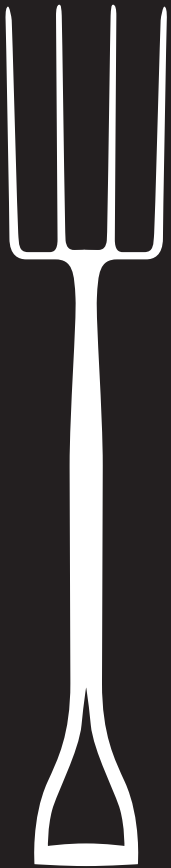


STRATEGIC SOURCING IS MOVING
TO THE BOARDROOM TABLE



BOARD LEVEL SURVEY RESULTS: SOURCING & SUPPLY 2011

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- Ever increasing concerns about volatility, security of supply and sustainable production are resulting in food companies rethinking their whole approach to sourcing and supply of raw materials.
 - Companies now appear to be developing an 'end-to-end supply chain guru' from farm to customer whose role is cross functional from raw material sourcing through manufacturing and into point of sale, ensuring the whole chain is aligned to the business strategy.
 - This role is also likely to evolve as different skills are required to manage the risk involved and ensure the business embraces leading edge scientific and technological developments to drive new thinking and improvements into the business.
 - Food companies recognise that sustainability is here to stay and that it is better to tackle the challenges this poses head-on as opposed to waiting for and reacting to pressures from outside.

Traditionally sourcing & supply has been a functional responsibility but it is increasingly being seen as a major Boardroom issue. With concerns growing over security of supply, price volatility and sustainability, EFPF along with a leading Executive Search Consultancy, Snowdon Tate, approached senior executives in 180 major food manufacturing, retail and food service businesses for their key observations and learnings in these areas. With a 30% response across different sectors this gives a good indication of the thinking across the industry.

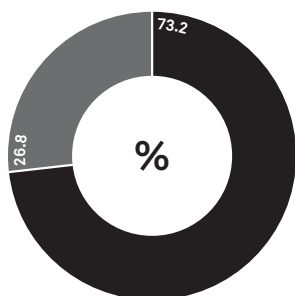
Could this have far reaching implications for the structure of their businesses and the food industry as a whole?



SOURCING AND SUPPLY IS MOVING RAPIDLY UP THE STRATEGIC AGENDA

Figure 1: Sourcing & supply

Q How would you describe the Board's overall attitude to 'Sourcing & Supply' (of raw ingredients) within your business?



- Business critical
- Strategically important
- Options which were not selected
- Operationally important
- Service function

We began by asking respondents how they would describe their Board's overall attitude to 'Sourcing & Supply'. An overwhelming 100% came back describing the Board's view of sourcing as Business Critical and/or Strategically Important, clear evidence that purchasing has moved onto the boardroom table as never before.

See Figure 1

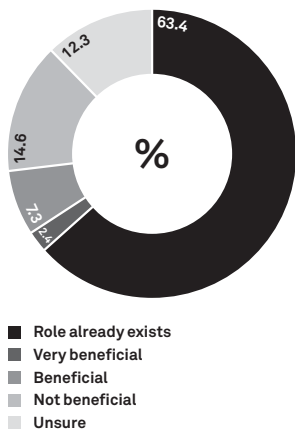
In most cases this change in the Board's perception of the importance of sourcing and supply has occurred quite rapidly, with 65% reporting that in the last five years it has moved up the strategic agenda, to become a business critical topic for the boardroom table.



EMERGENCE OF AN END-TO-END SUPPLY CHAIN GURU?

Figure 2: Supply chain responsibility

Q How beneficial would it be to have someone in your business, apart from the CEO/MD, with overall 'end-to-end' supply chain responsibility (i.e. from farmer/primary source to end customer)?



'Essential that he understands and influences total cost through value stream mapping. Co-ordinates supply and demand, balancing short-term operational needs with long-term strategic considerations'

Supply Chain Director, Produce

But how have companies addressed this rapidly changing landscape in sourcing and supply?

