THE FOOD & BEVERAGE TRANSPORTATION MANAGEMENT PARADOX:

The Gap between Intent and Execution

RedPrairie®

INTRODUCTION

Compared with other industries, Food & Beverage manufacturers and distributors are faced with unique challenges in moving products through the supply chain. Aside from the fact food items are highly perishable, and therefore speed is of the essence, shipments are often temperature controlled (46% in the AMR research covered below) and subject to extensive FDA tracking requirements from original source to final destination.

Because of these challenges and RedPrairie's long track record of supporting the Food & Beverage industry, we commissioned AMR Research to conduct research on transportation management issues facing this industry, as well as the Consumer Goods and Chemicals industries. What they found may surprise you. There were definite gaps between what the decision-makers interviewed said were their intentions for transportation strategy and what actions and metrics they used to execute those strategies. AMR published an executive summary of their findings, available exclusively from RedPrairie, in March 2010 in a report titled: ***Transportation Management: Lessons from a Difficult Two Years***.

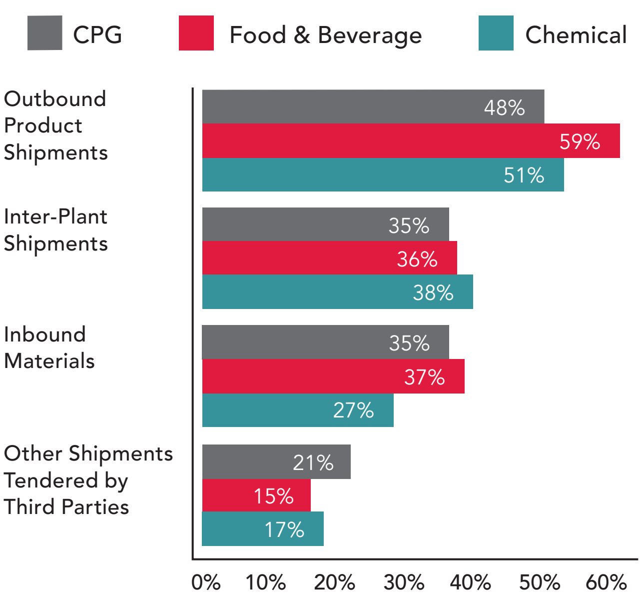
THE AMR RESEARCH STUDY

In October and November 2009, AMR Research surveyed 154 decision-makers in transportation, logistics and supply chain functions for companies ranging in size from $730 million to over $10 billion in annual revenue. Fifty of those interviewed were from the Food & Beverage industry.

An interesting profile of Food & Beverage companies emerged from the data AMR collected compared to the other industries surveyed. Food & Beverage companies are more likely to ship via full truckloads, private fleet or direct to customers than the other industries. They are more likely to ship in case lots and tend to cube out trucks and containers rather than weigh out.

This data suggests that Food & Beverage companies have more control, either directly or indirectly, over their transportation assets than their peers in other industries. This makes sense based on the time-sensitive nature of their shipments and low operating margins. The AMR data also shows Food & Beverage companies are more likely to use technology to optimize their inbound and outbound shipments.

Figure 1:
Average percent of shipments optimized by category



Source: AMR Research 2009

The greater control of transportation assets and higher use of optimization technology enables Food & Beverage companies to be more flexible than their peers in weathering supply chain shocks like Hurricane Katrina, but also showed the highest average cost of transportation as a percent of revenue (6.9%) and resulted in the worse response of the three industries in dealing with the rise in fuel costs during 2007 – 2008.

With this profile of the industry in mind, let's examine the key issues expressed by Food & Beverage executives in the survey and the actions they have taken to execute on their transportation management strategies.

THE INTENT – EXECUTION PARADOX

In their research, AMR employed a common survey technique that asks respondents to first rate the importance of various aspects of their transportation strategies, and then rate how well they feel their companies are executing against those strategies. The gap between the importance and execution of any variable defines performance.

Looking at the high-level intentions of Food & Beverage executives, improving customer service and satisfaction was ranked as their number one priority, but also showed the second largest performance gap. (figure 2) This gap can perhaps be explained by where they spend their money and how they measure results.

