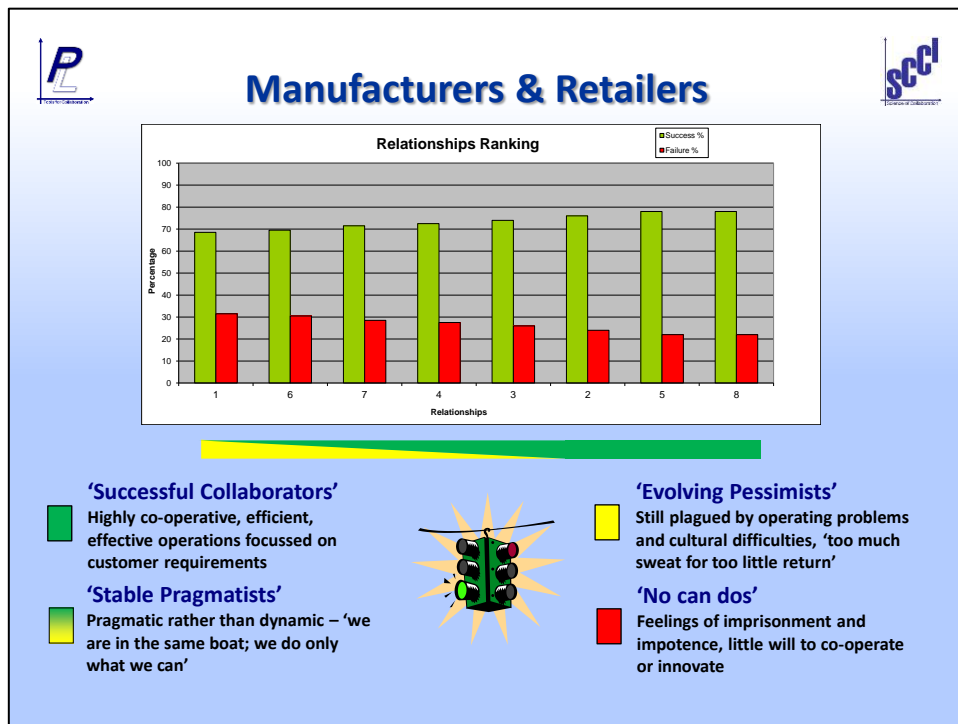
Conclusions

It is clear that a compelling business case and a joint operating model are the foundations to the establishment, continuation and successful benefit realisation of collaborative logistics operations. Without strong, determined leadership from relationship managers, the business rationale will fail to adapt to support changing requirements and complacency or dissonance will result. Following on from these, collaboration implies close interactions between the partners which demand tailored processes and commercial frameworks. An important but often overlooked benefit that can emerge is the capability to replicate such collaborative relationships with other partners. Finally the traditional view of vehicle branding, when considered pragmatically within the logistics context, is a ‘non-issue’.

Manufacturers & Retailers 2009

Background

In this section we describe 8 ASEAN relationships between manufacturer’s key account managers and their retail customers. Each was administered by a two person key account management (KAM) team. The survey was run remotely with a subset of the top ten questions and as such the data capture was limited. Nevertheless there was sufficient to provide powerful insights that were of value to the participants. We have used a story telling approach to highlight the key features of these relationships. Their overall relationship performance is compared in the chart below.



Although the survey results place the relationships in the ‘Stable Pragmatists’ and ‘Successful Collaborators’ groupings, beneath the surface all was not well.

It was the end of the fiscal year. I was wandering through the very exclusive Galactic Hotel when I happened to notice a couple of parties going on. Corporate hospitality was obviously flowing freely, or so I thought but, on moving a bit closer I overheard the following conversation snippets:

Party 1

KAM Team getting drunk, noisy, whooping it up:

“It’s been a good year! We’ve done great! We’re in line for the company prize; bonuses on the way. Who’s buying the next round? Customers? Where are they? I’m sure they’re here somewhere.”

Customers sitting in a dark corner looking very cheesed-off:

“Dunno why we’re here, they always ignore us. They don’t listen to what we say on a good day far less for when they’re having fun which is almost always. Our goods arrive late, sometimes damaged. Look at all this money they’re spending, we clearly need bigger discounts.”

Party 2

KAM Team looking morose; keep peeking at their watches to see if they can leave yet; drinking orange juice and still water:

“The customers seem to have the whip hand here. They’re always demanding more margin and our management kowtows to them. We should have back-up but it never comes. Dipak and Smeeta are counting down their notice period. Think I’ll look around as well.”

Customers whacking into the lobster and smoked salmon, steadily working their way through the cases of champagne, faces are red, voices raised, laughter raucous.

“Ah it’s been a great year. Profits are up and we’ve been squeezing some great margins out of these guys. The salesmen keep whingeing but they are only thinking of their bonuses. They don’t seem to realise that we are the ones who have to take flak for their iffy products. Open another bottle Vijay, they’re footing the bill.”

Conclusions

Relationships that are treated solely as sales opportunities and managed by an approach that categorises its customers according to revenue generation ability can result in poor collaboration from both sides and self-centred behaviours. Relationship management is the process for co-ordinating all the business activities that are essential to the success of a joint/multi-party endeavour. Collaborating organisations work together to achieve objectives that satisfy all partners’ needs. This was generally not happening in these relationships.

“We feel that our suggestions are not taken into consideration.”

“The quality of packaging is not good when the product reaches us.”

“Other companies give us better discounts.”

“We are unhappy with the reward system which demotivates us from improving the relationship further.”



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