

MANAGING “FARM-TO-FORK” SUPPLY CHAIN: ARE DISTRIBUTORS THE NEW CATALYSTS IN THE EQUATION?



Managing “Farm-to-Fork” Supply Chain: Are Distributors the New Catalysts in the Equation?

The manufacture and sale of food is one of the largest and most widespread operations across the planet. The fact that there is a wide variety of ingredients, constantly evolving customer and consumer demands & requirements for highly customized offerings, establishes a very complex landscape. The food ingredient manufacturers are always on the lookout for increasing opportunities, so that they are able to align themselves with the evolving trends, and hence crave to be closely associated with their customers. But in some cases, due to regional and/ or economical limitations, the manufacturers depend immensely on distributors. Food ingredient distributors have always had a very critical position across the food industry value chain. But in the rapidly changing food and beverages space, the distributors have been adapting and now have for themselves a niche position, by providing added value services for their small and/ or localized customers. This in turn, could pose a challenge to the growth of the food ingredient manufacturers, as the presence of such distributors could potentially change the dynamics of the food ingredients value chain and tip the scale towards their favor.



Food Ingredient distributors & their increasing presence in the value chain

Food ingredient distributors are a vital component of manufacturers' marketing strategies - a means to reach small customers or those that are difficult to serve economically, in an increasingly competitive market. The best distributors have deep market insights and the capability to create real value, both for manufacturers and customers.

Modern consumers demand a variety of both local staple foods and exotic foods, and they expect products from either category to always be of the highest quality, affordability and safety. In response to this ever-growing demand, the 'farm to fork' food supply chain has grown and now involves many types of organizations and influence the success or failure of supplying safe, wholesome food to consumers. There is a range of high and low risk factors in the supply chain, due to multiple factors including distribution by sea, rail, road, or air, and the diversity of ingredients, end products and processes. With so many variables, ensuring effective supply chain management has developed into a challenging process.

The main reasons for a manufacturer to choose to work with a distributor are:

- 1 Manage complexity:** Distributors are able to handle sales to small or nonstrategic customers and those that require smaller order sizes.
- 2 Reach new customers:** Distributors can also help manufacturers grow their business by expanding the reach to customers that the manufacturer would not have been able to access on its own.
- 3 Enter new markets:** Distributors often have unique insights in a particular region or application. By working with a distributor, manufacturers can more easily access such a market, particularly if the manufacturer has no current footprint there.

The food ingredient industry is one of the most important industries that have to keep up the pace of the innovations, so as to keep themselves aligned with the ever evolving consumer trends. But it almost seems impossible for the small and medium sized customers in the space, to keep up their pace of innovations and product launches, as they have a limited technical potency and a very strong dependence on their suppliers, either an ingredient manufacturer or distributor. It is in such cases that the distributors try to establish themselves as a potential ally to these small and medium sized customers.

Distributors are now providing services that food ingredient manufacturers are hesitant to provide for small accounts. These include formulation services, proprietary compounds, laboratory access, packaging, labeling, regulatory compliance, documentation, and many other services. Distributors also offer value to small and medium sized customers by helping them to source long-tail products that the manufacturer needs to buy only infrequently, in small quantities, or both.

THE CUSTOMER'S PERSPECTIVE – EXPERTISE AND SERVICE WIN



The customers have very clear criteria for determining which distributor to partner with. The basics are still the same as ever, excellent logistics (speed and precision) along with competitive prices. Recently, segment-specific criteria, such as laboratory- and application-specific support, the capability and market know-how of the distributor's sales team, the breadth of the products handled by the distributor, and the availability of key flagship products within the portfolio, have become crucial in the decision making. Slightly less relevant are the ability to supply all of a customer's production sites at once and flexibility in such things as order size and delivery frequency. Expertise and service are very important for the small and medium sized customers, not only at the level of product segments but also in individual sub-segments, and for a specific geography.

CHANGES IN THE FOOD INGREDIENT DISTRIBUTION INDUSTRY

The food ingredient distribution industry is witnessing the following trends:

- 1** Customers are showing a greater demand for value-added services and support, primarily through product development and formulation support.
- 2** Due to the ever-changing consumer trends, the customers are getting more and more fragmented every day, in terms of their size and predictability of orders. This is generating greater complexity, and leading to an increased share of the overall market for third-party distributors.

Globally, it is estimated that US \$60 billion of specialty food ingredients are used annually, with a relatively small percentage that is sold through distribution today. The trends indicate that distribution sales will increase to 18 percent within the next five years.