Many food businesses today still do not reach back to the prime producers of their raw materials but rely on their suppliers or even suppliers' suppliers to perform that role. Where they do go back, Procurement often orchestrates inbound and Supply Chain or Logistics are accountable for outbound, consequently complete end-to-end visibility across the supply chain, from farmer/grower to end customer, only occurs at the CEO or Managing Director's desk.

It was therefore particularly interesting to note that amongst the companies who responded, almost 70% claimed that they had created a position with end to end supply chain responsibility and visibility, with decisions being based on full value chain considerations, rather than from a traditionally functional view.

See Figure 2

This end-to-end supply chain guru has cross functional accountability, from raw material intake through manufacturing to finished product and to end customer. It is a role which

requires top class influencing skills and the ability to drive the strategic agenda whilst meeting short-term business imperatives.

However, our experience tells us that although the majority of our survey respondents reported that they had total supply chain visibility, in reality many businesses simply have not yet addressed this issue. From our knowledge of the food industry we know that in many organisations decisions are still being taken without full consideration being taken of total supply chain cost. To implement a role with end-to-end visibility in most businesses would be a serious challenge, requiring not only very significant structural organisation change but also a change in mind-set and practices.

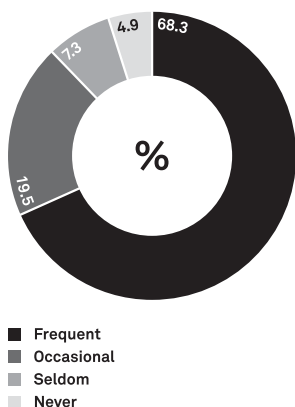
But the benefits are clear, as one senior director remarked: 'We have just recruited a Chief Operating Officer and restructured to operate as one business. The benefits of having one view from farmer to end customers will be a leaner and more consumer focussed supply model.'

Our findings indicate that this will be a growing trend, but are businesses ready to adapt to the new model?

WORKING WITH FARMERS AND GROWERS

Figure 3: Contact with prime producers

Q For raw ingredients, how much direct contact do the Purchasing/Procurement team have with the prime producers (i.e. growers/farmers)?



We explored the question of how closely raw ingredient purchasing and procurement teams worked with primary producers, and whether this could give competitive advantage to businesses. In 70% of cases they had frequent direct contact and in 80% of cases respondents were clear that this gave their business a real competitive advantage.

See Figure 3

These results were a strong indication that direct relationships with farmers and growers were seen as an imperative, not just for helping to manage risk around continuity of supply, price volatility and traceability but also for provenance and brand credentials. For example, one major food manufacturer has for the past 30 years developed a strong supplier network and is now working with 'Second Generation' growers.

This move by Purchasing to increase direct contact with growers and farmers is however, hardly surprising, given the increasing supply and demand pressures. With regards the latter, consumers are rapidly becoming ever more aware of

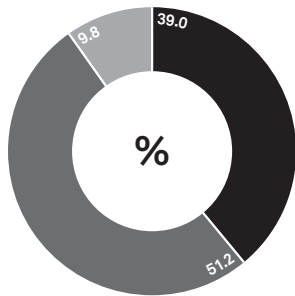
both provenance and food miles issues, and are asking why some of the food they buy has travelled thousands of miles across the globe when sometimes it is not necessary. Sourcing closer to home can mean needing to develop longer-term relationships with and commitments to primary producers in order that they invest in new developments or extend capacity. We are aware of numerous examples where this is occurring and bringing real competitive advantage.

Another clear advantage of taking this approach is the likely future need of being able not only to fully declare the carbon footprint and possibly even the embedded water levels for all products sold but to actively reduce them. This is challenging enough when working directly with all parties in the supply chain but doing at arms-length through others just adds unnecessary obstacles.

SECURITY OF SUPPLY AND PRICE VOLATILITY

Figure 4: Security of supply

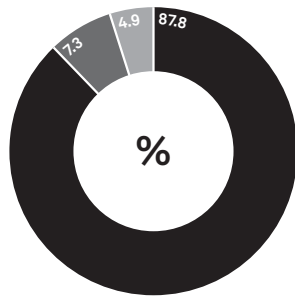
Q Are there any significant raw materials for which you do not have confidence around security of supply?



