Emerging Best Practices in Food & Beverage Shipping:

Fulfilling the Perfect Order

WHITE PAPER



C.H. ROBINSON WORLDWIDE, INC.

In brief

In this white paper, you'll learn how food and beverage companies are employing best practices in perfect order fill and finding opportunities for revenue growth and cost reduction. As they eliminate exceptions, they also maximize productivity and profits, protect brand equity, improve their competitiveness, and increase their customers' satisfaction.



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As food and beverage shippers know, order exceptions increase costs and negatively impact their relationships with customers. A look at the world of exceptions management reveals the inefficiencies that can result.

Often, as exceptions are discovered, customer service works to resolve the issue. Resolution of these exceptions can involve determining disposition of the product in question and arranging replacement product to be shipped. The resulting research into claims, deductions, and the originating warehouse inventory for overages, shortages, or substitutions is time consuming and often frustrating. Equally frustrating is the validation of rejections within the supply chain—what happened to the product and whether it was sent off to be reworked or sent off to the supplier. At the receiving location, dock workers set aside overages of one product to return, even as they answer questions about why another product isn't on the shelf. The carrier waits for disposition instructions as their available hours of service tick away.

Although it is difficult to achieve the perfect order, best practices are emerging that can enable companies to reach their goals. Particularly in the last decade, some shippers have focused on exceptions, rooting out the reasons for their occurrence and working to eradicate them. These companies are seeing that being able to deliver the order right the first time, every time, can work to their competitive advantage. Companies in the food and beverage industries also have an incentive to seek perfect order fill and acceptance to stop their products from ending up in unintended places.

Definitions

Exceptions:
Over, short, and damaged (OS&D) product, returns, customer refusals, recalls, and withdrawals.

Perfect Order:
The success of the supply chain in delivering the correct product, to the correct location, at the correct time, in the correct package, in the correct quantity, with the correct documentation, to the correct customer (of course), with a correct invoice.[1]

1 GMA 2010 Logistics Benchmark report.

"For the companies that attain the perfect order, the rewards can be as high as 15 percent less inventory, 17 percent stronger order fulfillment, 35 percent shorter cash-to-cash cycle, significant reductions in days payable outstanding and days sales outstanding, and a tenth of the stock-outs competitors experience, yielding a significant competitive advantage."[2]

—Louis Columbus, senior business development manager at Cincom Solutions

Market factors favor stronger exceptions management

Achieving the perfect order has gained new urgency, due largely to these market factors:

- **Carrier issues.** Experts generally agree that new regulatory changes impacting motor carriers, combined with carrier bankruptcies, will likely result in a tightening of capacity. Even in the best of times, refrigerated capacity tends to be tight during peak seasons, but food and beverage shippers may find it even more challenging to find equipment in this new environment. While no one knows yet what the impact of regulatory changes will be, some industry observers believe that the aggregation of these regulations could remove up to seven percent of the drivers in the workforce.[3] With equipment and drivers at a premium, carriers may become much more selective when choosing the shippers they will work with. They could favor the shippers and receivers whose processes best minimize driver waiting times incurred while disposition is determined and therefore allow carriers to maximize the use of their equipment.
- **Retailer penalties for imperfect orders.** As Dan Gilmore, Editor-in-Chief for Supply Chain Digest explains, chargebacks are primarily—but not exclusively—a retail industry phenomenon through which the retailer "through some mechanism tracks a vendor's performance against a small or wide range of criteria, ranging from labeling to advanced ship notices to on-time delivery and more. When a supplier fails to deliver, they are levied fines or chargebacks for that failure, fees that vary from small to large and everything in between depending on the offense and the retailer."[4] For large food and beverage manufacturers and distributors, penalties can be substantial. Gilmore notes that the approach to chargebacks varies dramatically by sector, with department store chains and mass merchants tending to be the most aggressive about chargebacks and those in the grocery industry, less so.[5] Some call chargebacks a "supply chain stick" to get suppliers to upgrade their systems to better meet their customers' expectations, but as Gilmore notes, it is also true that flow-through DC operations can't be run well if labeling is bad, advance shipment notifications are inaccurate, or shipments don't meet delivery dates.

2 Columbus, Louis. "The 'perfect order.'" LogisticsIT.com, accessed September 14, 2010.
3 Berman, Jeff. "Trucking news: Carrier executives remain concerned about CSA 2010, future driver shortage." *Logistics Management* online, June 24, 2010.
4 Gilmore, Dan. "Thinking about Supply Chain Chargebacks." *Supply Chain Digest,* May 14, 2010.
5 Ibid.

