



INDUSTRY IN FOCUS

FOOD & BEVERAGE



Winter 2016 Spotlight:

Current Trends and Challenges in the Food Industry: Affecting Margins in a Dynamic Market

About Us

Synergetics is a privately held New England-based Management Consulting firm established in 1975. With office locations in the US and UK, Synergetics operates internationally and employs over 150 professional analysts, consultants, project managers, and subject matter experts.

As one of the largest "Implementation Consulting" organizations, Synergetics has completed over 1,600 business process engagements across nine distinct verticals to build more than \$8B in bottom line profitability and improve overall operating efficiencies. Synergetics works with a diverse client portfolio of leading industrial and service corporations across Private Equity, Small and Medium Enterprises, and Fortune 500 Companies.

With customized services and solutions, Synergetics performs hands-on detailed management, financial, and operational assessments to develop and deliver specific cost savings and revenue enhancement initiatives.

Visit our website at
www.synergeticsww.com



"Synergetics has supported me on several acquisitions and many turn-around situations in the food industry including bakeries, meat processing and fresh prepared salads. They have always proven to be effective and collaborative with the company's organization. What sets Synergetics apart is their ability to effectively implement through the management team. Their commitment to an ROI-based value proposition truly differentiates them."

— Steve Silk
Director with Madison Dearborn
Former CEO
Hebrew National (ConAgra Foods) and
Chef Solutions, Inc.

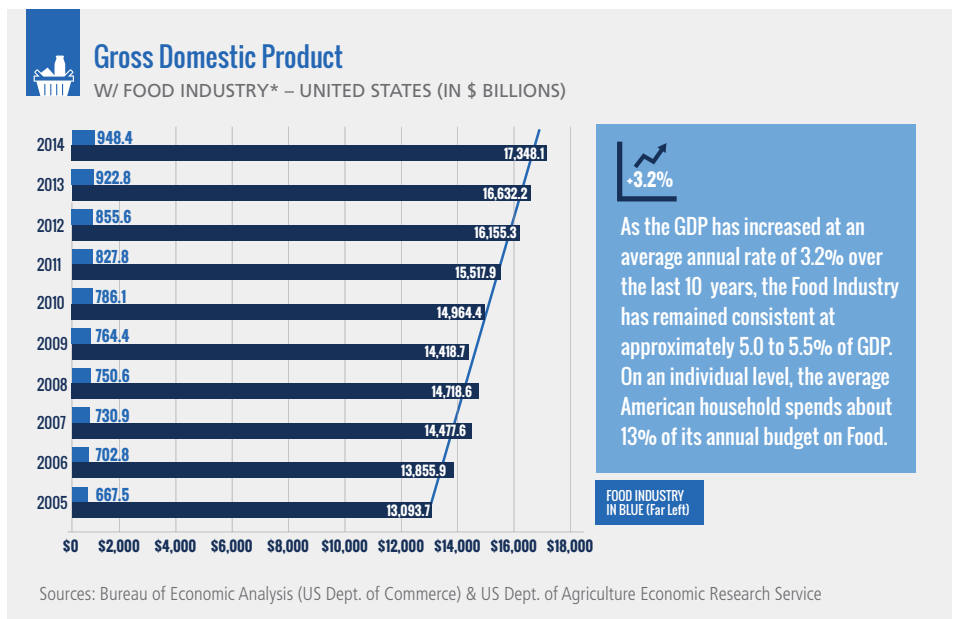
INTRODUCTION

In celebrating its 40th year as an implementation consulting firm, Synergetics is pleased to release this second in a series of quarterly industry updates. Synergetics considers Food & Beverage as one of its core business industries in service delivery. Because of its expertise and success in implementing best practices in this market sector, Synergetics has been able to leverage its experience and capabilities to positively drive client performance. The challenges are many within a market that is fiercely competitive, but **Synergetics has the experienced industry experts, tools and knowledge that can directly improve business process efficiencies and overall profitability.**



INDUSTRY OVERVIEW

The Food & Beverage Industry, not unlike several other business sectors that help drive the US economy, is complex and trend-driven, with many areas that can determine the industry's overall financial impact. From farming and agricultural related businesses, to packaging / processing food products, and to final distribution and sale, each area plays a prominent role. All interact to influence the sensitive price balance that the market demands from producer to consumer, challenging already thin margins.



Synergetics has established strong relationships and a proven track record in the Food & Beverage Industry by improving our clients' operational efficiencies and financial performance. Constant pressure remains where companies must maximize efficiencies to meet production process requirements, while at the same time satisfy consumer demand with competitive pricing. Balancing these conditions often hinges on meeting certain price points throughout the production cycle.