Due to these changes, the food ingredient distributors are developing innovative strategies to attract more and more customers, especially the comparatively smaller and local customers. These include heavy investments in establishing application development centers and backward integration by acquiring small or local manufacturers and/or distributors.



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Investing in application development centers has been shown to be a very successful strategy for distributors who are looking to enhance their presence in the market. In September 2018, **Brenntag opened a food and nutrition application and development center in Allentown, Pennsylvania**, that is equipped to handle new product development and ingredient application assistance in all areas within the food and nutrition industry. The lab is equipped and staffed to conduct ingredient qualification, food application testing, and prototype development, focused on strategic products and applications. The centers feature all facilities from modern laboratories to state-of-the-art pilot production. Since then, Brenntag claims that they have better interaction with their customers and are better at providing tailor-made solutions with respect to the specific demands of their customers.

Another approach adopted by the distributors is the acquisitions of small or regional ingredient manufacturers, so as to create a strong integration in the value chain. In June 2017, **US-based Prinova LLC acquired Israel-based Lycored’s China and United Kingdom premix operations**, which supply premixes to fortify the leading international food companies’ products with vitamins, minerals and other nutrients. This acquisition gave Prinova the ability to extend their nutrient offerings on a global basis, customized to the needs of the regional markets, and hence increasing the distributor’s overall presence in the global market.

In a similar case, ingredients distributor **Barentz International announced the formation of a joint venture with Dutch ingredients company TasteStrik, in June 2019**. TasteStrik is a leading developer, producer and supplier of flavourings and ingredients for the bakery, cereal, chocolate, confectionery, culinary, dairy and specialty foods industry in the Netherlands. Barentz said the joint venture will give the company a higher diversity, by offering TasteStrik’s knowledge through Barentz’s global network. **Barentz has also formed a Brazil-based joint venture with Brazilian ingredients distributor Tovani Benzaquen Ingredients in 2018**, in a similar strategic approach to diversify their reach in the Latin American Region.

Positioning multiple application centers across the globe also creates leverage for the ingredient distributors to increase their regional business, by providing customization and technical services to the local customers. The global food ingredient and specialty chemicals distributor, **IMCD has a total of 14 food and nutrition application laboratories all over the globe, and hence are positioning themselves as a “readily-available collaborator” for their customers**. Using its technical expertise and laboratory services, IMCD is able to offer sustainable formulations and application solutions to its customers that minimize environmental and social impact, without sacrificing product performance. These centers provide the customers a chance to collaborate with the best minds in the industry, and hence help them to develop unique solutions to meet their challenges.

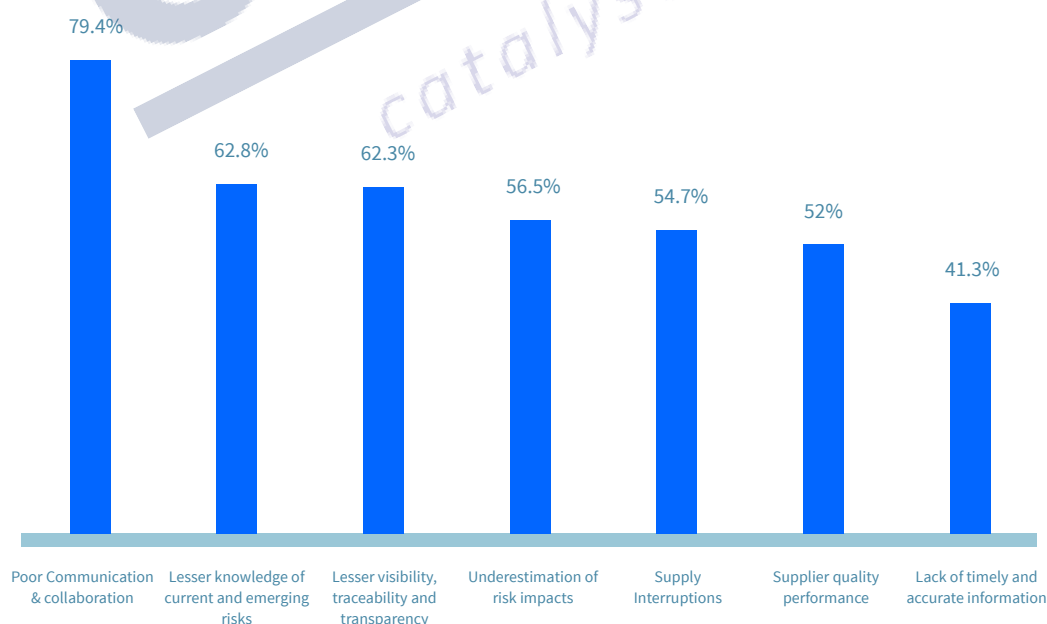


IMPLICATIONS ON FOOD INGREDIENT MANUFACTURERS

The diversification of distributors providing individual technical capabilities has a very crucial impact on the food ingredient manufacturers. Many of the food ingredient manufacturers have adopted strategies to consolidate their business by narrowing it down to a few specific distributors.