Additionally, there is the suggestion that the closer a company can get to perfect order fill, the higher their profits will be. In an article for his publication, *Supply Chain Digest*, Dan Gilmore, Editor in Chief, quoted an AMR research study that said, "A 3 percent improvement in perfect order fulfillment translated to a 1 percent increase in profit margin, while a 10 percent increase in perfect order fill meant an additional 50 cents in earnings per share." While Gilmore himself wasn't convinced the return would be this great, he said it was logical to conclude that "companies with excellent supply chains both enjoy better financials and higher perfect order scores."[6] Emerging best practices favor having a strong plan for pursuing the perfect order.

EVERYBODY WINS WITH PERFECT ORDER FILL



Shippers

- Gain a competitive advantage through cost and product control
- Boost their customers' satisfaction by reducing the number of exceptions and accurately fulfilling the order more often
- Obtain equipment more easily as a "preferred shipper" for carriers by providing fast disposition instructions for products that should be returned, donated, or destroyed
- Obtain tax deductions for quickly donating commodities whose return transportation will cost more than the value of the product
- Protect brand equity and eliminate the potential of branded products ending up in unintended channels
- Improve administrative processes by quickly minimizing invoice deductions
- Continuously improve their supply chain using actionable metrics that document exceptions by SKU, carrier, receiver, and origin warehouse
- Make your intended decision happen consistently



Carriers

- Save time and minimize delays in receiving resolution instructions, freeing them up for their next load
- Streamline processes by eliminating the need to hold or store product, waiting for a convenient time to return or redirect a product
- Become more efficient by working with shippers who minimize unproductive driver downtime
- Achieve greater driver satisfaction



Receivers

- Experience greater satisfaction as they work with shippers who don't require them to deal with rejected or unfit product or hold unwanted product in their facilities
- Save time by quickly resolving product shortfalls and overages
- Increase sales and customer satisfaction by reducing the potential for out-of-stocks

6 Gilmore, Dan. "Is the Perfect Order the Perfect Supply Chain Metric?" *Supply Chain Digest*, March 12, 2009.

Properly coordinated programs that include metrics on trailer seals, temperatures, and reverse logistics can help shippers maintain the chain of control and protect their brands from the secondary market.

Eliminate exceptions to promote food safety and protect brand equity

The regulatory environment is already requiring more from food and beverage companies, as evidenced by the latest legislation promoting food safety to protect consumers. It is likely that regulation in nutrition labeling, complete removal of hazardous substances, guarantees of traceability, and production hygiene practices will significantly increase process, supply chain visibility, and reporting needs for food and beverage companies. These rules add to the urgency of establishing better supply chain visibility to track where product has been and where it's going; they also add urgency to establishing effective metrics and a deliberate process to manage exceptions:

- **Food Safety Enhancement Act of 2009.** This legislation, in its current form, will require the FDA "to issue regulations that require food producers, manufacturers, processors, transporters, or holders to maintain the full pedigree of the origin and previous distribution history of the food and to link that history with the subsequent distribution of the food; and to establish an interoperable record to ensure fast and efficient traceback."
- **Sanitary Transportation of Food Act (STFA) of 2010.** Nonbinding recommendations from the Guidance for Industry for STFA aim to help the food industry prevent food safety problems during transport by focusing on problem areas where food could face contamination. One of these problem areas was listed as "improper handling and tracking of rejected loads and salvaged, reworked, and returned products or products destined for disposal."

By reducing exceptions and improving processes related to donated and destroyed products, shippers can promote food safety and protect their brands. A product's chain of control can be engineered into a perfect order fill program so the product:

- Is returned to the shipper's DC or returns center if the product's shelflife warrants it;
- Is sent to an approved donation location if it is fit for consumption, but the cost to return the product outpaces the product's value; or
- Is sent to a destruction facility if the code date has passed or the product is unfit for consumption.

In each instance, metrics are gathered to measure critical events and dollars, such as number of days to return product back to active inventory, or SKU values of all donations and destructions.

