

## Increase Sales by 40%: The Next Step for Innovative Food Manufacturers

The Lean journey to Perfection is never ending. Trying to achieve the Lean state of Perfection is like travelling towards the 'pot-of-gold' at the end of the rainbow – as you get closer you realize that you are much further away than you thought. In our opinion, many Food Manufacturers and Processors (Food Manufacturers) are closer to Lean's Perfection than almost any other manufacturing industry segment. Many of the companies we have worked with have very high inventory turns (20+), very short manufacturing lead times (measured in days vs weeks), remarkably good on-time delivery (95%+), very low scrap and spoilage (single percent digits) and high product quality. Given such relatively remarkable results (close to Perfection), what else is there for Food Manufacturers and Processors to focus on?

The answer to this question lies in the connections between the food manufacturers and their retail customers. Having a 95%+ on-time delivery performance is good only if their retail customers are actually ordering what they need. What if much of what the retailers ordered wasn't actually what they needed? Would that mean that a 95%+ on-time delivery measurement was meaningless? In our opinion, the answer is yes. Measuring the on-time delivery performance of food manufacturers is necessary but hardly sufficient. What should also be measured is the in-stock position of each of the product SKUs at each of the retail stores. But it is not because this is the right measure; it is because ensuring close to 100% in stock position on the retail shelf can lead to

same store sales growth from existing products of up to 40% for Food Manufacturers.

To prove our assertion, we will introduce a recent success story of one of our clients. Really Reliable Food Co. (RRF) is a medium sized food manufacturer of prepared foods. RRF ships to all major grocery retailers with excellent on-time delivery, high inventory turns, short lead times and low internal shrink. RRF ships to Distribution Centres for some customers and ships Direct Store Delivery for other customers. We conducted a two-week Rapid Assessment of RRF and quickly discovered that RRF was approaching the 'end of the Lean rainbow' internally, so we made the box bigger and looked outside RRF's four walls. Through a combination of data analysis and store audits at select RRF customers, we discovered that although RRF had a 97% on-time delivery performance, their product at the retail level was stocked out at least 10% of the time and their customers were forced to throw away at least 15% of their purchases due to product expiry (15% shrink). The problem with our finding was that it was not surprising to RRF and, as we found out later, is pretty much acceptable across the food industry in many countries.

After several discussions, RRF agreed to approach one of their large grocery retail customers - Progressive Food Stores Ltd. (PFStores) about launching a pilot to better fill the shelves and reduce the shrink of RRF's product. The presentation to PFStores focused on the

mistakes that RRF (and its competitors) were making in leaving the order quantity, order frequency, and shelf management decisions (for RRF's products) solely to PFStores (which is typical for most retail food chains). The meeting ended with an agreement that RRF would conduct a 12 week pilot at 15 PFStores' locations.

For the pilot, RRF offered to change the 'rules' between themselves and PFStores as follows:

- Eliminate RRF's 10 case minimum order quantity.
- Reduce RRF's case size to hold half the number of cartons.
- Double the number of shipments per week to each PFStores' location.
- Establish an inventory target amount for each SKU at each store based on an estimated maximum sell through before more product could arrive.
- Determine the number of facings required for each SKU based on the inventory target.
- Send a replenishment shipment to each store based on what had been sold since the last shipment.
- Re-size the inventory target based on actual consumption.
- Make recommendations to the Planogram based on which SKUs were selling in which store

When RRF began the pilot at each of the stores, they quickly learned that the opportunity to grow same store sales would be much higher than the stock out rate for their products. By working through the process of sizing the appropriate inventory target RRF discovered that:

- The existing rules between RRF and PFStores created significant over stock of some products and under stock of others.

- PFStores would put the over stock on the shelf because:
  - the retail shelf space was static and empty shelves look unattractive, which prevents sales,
  - it is difficult to sell what isn't displayed, and
  - RRF's product was very date sensitive.
- The overstock filled the empty spaces (with the wrong product of course) removing the urgency to get the right stock on the shelf.
- PFStores ordered what they expected to sell, not what was selling.

After determining the target inventory level for each SKU at each store, RRF was then able to determine the number of facings required to hold this inventory. RRF, in consultation with PFStores, redesigned each store's Planogram to accommodate the facing requirements. In most cases, the new Planograms determined that less overall shelf space would be required to increase sales. Finally, based on daily consumption data provided by PFS, RRF monitored the in-store inventory levels of each SKU and replenished what had been consumed, to the top of the inventory target. This replenishment approach is the Theory of Constraints approach to Demand Driven Replenishment (DDR) to Retail and was enabled by our CMS RoadRunner Rx software.

The results of the pilot surprised all stakeholders involved. To ensure that the results were correctly interpreted, both RRF and PFStores agreed to select 15 control stores that were suitable comparators. For all 15 pilot stores, sales were up 30% year-over-year vs the non-pilot stores that were up 5%. For the top 10 stores, sales were up 50% year-over-year vs 10% for the 10 comparator non-

pilot stores. In addition, the pilot stores managed to decrease shrink by 15% more than the non-pilot stores. Of significant importance is that all of this was accomplished with the same or less shelf space.

The reason for such incredible success was primarily due to the agreement by PFStores to work with RRF to jointly manage the shelf space using the power of DDR to Retail. In simple terms, DDR to Retail can be described as 'replenish what you sell vs replenish what you expect to sell'. The building blocks of DDR to Retail are:

- Establish SKU based inventory targets specific to each store (this is considerably different than either the min/max or safety stock approach).
- Determine the number of facings required for each SKU based on the above inventory target
- Establish minimum display quantities (greater than zero) that signify "stock out" situations

- Replenish what was consumed to the top of the inventory target as frequently as possible
- Automatically resize the inventory target based on actual consumption trends
- Periodically realign the facing requirements as the inventory targets change
- Adjust the assortment decisions based on total gross margin realized per facing

Food Manufacturers who are courageous enough to approach their retail customers with an offer to do DDR to Retail should expect to see sales growth from existing products of between 25% and 40%. While the Lean journey to Perfection may never be over, looking outside their four walls to the connections with their retail customers is a significant step forward for innovative Food Manufacturers and Processors.

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