FOODSERVICE INDUSTRY EBOOK

12 Best Practices for a More Agile Foodservice Supply Chain

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Planning Made Easy™

Introduction

Foodservice operators, distributors, and suppliers must carefully balance the need to keep kitchens stocked with the freshest possible ingredients, while minimizing inventory and spoilage. Maintaining the right balance has become that much more difficult because of the demand and supply disruptions caused by the ongoing COVID-19 pandemic. The key to success, whether during a pandemic or more normal times, is designing an agile supply chain so that you can quickly and economically respond to changing business conditions.

Based on our experience with foodservice clients, these are the top best practices we've seen for achieving supply chain agility.

Demand Side

To create an agile supply chain, the first step is for operators and their distributors and suppliers to have visibility to future demand at a granular level based on the latest information. The more accurate and detailed, the more prepared you will be to fulfill this demand.

1 Forecast by Day and Day Part

To optimize labor scheduling, leading foodservice operators forecast by day and day part (or even by the hour) so that they can optimally schedule employees. This is particularly important during this time of labor shortages. With an accurate forecast by time of day, restaurants can ensure they have enough staff at peak times to keep the lines moving.

2 Use Artificial Intelligence to Predict the Impact of Holidays and Promotions

Holidays and promotions, such as limited time offers (LTO), have a huge impact on sales. It's critical that you don't run out of ingredients for an LTO you're counting on to drive volume, but forecasting these events can be tricky. Innovative companies are using modern forecasting technologies such as artificial intelligence and machine learning to analyze sales history and learn the impact of various marketing tactics. With this knowledge, they can predict the impact of future events more accurately.

3 Plan for Grand Openings and Temporary Closures

For growing chains, forecasting the ramp-up of sales for grand openings is important for meeting consumer expectations while controlling costs. Best practice involves applying sales data for a restaurant with similar characteristics (demographics, format, etc.) to the new restaurant. This data then becomes a "pseudo history" to be used as the

basis for forecasting volume for the new store. The forecast volume can be scaled up or down based on differences in the new store size and catchment area, and it can be phased in during an initial ramp-up phase.

The flip side of a grand opening is a temporary closure for remodeling. First you need to cut the forecast volume to zero on the first day of closure, which is easy enough. When a store reopens, in a similar fashion as with the above grand opening scenario, best practice dictates that you create a pseudo history for the reopened stores so that your forecasting system will accurately predict volume for these stores and not treat them as completely new.

4 Adapt Forecasting for the Pandemic

The pandemic has made forecasting harder. During the pandemic, pre-pandemic data is no longer very relevant for predicting demand. Takeout and delivery have greatly increased, and erratic catering volume has added uncertainty to demand. Well into the pandemic, even though operators have nearly two years of pandemic data, the constantly changing conditions mean that what happened during the last Super Bowl promotion, for example, may not be a good indicator of how a similar promotion will behave during the next Super Bowl. Innovative operators are using artificial intelligence and machine learning to detect changes in demand behavior to increase accuracy. And if there's a blip caused by an extreme disruption in supply or demand, sales history data should be adjusted so that it doesn't skew future forecasts.

5 Collaborate with Distributors and Suppliers

Large swings in demand caused by promotions or large catering orders require that foodservice operators communicate and coordinate on forecasts and replenishment orders with their upstream trading partners. At minimum operators should communicate their requirements via phone, email, and spreadsheets with their distributors. Leading firms are using online collaboration systems to make the process more accurate and scalable. They are also going up a level in the supply chain and collaborating not just with their distributors, but also with their suppliers. This way, for example, a grower can be alerted to provide enough tomatoes during a time of high demand.

Supply Side

While all of the above best practices will improve your forecasting, you can’t entirely remove the uncertainty in demand. Thus, foodservice companies need to be responsive to unanticipated fluctuations in demand. They must also adapt to uncertainty in supply, a particular problem during the pandemic.

6 Continuously Monitor Supply and Demand

The first key to becoming more responsive to market changes is detecting the changes as soon as possible. Chains that monitor product-level point of sale (POS) data on a daily or even day-part basis report that it has transformed their organizations to become much more aware of what is going on in the market and to be able to respond on the supply side. And companies that have up-to-date visibility to internal data and their distributors’ and suppliers’ data (by collaborating per above) can detect potential problems and take proactive action.