Metrics for perfect order fill: food and beverage manufacturers

Although there are many ways to measure the perfect order, food and beverage manufacturers have a head start on where to begin the discussion. The Grocery Manufacturers Association and Food Marketing Institute suggest that a "Perfect Order Index"[7] could include these elements:

- Percentage of cases shipped vs. cases ordered
- Percentage of on time deliveries
- Percentage of data synchronized SKUs
- Order cycle time
- Percentage of unsaleables (damaged product)
- Days of supply
- Service at the shelf

Still, as Steve Banker, Director Supply Chain Management at ARC Advisory Group, indicated in an article in *Logistics Viewpoints,* the food and beverage manufacturer also must collaborate with retail partners to ensure strong in-stock performance at the retail shelf, since that is the measurement consumers use to gauge success.

Establish metrics to monitor current state and improve processes

Any company that has attempted broad process changes or reengineering knows that internal disagreements can quickly derail any such initiative. Prerequisites for success include consensus building, communication, and mutual agreement about priorities.

To get to the "perfect order," a company should:

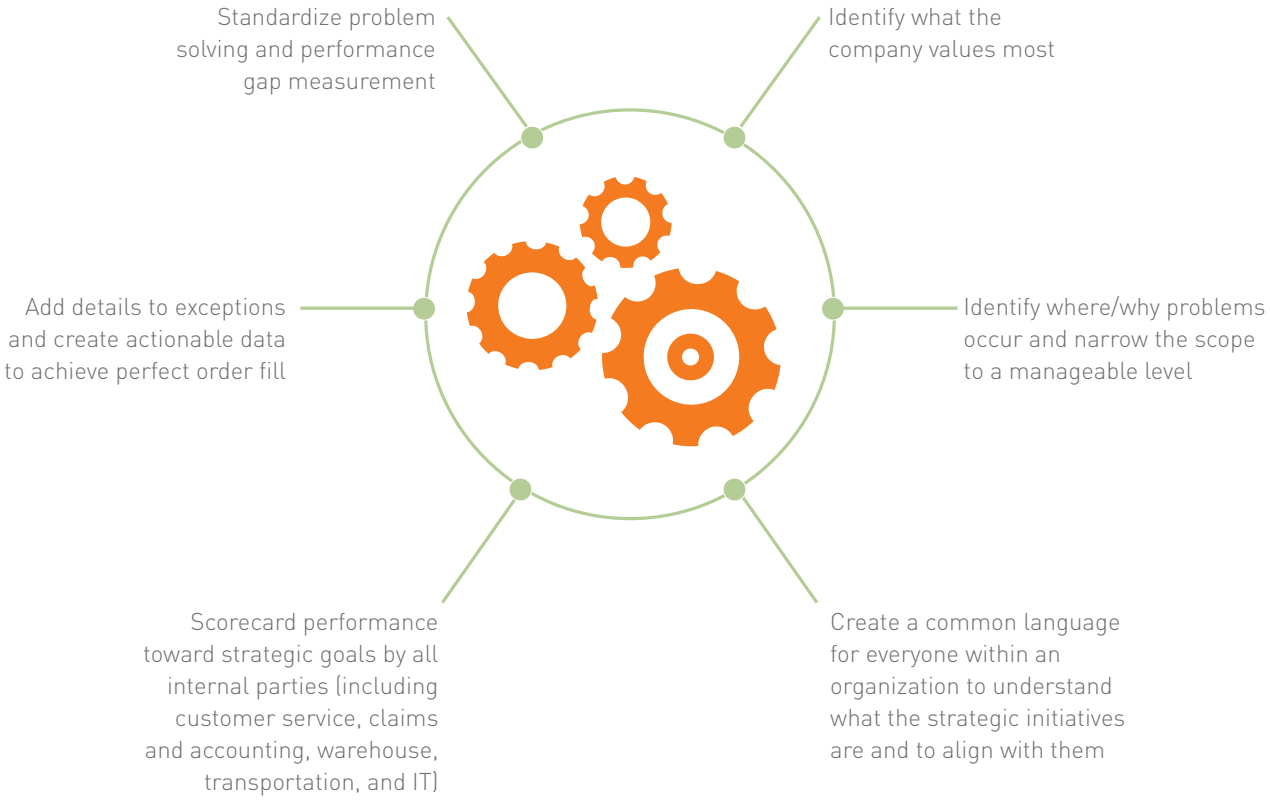
- Define what the term "perfect order" means, and then set milestones based on what is most important to them (See Figure 1, page 8). Dan Gilmore at *Supply Chain Digest* said one company surveyed its customers and found 11 different metrics were being used to calculate the perfect order.[8] Similarly, terms like "on time delivery" could mean up to the minute, within a 15-minute window early and late, anytime on the day the product is due, or a host of other measures. "Documentation" can mean invoices, shipping manifests, bar code labeling, carton contents labeling, advanced ship notices, etc. Everyone in the organization must understand what the milestones are and agree about how they are defined. Only then can the company create and gather metrics that identify problem areas for needed action. (See 4 keys to the perfect order, page 9.)

