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COLD SUPPLY CHAIN
Technology Helps Dairies Deliver

The dairy industry is discovering that in order to make it in today's competitive market, you can't go it alone.

By Amanda Loudin

If you've ever brought home a pint of ice cream only to find that somewhere along the line it melted down and then refroze, then you can appreciate the collaborative efforts underway in the dairy industry to ensure such scenarios are a thing of the past. Through a variety of methods aimed at improving communications and reducing product handling throughout the supply chain, the dairy industry hopes to perfect the timing and quantity of its deliveries, and thus its products.

Beyond product quality, however, there is also a financial incentive to eradicating some of the existing communications problems. According to recent reports by A.T. Kearney and Grocery Manufacturers of America (GMA), some $40 billion is lost annually due to supply chain information inefficiencies.

Also, 30 percent of item data is in error, costing between $60 and $80 per error and 25 minutes of manual cleansing per SKU per year. Some 60 percent of all invoices generated have errors, and 43 percent of all invoices result in deductions and each error costs between $40 and $400 to reconcile.

Most partners are working on one or more collaborative efforts that include some form of electronic communication, whether it be through EDI, dexing or via the Internet. Some manufacturers have even developed their own unique methods, such as using electronic data gathering to order for their customers.

Paul Winkler, Director of Marketing at Numeric Computer Systems (NCS), Hauppauge, NY, says that much of today's focus is on data synchronization through the Internet. "The difference between the exchange of information pre-Internet and the current drive…is that the pre-Internet systems use data originating from within each company," he says. "This information frequently didn't match the trading partner's system information, resulting in a creation of new inefficiencies due to mismatched promotional dates and pricing, incorrect, missing or late new product data, and incorrect allowance structures, to name a few."

Such problems have long reaching effects. "This lack of data synchronization reverberates through the supply chain, causing inefficiencies at the point of delivery, such as new products being refused at the time of delivery, or missed delivery windows and accounting process issues," Winkler explains. "All these result in reduced revenue for both trading partners and higher costs throughout the supply chain."

Clearly, the incentive is there to put technology to work improving communication between dairy manufacturers and their partners. The coordinated efforts at better communications stand to have a big impact. Exactly how each partnership approaches these efforts varies, but one thing is for sure: failing to do so means getting left behind.

Working It Out

Smith Dairy Products, based in Orville, OH, is well aware of the importance of improving communications with its partners through technology. The company has worked collaboratively with its largest partner for many years now, and tries to be proactive in putting electronic cooperation to work. The company's philosophy on the matter, says Ron Them, vice president of distribution, is to "always stay on the cutting edge. We're always looking to add value to the customer, while holding our costs," he explains. "The tools are there, you just need to see what the customers' needs are and work it out."

Smith has experimented with several electronic communications efforts with its largest customer, including EDI and one of the latest trends, "pay by scan." This set up works by allowing customers to pay as items are sold/scanned-the manufacturer owns the product until it is sold. In some cases, manufacturers can deliver product directly to store shelves and is driven by a desire to simplify the entire delivery process by minimizing paperwork and handling.

For Smith, the pay-by-scan approach wasn't appealing. "When you're selling product on consignment, you have the issue of shrinkage to contend with," says Them. "Also, our customer was responsible for putting the product on the shelves. If the product doesn't make it out to be sold, it brings up concerns about who's responsible if there are problems."

EDI also didn't turn out to be the right solution with this particular customer. "The customer ordered two days in advance of delivery, which is tough to do with fluid products," says Them. "They were constantly in a situation where they were either late with the EDI or had to change their order the next day. It might have worked better if we'd worked on a one-day basis for ordering."

Since moving away from EDI, Smith has worked out a new approach to electronic collaboration with this large customer, whereby Smith performs the customer's ordering. Using historical selling data collected from handheld scans, Smith determines what the customer's next order should be.

While the ordering approach is still fairly new, Them says that it has worked well for both parties. "We're still on the front end of this, but we're seeing improvements," he says. "The customer has been able to see a huge impact on store shrinkage and has experienced higher sales as well."

Smith put the process together in-house through a coordinated effort with its IT department. Right now, says Them, "we're spending more time in the store than we would like, but we expect that to improve." Eventually, Them says that Smith hopes to take the ordering approach to more customers as it irons out the details. "Everyone has their own approach, and this is ours," he says. "Our goal is to be more attentive to our customers' needs."

It Doesn't Come Easy

Like many other dairies involved in electronic collaboration, Smith had to make an investment in technology-handheld computers, software and onboard computer systems. And while it adds a cost to the bottom line, Them says that "it becomes a way of life that you need to deliver this way."

Winkler says that most dairy manufacturers participating in electronic collaboration need to put into place a back office system, which usually covers warehousing, financials and inventory, along with a host system that can handle product, pricing and promotional data. "This data is migrated to and from mobile units taken at the point of delivery and transactions," he says.

Blue Bell Creameries, based in Houston, is another dairy manufacturer that is actively participating with its partners to improve electronic communications. The company has invested heavily in the equipment necessary to complete transactions involving dexing, EDI, the Internet and pay-by-scan. "It is expensive," admits Larry Gibbs, regional manager, "but our focus is to get the ice cream into the stores quickly to maintain quality. These methods and tools help us do that."

One of the less expensive electronic relationships Blue Bell is currently participating in is a Web-based partnership with Kroger. "We send our proposed deals to Kroger, and they can accept or reject them," Gibbs explains. "When they accept them, they go into the system clean."

In addition to only costing about $50 a month to participate, the program streamlines the delivery process with Kroger. "We don't use a local contact at all, so it's a much faster system," says Gibbs. "Any time you can bridge a gap and be in compliance, it pays."

Like Smith, Blue Bell has tried the pay-by-scan system and has decided against it for now. "The challenge is that the scan data must be flawless," says Gibbs. "The scan data didn't always match our delivery records and then you have to determine who is responsible."

While Blue Bell has stepped away from pay-by-scan for now, Gibbs hopes the approach will be perfected in the near future. "We're hoping that standards will be reached and that the problems will be worked out," he says. "I think we'll be seeing more of it in our industry in the future."

Both manufacturers and retailers are intent on making electronic communication work. "Trading partners are actively working to provide global communication standards through the Global Commerce Initiative administered by EAN/ UCC," says Winkler. "They are working to develop common business models for core transactions, item alignment, purchase orders, ASNs and invoices."

Steve Drabek, director of education and training at Quality Check Dairies in Naperville, IL, says that there are definite gains to be had through improved electronic communications. "It can have a positive effect on inventory, production, planning and distribution costs," he says.

This is especially true when it comes to meeting the varying needs from one customer to the next. "It varies a lot from one customer to the next," Drabek says. "It can be tough to meet the different needs."

One thing that softens the blow of increasing pressure to keep up with the various electronic approaches is the fact that most retailers allow a bit of an adjustment period when introducing new methods, says Gibbs.

"Very few introduce a new technology and then expect us to comply immediately," he says. "For smaller companies, participating in these programs might be tough to afford, but for companies of any size, it's generally well received and accepted."

Unfortunately, for those who refuse to or can't afford to comply with the new collaborative efforts, it likely means going to the back of the line for delivery. For those that can participate, however, it's a no-brainer. "It's a big challenge to keep ice cream in perfect condition," says Gibbs, "so we're interested in anything that can speed up the effort."