■ Yes
■ No
■ Unsure

Figure 5: Price volatility

Q Are there any significant raw materials for which you have real concerns around price volatility?



■ Yes
■ No
■ Unsure

‘The reduction in government intervention in these markets and the balance of supply & demand does drive volatility. My view is that we deal with it instead of wishing it away!’

Chief Executive, Food Service Operator

We saw earlier that 75% of businesses now saw ‘sourcing and supply’ as a business critical issue. Given the increased problems of security of supply and price volatility, which impacts margin, that is clearly not surprising. We wanted to understand how much of an issue this was becoming, and in particular whether there are key raw ingredients where companies have serious issues. Our survey revealed that 40% of businesses still had real concerns around security of supply in the immediate future with others worried about the long-term sustainability of some ingredients from current sources.

See Figure 4

With regards to price volatility, for nearly 90% of companies this was causing a major headache both in terms of being able to budget with confidence but more importantly the impact on the bottom line given the inability to pass on the costs in a timely manner, if at all.

See Figure 5

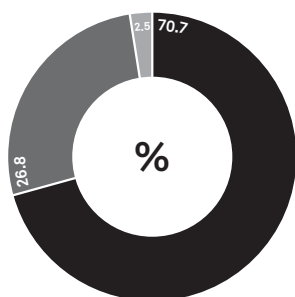
With regards the ingredients mentioned there were issues right across the categories with too many to mention which only goes to demonstrate that this is a fundamental issue and needs addressing at a senior and strategic level.



A PARADIGM SHIFT FROM A TRANSACTIONAL APPROACH TO A MORE STRATEGIC AND COLLABORATIVE MIND-SET

Figure 6: Skill set

Q Do you feel that the skill set required by those leading the Purchasing/Procurement and Supply Chain functions will be different in the future as compared to the past?



■ Yes
■ No
■ Unsure

‘Procurement specialists now need an enhanced skill set, it is no longer sufficient to be a good negotiator, but also have a good understanding of the supplier and the grower, and the pressures they face’

Group Procurement, FTSE 100 Food Manufacturer

With significantly increased price volatility and concerns over security of supply for key ingredients combined with the desire for longer term arrangements and the need to understand agri-financial markets, what should companies now be looking for in the skill set of those leading the purchasing function?

70% of respondents felt that the skill set required for purchasing professionals will be different going forward. This was seen as not only being driven by the need to better understand worldwide demand and supply, price volatility, risk management and the influence of ‘outside’ factors such as fund investment but also how to build genuinely collaborative commercial relationships.

It is very clear that there has been a fundamental shift in the industry, leading to the development of a new procurement professional profile, from one of negotiator who drives down price to one of collaborator with a strong focus on risk and financial management and partnership based procurement.

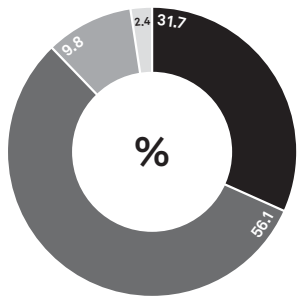
See Figure 6

No longer is procurement just about getting the best price; evidence from our survey reveals that in the food industry it is becoming a highly sophisticated profession, requiring expert commercial skills, an understanding of financial hedging, risk management and highly developed relationship management skills.

SUSTAINABILITY – HOW WILL IT IMPACT IN THE NEXT THREE TO FIVE YEARS?

Figure 7: Sustainability issues

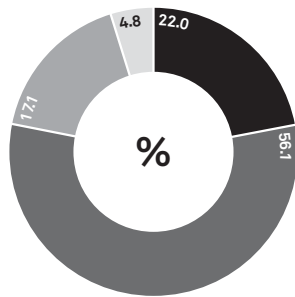
Q How significant do you believe the impact of sustainability issues (e.g. carbon footprint, water scarcity, social issues etc.) will be on your business in the next 3–5 years?



- Very significant
- Significant
- Not significant
- Unsure

Figure 8: Advances in science and technology

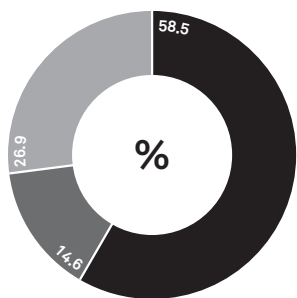
Q How important do you think advances in science and technology (e.g. bio-technology, nano-technology, information-technology) are likely to be in providing the answers to these challenges?



