The ***Rise*** *of the* Supply Chain Advocate

In a complex supply chain, every player has its own agenda. It takes a Supply Chain Advocate with an independent, holistic view of the supply chain to find win-win solutions that reduce costs and improve efficiency.

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In an ideal world, every trading partner in a supply chain pulls together to achieve the best balance between cost and service. Supply chains synchronized in this way are efficient, agile, and able to respond quickly to shifts in the market.

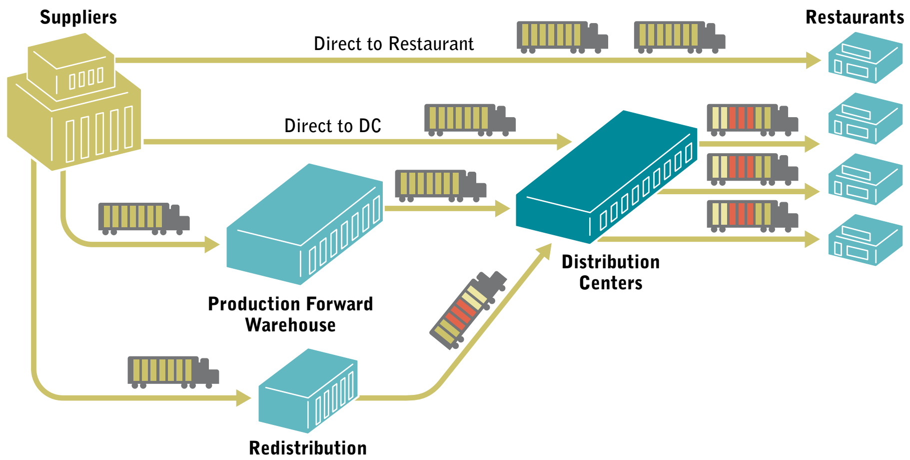
In the real world, such a high level of collaboration is difficult to achieve. Rather than perform together like a well-tuned orchestra, multiple trading partners often play their own tunes. They are more likely to pull in different tactical and strategic directions, impairing end-to-end visibility and coordination. The resulting lack of alignment and supply chain visibility creates costly inefficiencies and slows responses to the market.

Bringing these entities into line requires changes in behavior that comply with the supply chain's overarching performance objectives. To get buy in, these changes must be orchestrated in a way that benefits each party in the value chain—otherwise there is little incentive to participate in the change management exercise.

This orchestration role is best carried out by an independent, lead player in the supply chain, such as a logistics service provider or a manufacturer that has a 360-degree view of the supply chain and is a tireless advocate of alignment. The entity, which we call the Supply Chain Advocate, might represent the primary shipper if it happens to be a 4PL, but delivers benefits to participants across the supply chain by identifying and fixing misalignments.

EXHIBIT 1

Restaurants: Inbound Channels



Source: Armada

The role of the Supply Chain Advocate is becoming more important in many industries as companies adapt to an increasingly uncertain business environment. As the consulting firm McKinsey noted in an article in the July 2014 issue of *SCMR*, companies as varied as Skype, Coca Cola, Procter & Gamble, and Apple are increasingly focused on tightly orchestrating activities "across a value chain that spans functions from market insight and product development to delivery and customer service and includes many well-managed external partners and suppliers."

Nowhere is this more evident than in the foodservice industry, where structural disjoints and new operational challenges are reshaping supply chains. Our firm, Pittsburgh-based Armada, provides fourth-party logistics services in the foodservice industry for the parent companies of restaurant chains (referred to here as restaurant brands to distinguish them from physical restaurant locations). What follows is a look at how the role of the Supply Chain Advocate has evolved in our industry. However, we believe the Supply Chain Advocate experiences detailed below translate to other industries and organizations.

Many Ingredients

The demands on foodservice supply chains are steadily increasing as restaurant brands adapt and modify their offerings and operations to meet the growing needs of their customers. Foodservice companies sell food that is prepared and served in venues outside of the home. Probably the most familiar venues are restaurants, the focus of this article. Every restaurant is supported by a complex, global supply chain (see Exhibit 1).

Manufacturers source the raw materials from suppliers around the world. The finished goods are delivered to restaurants through a number of domestic and international channels. Products can move directly from the manufacturer to the restaurant, or via forward warehouses and last-mile distributors. In some cases redistributors feed low-volume items to last-mile distributors. Carriers, mainly over-the-road, transport product. Fourth-party supply chain solution providers, like Armada, offer logistics services in much the same way that these players do in other industries.

While Cost of Goods (COGs) is approximately 30 percent of restaurant sales, logistics costs typically make up 10 percent to 12 percent of COGs, making it one of the top five categories of spend in the foodservice supply chain. Controlling these costs is imperative.

