

No Soft Touch - Warehouse Management for Soft Drinks Companies

Soft drinks manufacturers of every kind need to carefully consider the central role their warehousing function plays in delivering more than just products to customers, says Kenneth Porter, partner at supply chain consultancy, Total Logistics. He argues that getting warehousing wrong can sabotage an otherwise excellent customer experience.

“Like every FMCG marketplace, competition in the soft drinks sector has hotted up in recent years, as the number of brands has increased and retailers have demanded more frequent drops as they aim to reduce stock. Clearly, the ‘backroom boys’ of the supply chain are now front of house, whether they like it or not.

“Certainly, the impact of the global recession has put even greater pressure on the sector to work more closely and innovate to reduce supply chain costs and continue to provide a responsive, robust and safe distribution channel. Our experience in the soft drinks sector has involved us re-evaluating pan-European logistics models for a major soft drinks brand; project managing the consolidation of three warehouses into one for a UK FMCG brand and undertaking a complete inventory management review for a supplier of juices. We’ve learnt a lot over the past few years. Below are the key areas where soft drinks companies need to focus their efforts to ensure their warehousing functions are up to speed.

Dealing with demand

“Seasonality is always an issue where warehousing is concerned. Be it Easter, Christmas or the summertime, spikes in demand for juice drinks, mixers or a new sub-brand of fizzy drink create challenges for supply chain practitioners in the beverage sector. Key issues here include the sourcing of appropriate labour, equipment or processes that can cope with the demand.

“This is a huge issue for beverage producers as it places tough demands on the warehouse function. And while automation might often appear to offer a tempting solution, seasonal variances may limit the flexibility offered by such systems.

“Another trend that drinks manufacturers are accommodating is the move towards smaller order sizes. As retailers demand more choice and less stock, so the use of regional consolidation centres (RCCs) is becoming commonplace. The greater adoption of cross-docking activities throws up specific issues from a manufacturers’ point of view, especially in terms of the frequency of deliveries and the implications this has for picking and packing activities.

Safety first

“Sell-by date is of course a critical issue for the soft drinks sector where all products, not just the chilled variety, have a shelf life of some sort. This has a direct impact on issues such as wastage and rotation of stock as well as batching of stock. This is a key consideration for drinks manufacturers, who are now being expected to fit in with retailers’ own rotation models. Increasingly, those manufacturers that cannot deliver perishables in chronological sell-by date order are likely to face the threat of product refusal at the retailers’ gates.

“Product tracking is also becoming something of a logistical pre-requisite, as recent recalls involving the likes of food colouring manufacturers show that no-one is immune from human error.

Process and procedures

“While most players in the FMCG sector closely monitor supplier performance, with fines often incurred for late delivery, it is still surprising how many food and drink companies fail to agree simple rules of engagement at the outset of a contract. Therefore, we often see suppliers failing to deliver to agreed timescales with no penalty, or changing standard box quantities without warning.

“Drinks manufacturers need to take the issue of supplier management and procedures seriously from a warehousing perspective, as poor performance at this stage of the supply chain can have huge knock-on effects across the whole organisation.

Promotions

“One of the most common reasons for ‘stock outs’ are retail promotions (e.g. ‘buy one, get one free’/BOGOF) that are not well planned, or not properly communicated through the supply chain. The reaction to this is usually to overstock ‘just in case’. In practice, it is not realistic to assume that all promotions will be planned sufficiently far in advance to allow the inventory to be delivered ‘just in time’ (as promotions are often decided at short notice in response to weather, competitor activity etc.). However, an understanding of retailers’ promotions strategies, and identifying products that are likely to be promoted should allow appropriate inventory levels to be maintained, rather than just holding an excess of everything.

“Special offers and other promotions obviously create a significant demand spike, which can also require the creation of new SKUs (stock keeping units) to track special packs in order to measure their success as a promotional tool. Often, promotions need to be tracked and handled in a different way.

“Hence, a warehouse function may need additional support to facilitate a ‘BOGOF’ campaign, when in practice they are sometimes the last to know when the sales team launches a major promotion.

“Clearly, better communications between marketing and supply functions is a vital element of success as brands work harder to engage with their customers. A good example of this has been the recent move by Tango to manufacture a run of cans ‘upside down’ in response to a challenge laid down by the social networking page Bragster. While this worked well as a promotion for the marketing team, which was delighted to show how it could playfully react to the market’s demands, such product-based initiatives put extra pressure on the supply chain. What might appear to be a simple change to packaging can wreak havoc in the warehouse if systems like barcode scanners are set up for standard products.

Seeing is believing

“Businesses with several buying operations – all ordering from suppliers separately, often encounter problems in the area of inventory management by not using a centralised system. This can typically occur within drinks manufacturing, where several plants source packaging from the same supplier, but fail to co-ordinate their order processing. Inevitably, this leads to a poorly disciplined process, where there is little visibility.

“While managing suppliers more effectively will bring better visibility and control, clear systems in the warehouse can improve performance overnight. We still see many warehouses in the retail, food and beverage sectors, where poorly organised stock management has brought about incremental chaos. Poor visibility on what stock is being kept where (and in what quantity and quality) creates huge inefficiencies and wastes warehouse staff’s time locating products.

“Relocating stock to the most appropriate and accessible place is a hugely important and effective process that drinks manufacturers need to do on a regular basis. While the process of assigning slow and high moving stock to their respective warehouse locations is important, this is not the whole story. Stock profiles are always changing and require re-assessment from time to time. Stock held in the wrong locations will lengthen travel times both for ‘putaway’ and picking tasks, creating significant hidden inefficiencies.

“Cross-docking is another logistics solution that food and drink companies can utilise to handle fast moving stock. Manufacturers should consider the volumes of faster moving products and look for the opportunity to streamline the handling to sales outlets.

The human touch

“Many inventory management issues stem from basic human errors, often in the area of inputting information. We often see mistakes being made during the receiving process, for example, where operatives mistakably enter 250 units into the system instead of 25 units. Again, having clear guidance when it comes to common understanding of what a single unit actually is, can be an area of confusion among warehouse staff. This can be addressed by training and refresher sessions, or providing product manuals with photographs, to ensure input inaccuracies are kept to a minimum. Dimension or weight checks can also be built into the process to ensure accuracy.

“It’s a simple rule, but too many businesses break the basic principle of every good housekeeper: don’t stock things you will never use. What’s needed is a process of disposal or clearance built into the warehouse management process. Where perishables are concerned, this is crucial in terms of efficiency and health and safety.

“While most businesses in the food and drink sector are good performers when it comes to perishables such as yoghurts and milk products being delivered within 1-2 days, those involved in more stable foodstuffs can become lazy when it comes to stock management. Here, internal rules of engagement need to be agreed. A figure for stock write-offs needs to be agreed – providing an annual budget - so that this process happens every year.

“Our project experience has shown that many drinks manufacturers are leading the way when it comes to supply chain management. Those that are not achieving world class logistics performance can often improve efficiencies significantly by making relatively simple and inexpensive changes.”