7 Plan Seamless Item Transitions

Getting seasonal and holiday item transitions right is a significant challenge for operators. Ideally, you set a changeover date, say for a holiday-themed cup, and just before that date you deplete the generic cups and have the new holiday cups ready in the right quantities. Getting this right is difficult, so leading companies are automating the process of closely monitoring demand and supply and adjusting purchasing needs accordingly.

8 Update Purchasing Plans Continuously

In more stable times, many companies place purchase orders and then consider those orders frozen. But in today’s environment, some companies are continuously monitoring conditions and adjusting orders accordingly. For items in short supply, they may expedite orders. When demand drops, they may cancel or postpone orders. These changes are justified in a constantly changing market to maximize service levels and avoid excess inventory and spoilage. Of course, any such practices may require revisiting ordering ground rules with distributors.

9 Look for Alternate Suppliers and Alternate Products

In the foodservice industry, the choice of items and distributors tends to be very stable. But today’s uncertain times call for new approaches, borrowing a page from other industries that have always had to deal with more volatile

supply and demand. Today's most agile foodservice operators are proactively lining up alternate distributors in case their primary distributors cannot deliver key products. And in case a critical item is not available from their primary and alternate distributors, they are proactively identifying substitute products that can be used in case of a shortage. Advanced software solutions can help evaluate alternate distributors and substitute items, and trade-off costs with delivery times.

10 Optimize Truck Loading

Often there is a need to order full truckloads to reduce freight costs, but it can be a challenge to do this efficiently. Best practice companies incorporate truck loading algorithms into their planning processes. They take into account weight, cube, pallet, and case constraints to come up with an optimal loading plan for ordering extra product quantities from a single vendor and/or combining orders from multiple vendors to fill up each truck.

11 Level-Load Distribution Center Capacity Needs

Ignoring receiving calendars can lead to distribution center (DC) capacity shortages alternating with periods of poor labor utilization. This may be acceptable during normal times, but it is inefficient. And with today's labor shortages, it's not an option. Innovative companies are planning deliveries to accommodate vendor schedules so that DC receiving capacity can be level loaded for greater efficiency and optimal use of scarce labor.

12 Transship Supplies Between Distribution Centers

Chains and distributors with multiple DCs have the option of transshipping items from one DC to another. However, this incurs added transportation costs and planner time, and many companies avoid it. But in today's environment, if supplies are depleted in one DC and piled high in another, it may make economic sense to transfer inventory rather than purchase new supplies for the depleted DC. Leading companies are now evaluating the tradeoffs between transportation costs and inventory costs and rebalancing inventory among DCs on a regular basis.

One More Best Practice, and Perhaps the Most Important

In the tradition of providing a baker's dozen, we offer one more best practice, which straddles demand and supply and is perhaps the most important.

13 Learn from Past Mistakes and Continuously Improve

Despite the best intentions, stock-outs and inventory excesses occur. To learn from these mistakes, it would be great if you could look back at what happened to see, for instance, why you made a buy or no-buy decision, and do better next time. Innovative companies are archiving supply chain data and using new software capabilities to analyze this data and understand the root cause of issues. With this approach, they can minimize repeat problems and continuously improve their operations.

Conclusion: Benefits of a More Agile Foodservice Supply Chain

With a more agile supply chain, foodservice companies can detect changes in demand and supply more quickly and respond in a timely and economical way. The result is improved service levels, lower inventories, and increased revenues and market share. In normal times, having an agile supply chain is best practice for achieving superior results. During the pandemic, it's an absolute necessity for doing business.

About New Horizon

At New Horizon Soft, we are bringing a more modern approach to supply chain planning software for foodservice operators, distributors, and suppliers. Supply chain performance in the foodservice industry is becoming increasingly strategic, yet traditional software solutions remain difficult to use and complex to implement. New Horizon leverages the latest advances in artificial intelligence, machine learning, and cloud technologies to offer a more intuitive user experience and quicker, less expensive implementations. The result is superior service levels, lower inventory, faster time to value, and lower TCO. New Horizon customers include Golden State Foods, KFC, McLane, Diamond of California, Faribault Foods, and Republic National Distributing Company. New Horizon – *Planning Made Easy*™.

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