The foodservice supply chain broadly follows the familiar plan-source-make-deliver operations model, but with some notable differences. One of the most important is that the make-deliver cycle happens inside the four walls of a restaurant. For example, a manufacturer might supply chicken breasts that are converted by a restaurant into menu items that are bought by end consumers. In that example, each restaurant is a mini-factory, which means that the supply chain of a major brand might include more than 3,000 factories.

Another feature of this supply chain is that restaurant brands do not usually manage distribution assets; third-party companies are contracted to provide warehousing and last-mile services. Some third parties, notably last-mile distributors, also take ownership of the goods in their possession. Certain links in the supply chain are less visible than others. For example, the forward warehouse node is often invisible to both the restaurant brand and the last-mile distributor.

This fragmented structure, and the foodservice supply chain's many product handoffs, often leads to a silo mentality that impedes the end-to-end flow of information. In general, there is less transparency and visibility in foodservice operations than in the broader retail industry.

Additionally, foodservice companies face uncertainties that increase supply chain risk. Food prices change in line with commodity price fluctuations. Consumer demand is sensitive to economic cycles and the influence of promotional campaigns. Moreover, the level of volatility has increased over recent years, and is compounded by the impact of social media platforms on consumer buying decisions.

In response to these challenges, foodservice companies must find ways to raise the supply chain efficiency bar, becoming more agile and collaborative—something that will sound familiar to supply chain managers in almost any industry with a multitude of trading partners. To achieve these goals, it is necessary to identify and eliminate supply chain misalignments that hamper performance. Enter the Supply Chain Advocate.

Solutions by Consensus

As mentioned, the Supply Chain Advocate has a holistic view of the supply chain. From this vantage point the Advocate can review the entire logistics network, and gain a deep understanding of the product flows. Armed with this knowledge, the Advocate is uniquely positioned to identify changes in behavior that can improve network efficiency—that includes working with trading partners to address misalignments such as loading delays that lead to disruptions and avoidable costs.

This is accomplished by pinpointing the root causes of these disjoints, and developing effective solutions that benefit all of the participants. An important part of the Supply Chain Advocate's task is to persuade the parties involved to change their behavior in such a way that they willingly lend their support to the effort.

It's not an easy job. Practices can become so entrenched that trading partners find it easier to ignore conflicts of interest, or simply build the inefficiencies into the cost of doing business. Waiting for the other party to change is another mode of behavior that supports the status quo. Further, when the parties lack a holistic view of the supply chain—a problem that is endemic in the foodservice business—they do not appreciate the end-to-end consequences of their laissez-faire approach to misalignments.

What follows are three examples of situations we have experienced, and how advocacy played a central role in facilitating positive change.

Loading Delays. Trucks were experiencing significant loading delays at the facility of a manufacturer of refrigerated food. The last-mile food distributor that received the product required drop trailers at the facility and ran the carrier's reefer units almost dry before unloading them. The extra cost associated with these workarounds was embedded in the carrier's line haul rate. In other words, the restaurant brand—that ultimately bore the total landed cost expense—was picking up the tab through inflated transportation costs for inefficiencies created by the manufacturer and distributor.

Armada had just taken over inbound freight management and initiated a lane rebidding exercise. As we evaluated the results, we identified a high-volume lane where the incumbent carrier's freight rate was significantly higher than other peer carriers who had submitted rates on the lane. As part of our role as the Supply Chain Advocate we engaged the incumbent to understand why there was such a difference in rates and learned that the carrier had been forced to factor into its rates excessive loading time at the manufacturer and poor refrigerated trailer utilization at the destination.

We learned that this situation had persisted largely through inertia; no one wanted to deal with the underlying causes of the delays. When Armada approached both the manufacturer and distributor with possible solutions, they were initially dismissive of any need to change. So we had a fact-based conversation about how our common customer—a national restaurant brand—would be less than happy with the current situation. As part of this discussion, we laid out a case for the cost savings that could be achieved if the parties changed their behavior. They agreed to collaborate on fixing the problem.

The trading partners developed better ways to schedule trucks in and out of the manufacturer's facilities. The distributor agreed to unload within the

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free standard time or turn trailers around in 24 hours. These efforts achieved a reduction of about 15 percent in the cost of the line haul rate on a significant volume of business (>1500 loads a year).

Hours-of-Service Offsets. Another opportunity to act as a Supply Chain Advocate presented itself when new hours-of-service rules for truck drivers went into effect in July 2013. Industry analysts projected that these would reduce productivity in the carrier community by anywhere from 3 percent to 8 percent.

