

Food and drink sector

Irish food companies must take positive approach, says expert



The Irish food and drink industry needs to stop focusing on "doom & gloom" and be more positive about its future, according to one respected UK based consultant. He believes that there is ample opportunity for Irish companies to control their own competitiveness by embracing new but accepted best practices, allowing them to reap the benefits as an economic recovery develops.

Alan Braithwaite is chairman of LCP Consulting and a professor in supply chain management at Cranfield University. He has worked extensively with Irish food companies.

While acknowledging the serious challenge posed by exchange rate issues and higher input costs, he believes that many in the sector have an opportunity to counter higher operational costs through process improvement and waste reduction.

"There is no good throwing up your hands and saying this is the end of the world as we know it and there is nothing we can do about it," he says. "There are quite a few points in margin and very often quite a lot of cash that can be generated by some of the actions that companies can take."

Despite the serious challenges it faces, Braithwaite rejects any notion that the Irish food industry could go into terminal decline. He points out that relative to many industries, demand in the sector is very stable.

"There is quite a delicate balance between supply and demand in the industry," he says.

"If some capacity exits the market because companies either take it out themselves or fail entirely, that will move the market from a buyers market with huge pressure to more of a sellers market. My prediction is that if companies can stay standing for the next few months they will begin to see opportunities as the market hardens."

Indeed, Braithwaite predicts that current food price deflation will come to an end.

"We are going to see a hardening of prices because of lack of capacity. I think that is going to be a major issue for retailers and a big help for manufacturers," he says.

Hard pressed Irish food suppliers would welcome such a scenario. But in the meantime, Braithwaite insists that they must stand up to domineering customers. He says that a number of big UK food manufacturers have already started to say no to demands from retailers, leaving some retailers with supply problems.

"There is a hardball game to be played," he says. "But if you are well informed on where you can improve and what the scale of that improvement is internally then that is a much stronger position to be playing hardball from."

Braithwaite has developed five maxims (see inset) that he believes can help any food company achieve this and manage its supply chains successfully, something that he says is a critical factor for their survival and profitability in the next few years. A key issue, he says, is for companies to reduce or eliminate unprofitable complexity.

"Companies are driven through the good times to try and grow market share and revenues and they very often added customers and products which are intrinsically less profitable. They should go back and revisit those. We have

worked closely with an Irish frozen food manufacturer selling a lot into the UK and helped them examine their supply chain and commercial processes. They subsequently revisited major elements of their investment plans because this examination showed up pricing difficulties and over complexity in the supply chain."

Instead, the company rationalised recipes and went for a simplification process, which ultimately was worth 4% or 5% on margin. This meant that the business did not grow as quickly as planned but Braithwaite says that in the current climate making a profit is more important than growing the business.

Likewise the company was able to make big savings by examining its supply chain. It operated an intermediate stock location in the UK to service its UK customers. But, says Braithwaite, it is possible to service the UK from Ireland in 24 hours. So a big chunk of cost came out simply by eliminating this intermediate location.

He believes that it is also crucial that companies eliminate waste in their supply chain. While this issue, he says, is endemic across industry, he said it was particularly prevalent with the Irish food manufacturer he has worked with.

"We found really quite scary amounts of waste inside the production process - sometimes 8% or 10%," he says. "The Irish food industry is very successful, very strong and very well recognised in the European context. So we are not dealing with an industry that is in any

way incompetent. But large food manufacturing outlets have still got a long way to go to take waste out of their chains. My specific experience in Ireland confirmed this for me - it was fairly extreme and there was a bigger opportunity there than we expected to find."

Something as simple as poor machine settings can allow this level of wastage to build up and the costs can be phenomenal - easily up to 6% of the cost of goods sold in the typical environment, he estimates.

"At typical gross margins that is potentially 2% or 3% of net margin which is being wasted. You may not be able to save it all but if you are able to save half of it that would be 1.5%. The average finance director would kill for that at the moment."

LCP has undertaken research in the UK involving Irish suppliers that shows where specific and simple savings could be made. "We have spotted that up to £50 a pallet could be saved because of the way orders are placed and truck space is utilised," he says. "That's a lot of money. The same would apply with a company looking back into its own suppliers."

LCP worked with an Irish food manufacturer that was a major buyer of cheese. It found that it was using too many different grades of cheese in its production process, thus increasing waste and complexity. By just using one grade of cheese the manufacturer was able to go back to its supplier and get a better price because it was then buying it at a higher volume. ■
Fearghal O'Connor

Road to recovery

LCP's five supply chain maxims

1. Reduce unprofitable complexity
2. Build in customer service excellence
3. Design, plan and execute for agility
4. Synchronise and integrate to eliminate waste
5. Collaborate to leverage performance