



ONE NETWORK ENTERPRISES CUTS COSTS FOR DEL MONTE

ANALYST

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THE BOTTOM LINE

Del Monte Foods deployed a supply chain control tower solution from One Network Enterprises to run a demand-driven supply chain for production and distribution. The experience of an early pioneer in the use of supply chain control towers, Del Monte, demonstrates the financial value of the solution as implementing this technology allowed that company to cut inventory by 25 percent in the first year of deployment and to improve service to retailers with an in-stock availability averaging 99 percent by the third year. In addition, Nucleus found that Del Monte was able to achieve:

- A reduction in overall inventory to free up working capital
- A reduction in shipping charges.
- Improved shelf product availability to increase sales
- Improved labor efficiency through better scheduling of the workforce

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THE ADVENT OF TOWERS

A supply chain control tower is an information technology mechanism to run a demand-driven supply chain for production and distribution. At the moment, a supply chain control tower application is a nascent technology with a number of software vendors racing to develop full-fledged, off-the-shelf solutions. Although supply chain control tower is the most common name for this type of information hub that provides visibility over inventory, this solution also goes by the name of

command center, watch tower and control center. Control towers emerged in the 1990s as companies outsourced transportation to logistic providers or production to contract manufacturers. Early versions of these hubs focused on visibility either over shipments or inventory held by suppliers. (*Nucleus Research p120 – Technology Value Matrix 2015 Supply Chain Control Towers, July 2015.*)

As retailers and consumer products manufacturers began setting up their supply chains to be demand driven in order to increase sales, they also realized the need for an ability to make course corrections – changes in production or distribution – in response to fluctuations in marketplace demand. Orchestrating a demand-driven supply chain is the key function of a supply chain control tower.

THE DEL MONTE EXPERIENCE

One consumer goods manufacturer that was an early pioneer of the control tower approach was Del Monte Foods Inc., based in Walnut Creek, Calif. In 2004., the company deployed control tower technology from Dallas-based One Network Enterprises. At that time Del Monte made and distributed canned food products and pet foods. (It should be noted that Del Monte was acquired by a private investment group in 2011, and the pet food and food product business were separated in 2014.) The deployment of a control tower was part of larger supply chain strategy triggered by a business need to improve service, specifically product availability in retail stores selling the company's products.

In the first year of the control tower deployment Del Monte used One Network's solution to see the inventory down to the stock keeping unit (SKU) level at Del Monte's factories and distribution centers (DCs) as well as the warehouse locations of major retail customers. Year-one deployment also involved demand signal visibility with major retailers such as Wal-Mart Stores Inc. transmitting point-of-sale (POS) information to Del Monte. This phase of the deployment enabled Del Monte to automatically forward position stock in retail outlets, thus ensuring its products were on the store shelf for the consumer.

In the second year of deployment Del Monte's control tower began using downstream demand information to set inventory by SKU and location throughout its supply chain. It also initiated automated carrier scheduling for truckers to pick up goods at DCs for store delivery. By the third year the tower had extended supplier visibility such that Del Monte could see what inventory was held by co-packers. One Network also set up a portal for suppliers to interact online with Del Monte.

Del Monte used the control tower technology to set up a war room. Every Friday at 7 a.m. staffers from every DC and plant, as well as production planning, inventory control, transportation and customer service personnel, participated in a conference call. These war room meetings shared metrics and discussed actions to resolve issues or problems raised by an alert-warning metric. During the meetings, Del Monte management teams used data from the control tower to discuss customer shipments down to the SKU level and ways to drive service improvements. “One Network gave us the IT backbone to optimize the supply chain,” said David Allen, who oversaw the control tower implementation when he was the supply chain chief at Del Monte. “If you get your supply chain working at a faster heartbeat, you can reduce inventory and simultaneously improve the in-store metric, which is the most important for the retailer.”

THE GAINS

The control tower enabled Del Monte to cut supply chain costs in each year of operation from the period of 2004 to 2011 before its sale. In the first year of the tower’s existence, 2004, the company cut \$15 million from its 2003 expenses, using lean initiatives across the supply chain. Every year the savings targets increased from the prior year’s baseline. By the seventh year of the tower’s operation, Del Monte was achieving \$100 million validated savings below the 2010 baseline.

In the first year of deployment the supply chain control tower cut \$15 million in expenses.

Inventory reductions were a major contributor to the savings. In 2003 Del Monte held more than 50 days of inventory for pet food and food product for those items made in continuous production. By 2010 Del Monte ran its business on 20 days of inventory for continuous production items. It should be noted that continuous production refers to goods that are made on a steady basis in a plant. Since some of Del Monte’s food items are seasonal and must be manufactured after the vegetables or fruits are harvested, the inventory reductions were targeted for continuous production SKUs.

By aligning its production and replenishment closer to consumer takeaway, Del Monte was able to streamline its inventory holdings, thus freeing up working capital. In the first year of deployment, for continuous production SKUs, the company reduced inventory by 25 percent. By the third year, it cut overall days of inventory by 44 percent while increasing in-stock availability of products to an average of 99 percent in retail stores.

Del Monte also experienced other benefits including reduced freight charges and labor costs. Because the tower solution used demand to better anticipate future timing for product shipment needs, Del Monte was able to schedule its DC workforce more appropriately, thus reducing both overtime and the need for extra workers. During the 7-year period, Del Monte improved labor efficiency such that it was able to reduce the cost per case for warehouse handling and still hand out raises to workers. In addition, because Del Monte could schedule shipments more precisely and had reduced the need for urgent shipments with leaner inventory, it also lowered its expenses for shipping. Another factor in reduced transportation costs was Del Monte's adoption of an agile manufacturing strategy, as part of its supply chain transformation, which had it manufacture products at plants closer to the customer to lower delivery mileage.

Del Monte's adoption of a demand-driven approach to supply chain operation also benefitted its retail partners. The One Network solution took in-store level forecasts, in-transit orders from the distribution center to the store, and daily POS data to build a more accurate demand picture. In addition, Del Monte also instituted shorter lead-times targeting – a practice of shipping retail orders received by noon the next day. The combination of a granular demand picture with faster shipping gave the retailers the confidence that, even with less inventory, it had the correct stock to meet customer demand. The net result was negative working capital for several of the retailers. Because the retailer sold the product before it reached the 21-day target date to pay Del Monte for the goods, the merchant had a negative cash flow.

CONCLUSION

Today's supply chain control tower is still a leading-edge solution. A number of supply chain vendors are currently developing off-the-shelf solutions for control towers, and most major enterprises using this technology do so with proprietary solutions. In this regard, Del Monte is an exception as it deployed a commercial solution from One Network Enterprises, an early developer of this technology. It should be noted that after the split up of the Del Monte business, Del Monte pursued a new information technology strategy that does not include One Network.

As Del Monte's experience demonstrates, supply chain control towers allow a consumer products company to rein in supply chain costs by fine-tuning production and distribution in response to market demand. As more companies embrace the demand-driven approach to supply chain management, they will need to deploy control tower solutions to control costs and boost revenues.