

# Three experts on how the food supply chain is evolving

At BMO's annual Farm to Market conference in New York, we hosted a lively panel discussion with three industry executives about a critical component of the food industry: the supply chain.

**Kelly Bania**, Managing Director and Analyst, Food Retailing and Distribution, BMO Capital Markets, and **Ken Zaslow**, Managing Director and Analyst, Food and Agriculture, BMO Capital Markets, led the conversation. Joining them in this discussion were:

**Chieh Huang**, CEO **Boxed.com**, an online wholesale retailer that sells bulk-sized goods directly to consumers.

**Chris Smith**, Chief Supply Chain Officer, **C&S Wholesale Grocers**, the largest wholesale grocery supply company in the U.S.

**John Church**, Chief Supply Chain Officer and Global Business Solutions Officer, **General Mills**, a leading global packaged food manufacturer, offering more than 100 brands in more than 100 countries.

Below are highlights of their conversation.

## The Evolution of Supply Chain Management

Church pointed out that supply chain management is a relatively new discipline for food manufacturers and processors. Until recently, manufacturing, shipping and procurement were separate specialties. "Fifteen years ago, I was developing sub-segments in my supply chain to be good and adding them together," Church recalled. "Today, I'm much more concerned about how can I build a bridge to retailers or to direct-to-consumer wholesalers and ensure that we're eliminating waste and trying to serve our consumers in a collaborative fashion."

These partnerships have become a necessity to meet consumers' growing demands. Speed of delivery has become increasingly important for consumers as e-commerce has changed expectations. "I remember 5 1/2 years ago, if you delivered something to someone in two days or less, that would be like voodoo magic," Huang said. "Now it is table stakes. It seems like the gold standard now is same day, and table stakes pretty soon will be lifted to next-day delivery."

The increase in speed, however, has not changed what consumers are looking for—it's adding to it. As Smith noted, "Customer demands are increasing. They're demanding fresher, more innovative products in stores. They want specific delivery windows, they're very sensitive about price, and they're not willing to give up that expectation on time frame or sacrifice assortment. They're not willing to sacrifice cost and they're not willing to sacrifice quality."

All of the presenters acknowledged that the success of one part of the supply chain hinges on collaboration and the success of suppliers, partners and customers in the shared goal of making consumers happy and, in turn, growing their own businesses.

## Transparency and Traceability

One of the biggest changes happening in supply chain management is that the availability of real-time information is essential. Smith noted that C&S is making investments to ensure the company can share information with its supply chain partners, including transportation visibility.

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“Part of the unlock for our customers is if there's any delay in the process for transportation, for example, they have labor in the back of their stores who are waiting for a load that's supposed to be there at an appointed time,” he said. “And if there's a delay, and they can be aware of it, they can shift that labor around.”

“I think the biggest opportunities for us in the supply chain world are in clarity of demand signal, and transparency as to where stuff's at to deal with the disruptions,” Church said. “I think the holy grail is, to the extent we can build the end consumer data in and bring it all the way through, then we'll start getting a heartbeat, a demand signal that allows us to build a supply chain as efficiently as possible.”

As for traceability, Church said that while consumers don't necessarily need to know their food came from down the street, they do want credible information about the source. “Being able to provide real information about where stuff came from, about where you source, about what your practices are—I think that allows people to connect with their food differently,” he said.

### The Effect of E-commerce

Church noted that much of today's e-commerce food delivery is through a click-and-collect model in which retailers essentially use their bricks-and-mortar stores as a warehouse. That's led General Mills to collaborate with some of its supply chain partners to improve efficiencies, which could ultimately include offering products specifically for e-commerce.

“We know our total shipments and we know after that where it goes to with some of our biggest partners,” Church said. “The advantage in sharing it is there does become a point at which maybe we want to have some offerings that are different in order to make the supply chain work more efficiently, more seamlessly.”

Huang explained why Amazon's announcement of overnight shipping for its Prime customers will have a huge impact on Boxed's business. Essentially, whenever a market leader like Amazon raises the stakes, other firms have to meet the new consumer expectations.

“The consumer doesn't really say, ‘Oh, I get it. Amazon offers that, but you don't offer that.’ They just take the best of every retailer and suddenly that's their expectation of everyone. At the end of the day, that's what the consumer demands and we absolutely have to react.”

Huang also pointed out that e-commerce is driving the importance of data and analytics, and how that helps locate consumer demand signals.

“It would be pretty cool if just based upon your first 30 seconds of being in the store and how you're interacting with the site, we can almost pin you with a net LTV (lifetime value) that we think you'll be over time, and to provide different levels of service or different levels of promotion based upon that,” Huang said. “I don't think anyone's doing that today, but I think the data is available for us to do that; the action piece just hasn't been tied.”

### The Future of the Supply Chain

The panelists noted that innovation will be more crucial than ever to keep pace with changing consumer demands. Huang cited as an example bundling the packaging of related consumer goods—such as toilet paper and paper towels—into a single SKU as a way to provide both convenience for the consumer and increase margins.

But Smith noted that innovation will also be crucial for helping to control variable costs such as labor. “Both on the transportation side and on the warehouse side, we've seen tightening labor markets,” Smith said. “One of the things we're thinking about is automation. For example, being able to supplement tightening labor markets, but also responding to demand signals that we're seeing in the marketplace.”

Huang also believes automation can help manage variable costs, though he cautioned that we're still several years removed from that innovation becoming a reality.

“If someone truly invents a safe, autonomous car that can make deliveries to the end consumer without the increased variable costs of having a human drive it—coupled with someone inventing a robotic hand as dexterous as a human hand—then all the variable costs that generally compresses margins for home delivery suddenly might even be able to be a margin expander,” Huang said.