In the survey, Food & Beverage executives selected optimizing outbound freight as a top spending priority 62 percent of the time, while selecting improved customer satisfaction 56 percent of the time. More dramatic is when asked for the metrics used to measure transportation performance, outbound transportation cost was by far the most important metric at 34 percent. Among the five metrics tied for second place at 10 percent, only one, perfect order fill rate, could be related to customer satisfaction. Other metrics associated with customer satisfaction such as on-time delivery, damage or returned goods were much less frequently cited as important.

Further evidence of the focus on cost reduction can be seen in Food & Beverage respondents' prioritization of transportation management improvement strategies. Tied for most important (75%) were consolidating orders for full trucks and increasing the control of inbound freight, both of which are cost reduction strategies.

Thus, although Food & Beverage executives claim customer service is their top priority, and there is plenty of room for performance improvement in that area, transportation strategies and metrics are clearly focused on cost reduction. It should be noted here that this same paradox was evidenced among the other industries studied. While the current economic climate certainly must factor into this dichotomy, it is also probable the greater ease of identifying and measuring cost reduction strategies compared to customer satisfaction initiatives is a key factor.

Figure 2:
Gaps are the difference between importance of areas, and how well they're performed today.

	Primary Industry		
	CPG	F&B	Chemical
Better customer service/satisfaction	-4%	24%	16%
Reduce transportation costs	6%	20%	31%
Improve inventory carrying costs	19%	20%	33%
Improve performance of the carrier base	8%	28%	16%
Improve supply chain visibility	13%	18%	14%
Build effective relationships with third-party whs providers	-4%	14%	2%
Improve carbon footprint	-4%	2%	4%
n=	*53*	*50*	*51*

Largest Gap   Gaps larger than 10% shown in red

Source: AMR Research 2009

PROCESS – PERFORMANCE GAPS

When asked to rank the importance of certain processes on transportation strategy, Food & Beverage executives (as well as Chemical industry executives) indicated supply chain network design and optimization was their highest priority. This is further supported by the fact the majority analyze their networks at least once per year.

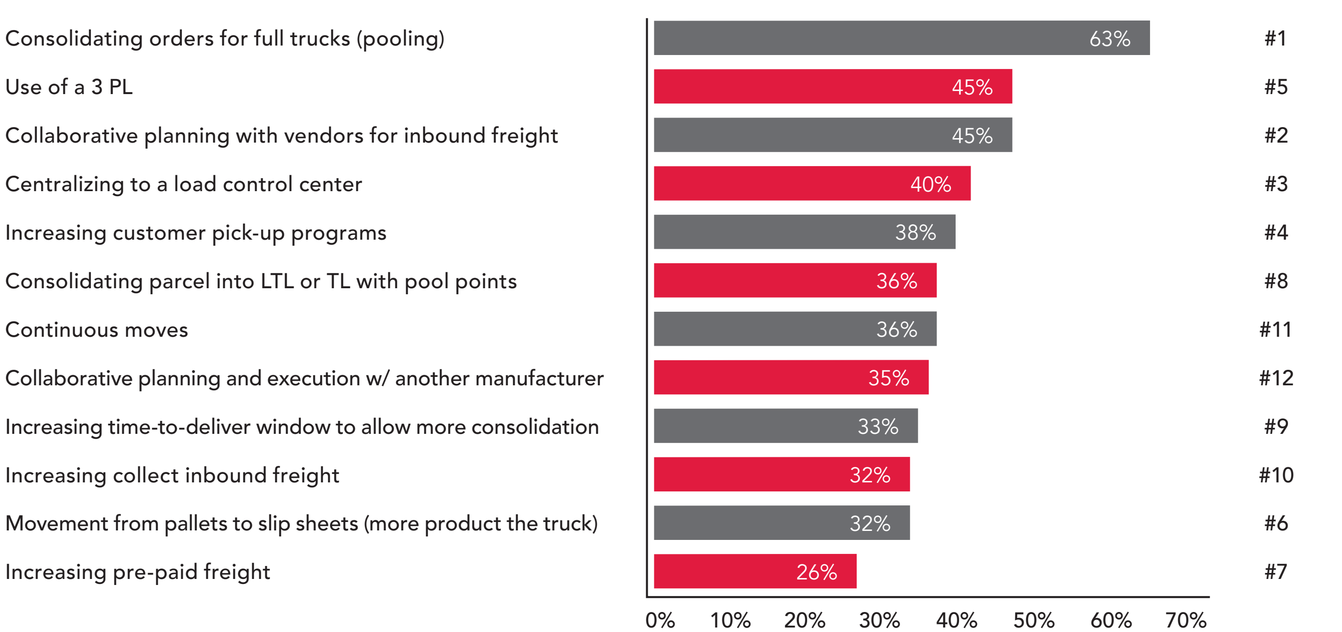
Yet despite this focus and action, Food & Beverage companies exhibited the highest cost of transportation of the three industries and also listed improving performance of their carrier base as their largest performance gap (figure 2), which should ostensibly improve with optimized networks.