- Very significant
- Significant
- Not significant
- Unsure

Figure 9: CSR Issues

Q If CSR issues are not already fully included in the decision making, do you have plans in place to address this?



- Yes
- No
- Unsure

With concerns over security of supply and price volatility, are senior executives in food businesses expecting sustainability to also impact on their business in the next three to five years? In the final section of our survey we explored how the industry viewed the impact of sustainability and CSR issues and how they planned to address them.

Evidence from the survey clearly suggests that sustainability will have a very strong impact on food businesses in the next five years. Almost 90% of senior executives who responded believed that sustainability will have a significant or very significant impact on their business.

See Figure 7

But how are businesses preparing to deal with this? Whilst some companies are taking highly commendable initiatives, such as installing anaerobic digesters and wind turbines and looking at 'total' water usage they are in a minority. It can be argued that many companies are simply not in a position to invest in sustainability projects with long term pay backs. With a short-term horizon, focused on this quarter's sales and profit figures, most businesses are failing to seriously address the sustainability issue. This will impact long-term profitability as well as a company's standing in the market place.

Harsh reality, however, will not go away. The UK food and farming industry is a major player in the economy and therefore should probably look to take a lead on environmental performance. The food we eat is responsible for around 20% of the UK's carbon footprint or 30%, if impacts from changing land use overseas are included. Should the food industry not be rising to the challenge and taking concerted steps to reduce its impact on the environment. From our survey, it is clear that the industry can see the train coming, but is it doing enough about it?

The answer it seems could be in development of new technologies, as 75% of our respondents felt that innovation in bio-technology, nano-technology and information technology could provide the solution to the sustainability challenges.

See Figure 8

Science is a key element in developing new and necessary solutions but clearly it needs to work hand-in-hand with other areas mentioned in this article such as the structure of the supply chain, the nature of supplier relationships to encourage changing practices and the skills of individuals accountable to deliver the results. Could it not be a risky as well as a dangerous strategy, to assume that only one area alone can provide the best answers?

To find out more about businesses' approach to CSR issues we asked senior executives to what extent their Purchasing/Procurement & Supply Chain teams were taking CSR issues into account in their decision making.

See Figure 9

In only 1% of replies did CSR issues drive decision making, with the majority of respondents reporting that it was 'taken into consideration' or 'was an important part' of the decision making process.

With pressure increasing to address the sustainability agenda, around 65% of companies had plans in place to include CSR in decision making – a clear indication that whilst not a lot is being done, there is a strong awareness of the need to do something!



IN SUMMARY WHAT DID OUR SURVEY REVEAL ABOUT TODAY'S FOOD INDUSTRY?



Key findings include:

- Sourcing and supply is becoming a major Boardroom issue
- The emergence of a supply chain guru reporting into the CEO
- Significant concerns over security of supply, for a large range of products
- Serious concerns over price volatility and its impact on margin
- A new breed of purchasing professional –with skills in strategic partnering as well as traditional negotiating, hedging and financial management.
- The recognition of the importance of new technologies to address CSR and sustainability issues
- A realisation that although the food industry may not as yet be doing enough to address the issues, there is a strong awareness of the need to include CSR in decision making processes.

As the saying goes, 'if you always do what you always did, you will always get what you always got'. No truer word said and in times of massive change with the challenges rapidly altering in nature and becoming more structural, it is clearly urgent for all businesses to take a fundamental look at how they are approaching their 'sourcing and supply' of raw materials in terms of strategy, organisational structure and skill set.

'The role is becoming broader; new financial hedging skills are required, as well as a far better understanding of the end to end supply chain'

Managing Director, Bakery

If you are interested in discussing further how the issues raised in this survey might affect your business please get in touch with any of the EFPF partners or staff listed at the back of this issue.

If you are looking to identify the right individuals to join your business then contact Alastair Paton or Beth Cauldwell at Snowdon Tate.

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