There are many key cost drivers throughout the production cycle and distribution channels that producers must always juggle. Examples of these challenges include:

- Cost Management practices that cross all facets of the Organization
- SKU & Brand Optimization
- Revenue Enhancement / Cash Flow Improvement
- Equipment Effectiveness & Utilization

Synergetics can identify, measure and address associated critical pressure points no matter how complex.

SOME OF THE MORE COMMON TRENDS (AND COST DRIVERS) SYNERGETICS HAS OBSERVED WITHIN THE FOOD & BEVERAGE INDUSTRY AND PROJECT ENGAGEMENTS ARE:

Co-Manufacturing / Co-Packaging

Effective Contract Manufacturing and Packaging companies need to maintain pricing competitiveness and service level excellence to be competitive in the food industry. Truly effective vendors work with their customers to leverage opportunities within the supply chain.

Prepackaged Healthy Foods

A competitive advantage of this market segment is that it is recognized as having high growth potential because it targets specific consumer needs, and those are usually directed toward healthy ingredients. Synergetics has become involved with several relatively new companies in the healthy food category, all of which are experiencing high growth.

More Restrictive USDA Regulations

With more restrictive regulations to follow and enforce, the cost of compliance will increase for food processors. Potential additional costs include:

- Added or modified documentation
- Compliance auditing
- Meeting new testing standards
- Purchasing additional testing equipment
- Following more stringent sanitation practices



Role of Maintenance and PMS

A common opportunity in the Food Industry is the lack of an effective Maintenance Program. We see some of the basics being missed repeatedly: equipment not maintained resulting in frequent operational meltdowns; departments maxing out on two shifts and not allowing time for necessary PM; or not considering/ planning for required sanitation windows. Maintenance operations are one of Synergetics' first assessment areas when we look at food-based businesses. We have a proven track record of working effectively with production planning, production, maintenance and sanitation to schedule machine availability while developing and implementing Maintenance best practices.

THE GROWING TREND OF CO-MANUFACTURING / CO-PACKAGING: HERE TO STAY AS A COMMON PRACTICE?



Within the Food Industry, one may hear the terms Co-Manufacturing and Co-Packaging – but exactly what are they and what role do they play in the production process? These terms are often used interchangeably, but there is actually a slight difference between the two.

For both, the prefix “Co” refers to “Contract” and invariably calls for third-party involvement. The use of a third-party to manufacture or package a product is an increasingly common strategy that food companies utilize for several reasons:

- ✓ reduce assets / equipment / size of labor force
- ✓ speed time of product to market
- ✓ keep product costs competitive for the consumer
- ✓ ultimately reduce costs to increase profitability

The Co-Manufacturer makes the hiring company's product per that company's specifications and ingredients, as if it were actually made by that company. Although the two organizations are separate entities, the nature of the relationship is truly a partnership, as the success of one directly impacts that of the other.

Likewise for Co-Packaging, the hiring company uses a Co-Packer to package their product per company specifications and brand recognition purposes. Co-Packing is commonly used when the producing company doesn't have the packing capacity, machinery, knowledge, etc. to make products shelf-ready. **The primary driver for outsourcing is managing costs** because third-party operators already have the expertise, resources, and staff in place to meet all requirements and complete the process efficiently.



KEY SERVICE OFFERINGS IN WHICH SYNERGETICS SPECIALIZES COME WITH PROVEN SUCCESS, KNOWLEDGE, AND EXPERTISE FROM HANDS-ON IMPLEMENTATION WORK WITHIN THE FOOD & BEVERAGE INDUSTRY

Organizational Redesign and Span of Control	SKU Rationalization / Inventory and Pricing Strategies
Facilities Consolidation / Geo Footprint Optimization	All Facets of Supply Chain Management / Logistics
Management Operating Systems, Metrics & Training	Production Control and Inventory Planning (ERP)
Lean Manufacturing, Layouts, Material Flow and Facility / Line Maintenance	

AN INDUSTRY LEADER SHARES HIS VIEWS

As part of this overview, John D. Likovich, Chairman & CEO of Sterling Foods, shared his expertise and insight into the Food & Beverage Industry, specifically addressing Co-Manufacturing / Co-Packaging. John has close to 40 years of industry experience and became CEO of San Antonio-based Sterling in 1994. Sterling is a successful Co-Manufacturer / Co-Packer servicing many well-known brands within the bakery sector. During one conversation he agreed to share his views on the competitive nature of the business models and what truly differentiates a Co-Manufacturer / Co-Packer with their customer base.

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What differentiates an effective Co-Manufacturing / Co-Packaging company from others?