Why this paradox? It isn't for lack of focus or effort, but rather the nature of the Food & Beverage transportation business. The environmental and timeliness issues associated with perishable goods require more expensive modes of transportation. Part of this is related to the cost of shipment methods and owned assets, and part to the associated high cost of fuel and surcharges. As we will discuss later, there are ways to reduce this gap.

Another seeming paradox in the AMR research findings is that while outsourcing transportation to third party logistics providers (3PLs) was cited as the second most frequent method of improving transportation strategy, it ranked only fifth in the impact it had on results. (figure 3)

Since RedPrairie has many successful 3PL customers who have delivered great value to their customers, we know the fault does not lie with the ability of 3PLs to produce results. Rather, the problem usually stems from how the outsourcing relationship is structured and managed. Are processes and goals clearly defined? Do fee structures and incentives support those goals? How are changes and events communicated and addressed? How frequently are these processes reviewed and adjusted? Logistics and transportation in the Food & Beverage industry is a complex process that requires attentive management. That doesn't change when you outsource.

Figure 3 :
Efforts made to improve transportation strategy



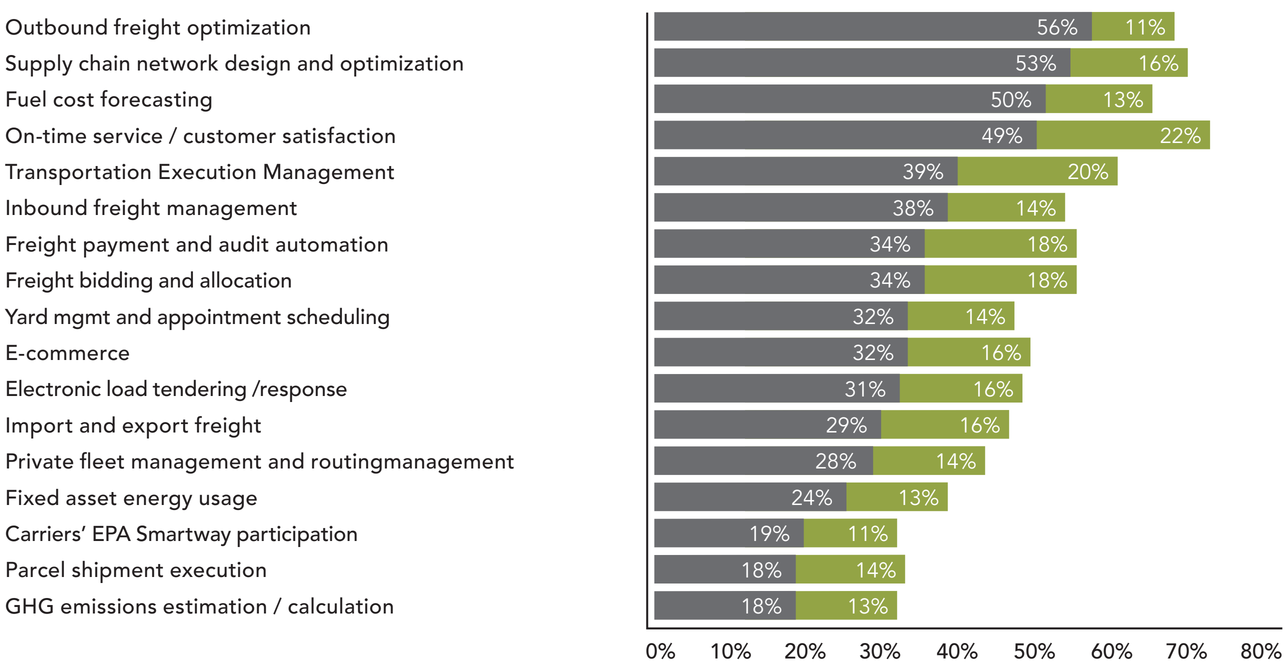
Source: AMR Research 2009

LOOKING FORWARD: CLEAR AS MUD

Perhaps the most shocking finding coming out of the AMR survey was the response to the question on whether spending on transportation technologies and services would increase, decrease or stay the same. A full 78 percent had no answer to this question! And only 6 percent thought their spending in this area would increase. Yet rising fuel costs were their biggest concern and increased volume was the second largest concern.

This data shows Food & Beverage executives face a great deal of uncertainty, risk and pressure to perform in the current unsettled economic climate. While you can't do anything about the environment, you can make sure you are prepared for whatever it throws at you. Are your processes and supporting technologies flexible enough to quickly react to changing events? Do you have collaborative processes and technologies in place with your carriers and business partners to quickly adapt to changing requirements? Do you have good visibility across your supply and demand network so you can see events unfolding and take immediate action?

Figure 4:
Transportation management focus 2009-2010



Source: AMR Research 2009

RECOMMENDATIONS

In uncertain times the most prudent plan of action is to reduce performance gaps and increase flexibility. Surveyed executives appear to be focused on these tasks. The top two areas on which they intend to increase spending in 2010 are on-time service / customer satisfaction and transportation execution management – thus attempting to narrow the largest performance gaps.