7 Banker, Steve. "The Perfect Order Metric is Not Sufficient." LogisticsViewpoints.com. January 28, 2010.
8 Gilmore, Dan. "Is the Perfect Order the Perfect Supply Chain Metric?" *Supply Chain Digest*, March 12, 2009.

- Employ a transportation management system (TMS) run by knowledgeable staff to gather information. Achieving the perfect order is all about process—not only knowing what is happening, but where and how it is happening. TMS data can reveal where the supply/demand chain is (and isn't) operating at its best. It brings purchasing and fulfillment activities into focus and shows how those activities relate to inventory management and transportation order tendering. Data is also absolutely crucial to controlling and managing the physical movement of product. Visibility should include days of inventory in the supply chain, inventory turns, and cash-to-cash days.
- Use actionable data to clarify the root cause of problems and eliminate them. The knowledgeable staff uses the TMS to gather data that helps clarify the root cause of problems that occur at every level of the supply chain—in the SKU and in the distribution center, with carriers and receivers, and with manufacturing. The data can report on any category that is below average and drill down to the finer details of exceptions. With this information in hand, the company can work with suppliers and vendors to solve and eliminate common problems.

FIGURE 1 THE METRICS WHEEL FOR CONTINUOUS IMPROVEMENT

The right metrics reveal gaps in the process of filling and distributing goods. As the gaps are documented, corrective action can begin. Metrics can:



4 keys to the perfect order

There are several key steps to obtaining visibility into orders and exception management, and to improve processes.



PREVENTING UNINTENDED CONSEQUENCES

CHALLENGE: A transportation department institutes a change to save the company five cents per mile on each load. Carriers reject loads more often. Rejected tenders lead to an increase in delivery failures and out of stocks—something that could easily have a greater impact on the company than saving five cents a mile.

IDEAS IN ACTION™: To prevent this problem, company stakeholders can agree upon strategies before making changes to existing processes.

1. Identify the appropriate KPIs and prioritize them.

KPIs (Key Performance Indicators) are metrics that create a common language toward improvement throughout the entire organization. They translate the company's strategy into actionable measurements that signify success. KPIs must be specific, measurable, and actionable.

All key stakeholders in the organization should understand and agree upon what will be measured. Some common KPIs in the food and beverage industry include:

- Fill rate (cases shipped vs. ordered)
- On time delivery (buyer's desired delivery date and carrier's appointment date)
- Damage/unsaleables
- Days of supply
- Order cycle time
- Item fill rate
- Inventory near expiration
- Order exceptions
- Pick exceptions

Stakeholders should also agree on the priority of the metrics so everyone knows what they will focus on first—typically, the goals that will be the easiest to achieve with the greatest possible return. KPI priorities must be chosen with care, since changes made in one area of the supply chain can have unintended impacts in other areas, and the accumulation of these changes may not add up to the greater good of the organization.



DEFINING KEY METRICS

CHALLENGE: A food shipper defines perfect order to mean the customer placed the order and the shipper shipped everything exactly the way the order was placed. This "perfect order" arrives and the receiver who placed that order still decides for no discernible reason that they don't want it and won't accept it.

IDEAS IN ACTION™: A new metric should be created to consistently capture this type of activity.

2. Measure KPIs consistently.

Once KPIs and priorities are established, the data must be captured accurately. Everyone in the organization must communicate using the same definitions of terms and handle each situation the same way every time. Discipline and consistency in recording information produces confidence in the results.

To have integrity, data must be logged properly. Definitions play a critical role; inaccuracies in logging or multiple perceptions of what a common term means can indicate the need for the wrong corrective actions.



STANDARDIZING RESPONSES

CHALLENGE: An organization has hundreds of customer service people answering calls. A carrier calls and says the receiver didn't want two pallets. What should the customer service representative advise the carrier to do? Most likely, the situation has occurred before and will occur again. But without a standardized response, the customer service person will design a process on the fly. Inconsistent responses will lead to inaccurate capture of the situation for future problem-solving.

IDEAS IN ACTION™: A script outlining the proper response increases the likelihood that all the customer service representatives will give the same instructions to the carrier and document the event with the same information for later analysis.