"The number one differentiation is that a Co-Packer not merely manufactures the given product, but becomes strategically and tactically aligned with the client. The best Co-Packers vertically integrate themselves with the organization they are serving. This includes not only the supply side but also understanding how the product fits in the market place and exactly what features of the product fuel growth. The "our business is your business" paradigm works well."
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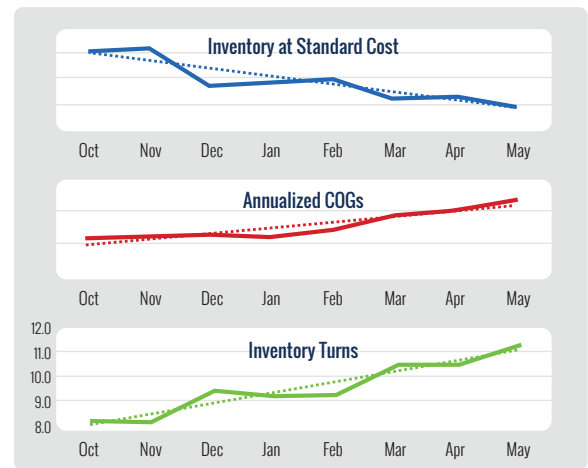
What are some examples of working with customers that optimize the supply chain between a company such as Sterling and its key customers?

"I think, again, when you vertically integrate yourself with a customer (I tell the client to pretend that we are their own bakery manufacturing department), all goals align. In many cases, we receive forecasts for their usage, compare it against our own internal data model, and then mutually adjust accordingly. Whether it is scheduling, fulfillment, new packaging, etc., we almost want to know more than the client through our own historical assessment.

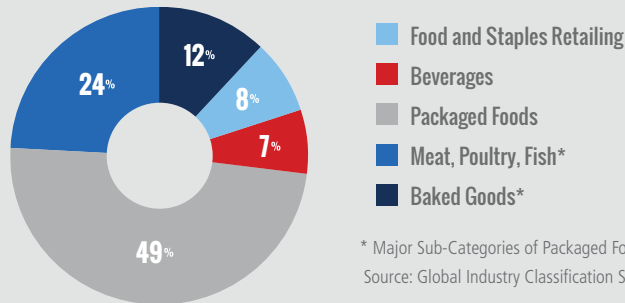
"There are many instances whereby collaboration regarding new equipment, changes in pack sizes, new ingredients, etc. can reduce the cost of goods, and we want to share the savings with our customers. **Since their business is our business,** we proactively bring new products and product ideas to them while turning around their concepts as quickly as possible – we pride ourselves on speed to market as an advantage for our customers."

Performance Improvement around Co-Manufacturing Inventory

As a deliverable of a recent engagement with Synergetics, one area in which Sterling experienced rapid improvement was that in Inventory Performance. It was through the collaborative efforts of the management and floor teams working together with Synergetics implementation consultants that such an improvement was achieved. The first step involved developing accurate part-level forecasts – with much of this done through close communication with Sterling’s customers. **With better forecasts in hand, the team was able to install safety stocks and supply planning processes to drive finished goods, raw material, and packaging inventories lower during a period of rapid growth with increased sales. In just 6 months, inventory turns jumped more than 40%.**



Differentiation of Synergetics' Client Types Within the Food & Beverage Industry



The Food & Beverage Industry has always been part of Synergetics' foundation – our presence in this market sector has been a constant. The Food vertical has continued to grow through consistent delivery of exceptional results and established longterm relationships.

Synergetics: Key Highlights in Food & Beverage

**FOOD & BEVERAGE IS
1 OF 9 INDUSTRY
SECTORS IN WHICH
WE EXCEL**

Total Food & Beverage
Clients in Business
Portfolio*
101

Composition of Food
& Beverage Clients
in Business
Portfolio
21%

Average
Number of
Annual Major
Engagements**
3-4
**Major typically applies to a
duration of 6 mos or longer

EBITDA Improvements
Through Project
Implementation
> \$1.6B

3:1
Average Savings w/
Guaranteed ROI vs.
Typical ROI
5:1

*Within Synergetics' portfolio of business clients, the Food & Beverage Industry comprises close to 25% of our actual client list. In addition, these clients account for well over 400 of our 1,600 client project engagements over the years. Many of the larger companies have used Synergetics multiple times for major implementations across a wide range of brand names under one umbrella.

A Three-Step Process for Guaranteed Results

Although individual business engagements may hold their unique set of challenges, Synergetics' approach typically follows a three-step process toward ensuring a successful client engagement

PRE-ASSESSMENT

Purpose: Understand operations & challenges - at Synergetics' expense

BUSINESS ANALYSIS

Purpose: Validate true opportunities through detailed analyses

IMPLEMENTATION PROJECT

Purpose: Plan & execute the implementation of objectives - guaranteed ROI of 3:1

FOR MORE INFORMATION

✉ info@synergeticsww.com

💻 www.synergeticsww.com

☎ +1-603-433-8940



<https://www.linkedin.com/company/synergetics-installations-worldwide-inc>



75 Congress Street, Suite 201
Portsmouth, NH 03801
USA