Specifically, the top three targeted areas for Food & Beverage executives are: electronic load tendering and response, inbound freight management, and automating freight payment and audit. All three of these initiatives relate to better collaboration with carriers and partners, something that can be significantly augmented with the right technology.

RECOMMENDATIONS

In order to achieve the improvements in transportation management desired, certain underlying capabilities must be in place. First, management of all transportation planning and execution should be centralized. This and other AMR research shows that centralizing transportation management is directly correlated to improved performance. Areas of improvement associated with centralized management include: better carrier management, reduced rates based on volume, more opportunities for back hauls and continuous moves, and increased visibility and collaboration across your supply networks.

The second underlying capability should be integrated optimization technology. This should include all shipment locations, all transportation modes, including both common carriers and private fleets (with asset scheduling), and parcel shipments. If your optimization engine does not evaluate all of these options simultaneously, there is no way to identify the true least cost option. This is especially important with the ever-changing nature of orders, capacities and events in the Food & Beverage supply chain.

Another aspect of your integrated approach should be to incorporate the capabilities mentioned above for electronic load tendering and response, inbound freight management and automated freight payment and audit. Having these included in your base system will reduce errors and costs, and improve collaboration.

A final recommendation is to incorporate the advanced analytic tools and dashboards now available into your transportation management practice. You can't make good decisions and continuously improve operations without ready access to timely, accurate and relevant information. The new generation of these tools make this possible and provide role-based graphical views of the information for quick comprehension along with the ability to drill down to uncover the root cause of problems. While your instincts and experience may be formidable, supplementing them with the right tools and information will produce even better results, and will help you close the gap between intent and execution.

About RedPrairie

RedPrairie delivers productivity solutions to help companies around the world in three categories – workforce, inventory and transportation. RedPrairie provides these solutions to manufacturers, distributors and retailers looking to support business strategies that increase revenue, reduce costs and create competitive advantage.

With over 20 global offices and solutions that are installed at more than 34,000 customer sites in over 40 countries, companies trust RedPrairie workforce, inventory and transportation solutions to deliver an increase in productivity – with the flexibility to adapt as business needs change.

At RedPrairie, we understand today's operational demands and we're committed to delivering solutions that work. We're committed to delivering solutions for the real world.

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