CASE STUDY

ReD Edge: A Solution to Equalize COGS for Strategic Product Categories

Challenge

In response to the desires of its customers, a high-growth, quick-service Restaurant Company announced that it would transition to protein products raised without antibiotics, which carry a cost premium. Recognizing that its suppliers would need time to convert from conventional to antibiotic-free processes to meet Restaurant demand, the Company decided to phase implementation over a period of time. However, the timeline presented a challenge.

The phased roll-out of the antibiotic-free protein items across the Restaurant Company's supply chain would create significant differences in the prices paid by the company's operators, unfairly impacting profitability. The Restaurant Company also had a very aggressive timeline for implementation of the initial antibiotic-free items into the network.

Solution

The Restaurant Company and Armada worked jointly to develop a National Average Price (NAP) solution through which the cost premium would be borne equally across the entire network. Armada engaged with the Restaurant Company to understand the processes currently used by the distributors to plan, forecast and replenish protein items in the network within supplier volume commitment constraints. A forecasting process was

Solution *(continued)*

developed that incorporated forward-looking volume and financial plans to set the NAP for each item on a monthly basis.

The second component of the solution was inclusion of the lanes of supply in Armada's ReD Edge program. Under ReD Edge, Armada takes ownership of the product while in transit between supplier and distributor (two to three days on average). Armada purchases product from the suppliers at their price and sells the product to the distributors at the NAP. Payment terms were adjusted so that working capital requirements were neutral for the Restaurant Company's trading partners.

As a result of participating in the commerce exchange, Armada is able to capture variances between the supplier price and NAP. The goal of the monthly forecasting process is to achieve a neutral variance; in actuality, a minimal variance is recognized each month. This variance is then normalized over the subsequent months through the forecasting process and revisions to the NAP. Additional value was created through Armada's management of the transportation — but it's not a requirement.

Results

With all parties working collaboratively, the aggressive implementation timeline was met. In the initial months of the program, the transaction variance was within 0.2% of total monthly spend. By including critical suppliers in the managed freight program, the value of the solution was extended by enabling load visibility for track/trace, service performance improvement and trading partner behavior change management.

The successful deployment of this solution yielded one price for proteins across the network, while creating a scalable, auditable process immune to increases in network complexity resulting from the addition of trading partners. It also enabled the Restaurant Company to roll-out the antibiotic-free protein items without unfairly impacting individual restaurant operators' profit margins. By mitigating operator impact and meeting its implementation timeline, the Restaurant Company will meet its goal of serving antibiotic-free protein products.

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