These distributors are generally flexible around their minimum order quantities and usually have a strong relationship with their customers. This may potentially create an increased interaction with the distributor's existing customers, and can also attract other similar customers, who may have multiple issues, especially in procuring tailor-blended products in smaller volumes, to shift from their existing supply pattern and tip the scale towards the distributors.

In a recent study, it was found out that 86% of consumers want transparency on their food label, i.e., they want to know the specifics of what, where and how the ingredients were cultivated and processed. In 2015, SGS SA (a Swiss inspection, verification, testing and certification services company) invited food industry experts to take part in a survey on supply chain management. In the survey, 62.3% of participants agreed that their organizations have a lack of end-to-end supply chain visibility traceability and 55.6% mentioned that there is a lack of risk ownership across the supply chain. These are also the key factors that are promoting more and more customers to opt out from collaborating directly with a food ingredient manufacturers and move choose to work closely with the distributors. A graphical representation of the key factors that diminishes a customer's interest to work with an ingredient manufacturer is as shown below:



If a distributor has its own technical and blending capabilities, this may increase the manufacturer's intensity of competition. Since these distributors are now equipped with quality ingredients, their own service network and a strong technical know-how, there may be an increase in their chances of attracting more customers.



THE WAY FORWARD – “SUPPLY CHAIN INTEGRITY”

So, what can be done by the food ingredient manufacturers to ensure that they are not compromising their positions as the most important stakeholder in the food industry value chain? The answer can be summarized to a single word – Supply Chain Integrity.

PwC in its article, ‘From vulnerable to valuable – how integrity can transform a supply chain’, defines supply chain integrity as ‘balancing operational objectives with reputational risks’ (PwC, 2008). Many leading companies now rightly view the integrity and sustainability of their supply chain as a source of competitive advantage and are striving to increase their credibility and transparency.

To achieve effective supply chain integrity, food ingredient manufacturers need to take a holistic approach to managing their supply network. Such an approach requires establishing clear supply chain risk ownership, accountability and management as well as investing in developing and implementing the appropriate processes and tools as key risk management enablers, not only to identify and monitor current risks, but also to predict future ones. There is a clear need for the development and implementation of appropriate systems to assure supply chain resilience, throughout manufacturing, distribution and sale.

Overcoming supply chain risks is considered a challenge that needs to be tackled by more transparent data communication and effective reporting capabilities, enabled by sophisticated operational procedures and IT tools. The development of better traceability systems, as well as attempts to simplify, harmonize and standardize industry specifications, standards and auditing approaches are significant steps in that direction.

Food ingredient manufacturers can adopt strategic alliances with regional distributors, where in these distributors can act as a point of contact between the small and/ or regional customers, and help the manufacturer to clearly understand the necessities and requirements of such customers. This will definitely create a niche position in the market and will help the manufacturers to redefine themselves as a trusted ally for the small and medium customers.

As much as the disruptive forces impacting the industry appear daunting, manufacturers see growth and diversification opportunities being created and are building the capabilities needed to capitalize on them. The focus on the customer remains, but distributors are leveraging on new insights to deliver a differentiating experience. So, manufacturers should be prepared to adapt their supply chain to become more efficient, transparent, and integrated, which will be a major differentiating factor in the near future.

The business environment today makes it imperative for food ingredient manufacturers to continually improve their value-added services. Today we move between domestic, regional and global supply that's increasingly complex. Customers, consumers, journalists, Non-Government Organizations (NGO's), shareholders and investors are interested in your supply chain and how it's managed against quality, safety, environmental and social issues.

How would your organization measure up to a stress test on public opinion against your supply chain?

Need to revamp your food ingredient sales and marketing blueprint? Since data alone is not sufficient to develop strategies, ChemBizR offers end-to-end perspective about the food and nutrition industry, help you to discover novel opportunities in different pockets of applications such as dairy, bakery, beverages, meat analogues, etc., and identify new customers along with in-depth customer perception analysis. ChemBizR also provides solutions that can help you identify the right set of distributors & partners for strategic collaborations, which can ensure a profitable and sustainable growth for your food ingredient business.

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