As our clients' Supply Chain Advocate, we wanted to evaluate ways to offset this decline and minimize the negative impact on the efficiency of restaurant brands' supply chains. If action was not taken, carriers would be forced to either absorb the productivity loss in their margin, or increase their freight rates. The former was not deemed as a likely outcome and the latter would create additional cost inflation. There was an opportunity to give back at least a portion of the lost productivity to help offset any inflationary impact by changing legacy behavior.

We analyzed the likely loss in productivity and estimated how such a loss might translate into a cost impact for the carriers and ultimately how that would cascade down into freight rates. Our analysis helped to clarify the counter measures that would be the most effective. The measure chosen pursued a reduction in the current free time provision; the time allocated for loading and unloading trucks without incurring penalties for delays. Our estimate of the net benefit of such a change was considerable. This might seem like a relatively simple solution, but at the time few other shippers or receivers were willing to take such a step.

Reducing the free time provision incentivized shippers and receivers to streamline cargo operations. Under the existing two-hour provision, these parties tended to take the full two hours or longer to complete loading/unloading. The new, one-hour standard enabled trucking companies to essentially count on an additional two hours of operational time per trip. As a result, driver productivity would be improved, or the carrier could secure revenue compensation in the form of detention charges when held beyond the new free time standard. Improvements in the utilization of capital investments in tractor/trailers was another expected benefit.

We developed a business case for the free time reduction, and made our recommendation to our restaurant brand clients that the adjusted provision be adopted and incorporated into their policy documents. This change was agreed to and adopted by the brands, and subsequently deployed by Armada. Next, we used the analysis and business case to educate shippers and receivers about the importance of their role in helping to offset the impact of the new regulations and the benefit it would bring to the brands. This effort clearly explained the implications for productivity levels and rate inflation.

After the change was implemented, there was a net reduction in average loading and unloading times despite many concerns about detention expenses running rampant. For example, in 2014 dwell times improved by two minutes on the pick-up side and by one minute on the delivery side. These gains translated into significant cost avoidance in a network that moved around 400,000 loads annually.

Actively bringing everyone to the table helped to ensure that every trading partner benefited. Carriers gained from the improved productivity. Also, there was less pressure to increase rates in response to the regulatory change. Benchmarking carried out in late 2014 found that the tender acceptance rates were higher than those of many other shippers. Carriers consistently reported that this was, in large part, because of our advocacy in driving network productivity. This type of goodwill translates into competitive advantage, greater access to capacity, and lower freight costs.

The free-time provision change also benefited shippers and receivers. Their facilities were perceived as preferred by carriers, and tighter operations enabled them to improve both dock scheduling and labor efficiency.

Product Integrity. Much of the product that flows through the foodservice supply chain is perishable, and vulnerable to rough handling and variations in temperature.

As part of our ongoing interaction with our clients and their stakeholders, we learned that a last-mile distributor started receiving excessive complaints from restaurants that certain deliveries of cheese were exhibiting mold and other signs of spoilage. The distributor could not understand why these issues were being reported, as they had not identified any issues at receipt from the manufacturer. Temperature readings on outer cases on the pallets were found to be within specifications.

The distributor figured it was an in-transit issue and performed a more detailed temperature check on the next inbound shipment. This revealed that many cases stacked in the pallet interiors were warmer than allowed by the specifications. The distributor rejected the load and notified the manufacturer that they would have no choice but to reject future shipments if the problem was not resolved. The manufacturer, in turn, attempted to file a claim against the carrier for temperature abuse.

As our client's Supply Chain Advocate, we quickly engaged in determining the root cause of the issue while the out-of-spec product sat in the trailer in the distributor's yard waiting on disposition. It was counter-intuitive that cases interior to the pallet would be warmer than those on the exterior—this could not result from temperature abuse in transit, where the opposite would be

Mutual Benefits

Armada's role as a Supply Chain Advocate has established a track record of creating win-win situations through collaboration and avoiding counter-productive finger pointing. Here is an example of our approach in action.

Distributors in a network were accustomed to changing the delivery date on loads, typically within 24 hours of the original scheduled pick up date. This usually happened when they were running low on inventory. The carriers assigned to the loads could not make the last-minute adjustments in their networks to pick up the cargo on the revised dates (usually sooner than originally planned), and would reject the loads. Alternative carriers had to be found on short notice, usually from the spot market, which incurred premium freight expenses.

In another common practice, distributors would frequently order for Friday pick up and Monday delivery, but the transit times were a day or less. This created a situation where carriers had to "dwell" their drivers and equipment over the weekend. As capacity tightened, more and more carriers opted to decline these loads. Again, the end result was resorting to the relatively expensive spot market.