3. Create SOPs for processes.

Consistency in response is also critical to decision-making. SOPs (standard operating processes) describe what is supposed to happen at each stage of the process. SOPs can be programmed, specifying the rules that people will follow consistently to preserve data integrity.

SOPs also help establish what a company values most. For one shipper, that might mean having an order complete before it leaves the dock, even if the truck will then be late; another company might not make the same decision. Establishing the unique but consistent processes best for your company and applying them takes away ambiguity within the organization and helps prevent unintended consequences.

Some shippers find that enlisting an outside call center provides the most consistent responses. A call center can set up a script to be followed, including a series of questions that help to quickly get at the information required to make the best decision. A box next to each question can explain why specific information is being requested and what the appropriate response selection should be. Because the people at the call center are neutral parties, they can record every situation properly and consistently.



USING ACTIONABLE DATA

CHALLENGE: A company experiences numerous reports of crush damage on cartons of product. In this case, the company has not yet learned that the cartons will stack equally well, whether standing lengthwise or resting on their sides, or that incorrect packing will compromise the structure of the cartons. Without actionable data, the shipper can spend a great deal of time determining the source of the problem.

IDEAS IN ACTION™: Actionable order data can trace the damage to a particular worker at a particular plant on a specific shift. The worker's loading practices can be corrected and damage claims, reduced.

4. Analyze the data and take action on exceptions.

Obtaining actionable data is a best practice, and the data should be collected continuously. Each day, purchase orders are written and many transactions occur. Unfortunately, today's exceptions to perfect order fulfillment typically come to light when a customer short pays an invoice. At some companies, this data can be 60 to 90 days old before it becomes available. Such data is not actionable; it is too late for the shipper to recover good information about inventory, product substitutions, or the location of product sent away with the carrier. A TMS run by a knowledgeable staff can provide fast information to track exceptions, notify impacted parties, give proper product disposition, and gather all the information related to the event.

Quick reporting also helps identify where problems occur. It could help a shipper to see that one receiving location has rejected 24 percent of their product when all other locations at that retailer sent back only .05 percent. With detailed reports in hand, the shipper can explain to the receiver that this location's activity is unusual compared with the rest of the retailer's network. Together, the shipper and receiver can work together to resolve the issue. Many shippers find that having hard data takes the emotions out of such conversations, making problem-solving much easier and less confrontational.

Concluding thoughts: accelerating perfect order fill

In the food and beverage industry, working toward the perfect order is not a linear cycle, but an ongoing, short- and long-term process that changes as priorities change. Obtaining the right information to achieve perfect order fill isn't easy to accomplish, particularly if the company doesn't have the knowledge and resources readily at hand for change management. It can take years for a shipper to identify the measurements needed, wait for IT resources, get the necessary budget, integrate a TMS and enterprise resource planning software, and get stakeholders to discuss and agree upon priorities before beginning.

Some companies find that the fastest way to employ the best practices outlined above is to select a provider that has proven success helping other companies achieve perfect order fill. Such a provider can speed up the process as a collaborator and consultant. They can:

- Employ their own TMS for fast implementation
- Add power users who know how to immediately maximize the technology
- Implement a call center number to execute the program with call center software to accurately track call volume, missed calls, length of calls, etc.
- Free up customer service representatives to fully focus on their core activities
- Act as a neutral third party that can spur communication between internal stakeholders
- Align stakeholders behind prioritized KPIs
- Open dialogue with suppliers and vendors to pursue innovations in inbound and outbound freight efficiency
- Provide recommendations to comply with industry legislation, but minimize its impact
- Deliver actionable metrics for continuous improvement

By quickly adopting a proven provider's efficient processes, companies can:

- Minimize warehouse issues that cause wasted dollars, such as wait time, unloading issues, rejected product and disposal, invoicing issues, bills of lading that are incorrect, out of stocks at retail, unhappy customers, and increased expenses
- Improve management tools that enable greater visibility and continued supply chain improvements
- Upgrade vendor activities

A provider doesn't need to become a permanent part of the exceptions management process, but can jump start the solution. Then, as you draw closer to achieving your perfect order fill rate, your provider should be able to hand over the reins to your in-house team to once again integrate into your own control.

About us

Founded in 1905, C.H. Robinson Worldwide, Inc. is one of the largest third party logistics companies in the world, providing freight services, logistics outsource solutions, fresh produce sourcing, and information services to more than 37,000 customers globally, ranging from Fortune 500 companies to small businesses in a variety of industries.

For more information, please visit www.chrobinson.com.

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