Armada identified these trends and approached the distributor community about cutting premium freight costs by reducing both the number of order date changes (especially short lead time changes) and the number of loads with extended transits. Using historical data to show where the issues were arising as well as opportunities for fixing the problem, we collaborated with the stakeholders to change the behaviors that were creating these unnecessary expenditures.

The distributors did two things. First, if they needed product earlier, they placed an additional order that allowed the existing pick up schedule to stay intact at the contracted rate rather than change the delivery date on short notice. The additional truck could be ordered upon receipt allowing for a firm commitment to the carrier at the time of the rate quote, resulting in a more favorable spot market rate.

Second, distributors evaluated their safety stock and replenishment protocols, and made appropriate adjustments to allow them to better withstand short-term volume spikes without having to place short lead time orders. Both actions succeeded in reducing the number of order date changes and short lead time orders, which translated into lower premium freight costs.

In regard to the extended transit situation, two paths were followed in parallel. First, distributors looked at their order patterns, and where practical, instituted changes so that 1) the delivery date was closer to the pickup date relative to the lane transit time and 2) their facilities could receive product on the weekend to free up trucks sooner rather than waiting until Monday.

At the same time, we approached the shippers involved and asked that where practical, they open for at least a half shift on Saturday or Sunday so that orders could be pushed into the weekend, thereby shortening the weekend dwell time for the carrier.

These actions resulted in a number of savings. Premium freight costs were reduced, which more than offset the incremental working capital costs incurred when the level of safety stock was increased. Similarly, savings in layover costs more than compensated for weekend opening expenses. In addition, there was a reduction in the number of extended transit loads and an increase in carrier efficiency.

expected. We obtained equipment readings from the carrier to validate that the reefer unit had been running properly while in transit. This information, and the fact that we were seen as a neutral party working on the issue, persuaded the manufacturer to take further steps.

A representative from the manufacturer traveled to the last-mile distributor to inspect the next shipment. The manufacturer confirmed that the situation was as reported by the distributor, and agreed that this could not be occurring in transit. Upon further review of conditions at the plant, they realized that the inner cases of product were warm at the time of loading. The full story then emerged: Cheese product coming off of the production line was immediately palletized prior to storage in the cooler. The tightly packed pallet configuration limited air circulation and prevented the cases from cooling to within specifications. This excessive heat was enough to cause the degradation of the product that the restaurants were reporting.

The pallet configuration was changed to provide better ventilation while the product was in storage at the manufacturer's site, ensuring proper and complete cooling before shipment. The cases were then re-stacked for shipment.

Resolving the problem yielded a number of benefits. The absence of clear proof that the carrier was at fault would have led to many disputed and unresolved claims. The cost of unpaid shipments would probably have been absorbed by the manufacturer that would have attempted to recover these expenses directly or indirectly from the restaurant brand. And last but not least, the dispute created ongoing servicing/stocking problems at restaurants that went away when the solution was implemented.

Key Success Factors

As these examples show, a diligent Supply Chain Advocate can have a significant impact on supply chain efficiency by bringing trading partners together to solve problems and realign the parties involved.

There is no standard template for the Advocate's role, but there are certain elements that in our experience are critical to success.

A good starting point is an overarching policy document on how the restaurant brand (or the primary shipper in other industries) wants to operate its supply chain. The document can be developed by the Advocate, starting with the brand's quality requirements—which can be modified to include supply chain management best practices. Each stakeholder is expected to comply with the document's guidelines and requirements to ensure that their mutual client realizes the full benefit of an efficient supply chain.

With this framework as a guide, the Advocate uses its comprehensive knowledge of the end-to-end supply chain to develop solutions through collaboration and education. Misalignment issues are identified, problems are clarified by analyzing the causes and effects, necessary changes are implemented, and outcomes are measured.

Providing scorecards is an effective way to highlight how stakeholder behaviors affect network efficiency. There should be regular meetings to review the progress of efficiency-building programs. And, a successful Advocate takes every opportunity to celebrate wins and position the stakeholders involved as heroes.

Another approach to ensuring that trading partners are part of the solution is to create a steering group that represents all of the stakeholders and is chaired by the Advocate. This is a powerful mechanism for promoting collaboration. The group functions as a sounding board for policy recommendations made by the Advocate, which oversees the implementation of agreed measures and reports back on results.

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New Emphasis on Advocacy

To some extent, advocating for positive change on behalf of its shipper client has always been part of the logistics solution provider's role. However, as supply chains are exposed to more risk and unpredictability, we believe that this type of advocacy must become more systematic.

Fulfilling the role of the Supply Chain Advocate requires certain skills as well as a collaborative approach to troubleshooting supply chain problems. Logistics service providers that take on this responsibility create value for multiple trading partners, and help companies to become more agile by aligning supply chains along common performance goals.