
**Devon Renaissance
Project DR08/257**

Deliver the Flavour

A pilot study for a sustainable and reliable
delivery network for SME producers in the South West

**Final Evaluation Report
March 2009**

Prepared for
Food & Drink Devon by

Azimuth
MANAGEMENT CONSULTANCY

Executive Summary

Project No: DR08/257 has been set up to pilot a sustainable and reliable delivery network for small producers in South Devon with guaranteed delivery to catering and retail food outlets in the South West region. The project is due to run from 1 May 2008 to 31 March 2009.

- Producers taking part agreed that the potential benefits of a centralised distribution network for Food & Drink Devon members and their customers hugely outweigh the initial teething problems encountered during the first 7 months of the pilot.
- The pilot study is considered too small to yield reliable quantitative data on producer output and productivity improvements, but some trends and preliminary figures emerged:
 - As a result of the distribution network, one producer estimated a gain in production/marketing/admin time of 1 day per week, which represents a 25% increase in productivity
 - Two producers were able to identify a total of 10 new accounts as a result of the project
 - Delivery time savings of approximately 5% were achieved by one participant and 33% by another (reduced time on the road from 3 days to 1 day).
 - Contrary to expectation, admin time related to orders generally seems to have increased by up to 10% during the pilot study.
- The increased admin time and other frustrations encountered during the pilot (See Section 3) highlight an underlying conflict between two fundamentally different business models:
 - wholesaler business model is based on volume sales and price competition
 - FDD producer model is based on low volume, quality goods and premium pricing
- The pricing model agreed with the wholesaler gives the greatest cost benefits to producers when they view the wholesaler as their customer. This gives significant opportunities for the producer to scale up, but risk is concentrated in one large buyer and direct contact with and feedback from smaller buyers is lost.
- Producer project participants voted overwhelmingly for an FDD centralised distribution network to continue, but ways of overcoming problems encountered during the pilot study should be explored. These might include:
 - Dedicated FDD staff within the wholesaler organisation to handle FDD customer accounts
 - Ways of ensuring a 'soft' transfer of FDD customer accounts to the wholesaler
 - Improved stock monitoring & feedback system to help small producers with production schedules
 - Ways of overcoming the loss of customer contact at the point of delivery eg by increased consumer marketing, trade marketing etc
 - Training drivers so that customer care and product handling are improved
 - Research other distribution options to determine whether there is a more compatible business model for FDD producers

Contents

- 1 Introduction**
- 2 Project Objectives**
- 3 Pilot Study Findings**
 - 3.1 Producer Perspective
 - 3.2 Wholesaler Perspective
- 4 Discussion of Anticipated Project Outcomes**
- 5 Conclusions & Recommendations**

1 Introduction

Pilot project (No: DR08/257) has been set up by Food & Drink Devon (FDD), with support funding from Devon Renaissance, to encourage the initial uptake of a centralised collection and delivery service for SME Food Producers in the South Devon Area. The project is a pilot for a sustainable and reliable delivery network that redresses a number of issues:

- Customers' requirement for reliable daily delivery, particularly in the seasonal peaks
- The need for separate vehicles to collect and deliver fresh, chilled and frozen products which results in too many vans on the road delivering small orders
- The inability of small producers to grow their business due to the time and resource currently involved in delivering their own products

The pilot scheme runs from 1 May 2008 to 31 March 2009 with six participant producers and one distributor:

Producer Participants

- Dartmouth Ice Cream
- Field Fare
- Manna from Devon
- Red Rock Brewery
- Tea's Me
- Westcountry Spice Company

Distributor (Wholesaler)

- Caterfood (SW) Ltd

Food & Drink Devon expressed their thanks to all who took part in the pilot project, but particularly the Distributor who was especially flexible in dealing with the differing needs of the smaller FDD producers.

Azimuth Management Consultancy Ltd (Azimuth) was invited to evaluate the project. This evaluation report is based on analysis of initial and final project evaluation forms submitted by the participants, meetings and discussions with the network co-ordinator, supplier participants and the distributor.

2 Pilot Study Objectives

The project was designed to pilot a sustainable and reliable delivery network for small producers where:

- product delivery to catering & retail food outlets is guaranteed throughout the SW Region
- individual producers do not need to run their own vehicles
- low volume journeys are reduced
- individual producers have more time to increase the output and efficiency of their businesses
- the cost of the service does not penalise the producer or the distributor
- the distributor will introduce new potential customers to the producers

Expected benefits for the producers taking part included lower costs, higher productivity and increased sales. A further aim of the project is to report these benefits to form the basis of a business plan for roll out to other areas. The project is due to run from 1 May 2008 to 31 March 2009.

3 Pilot Study Findings

3.1 Producer Perspective

The producers in the pilot study encountered a large number of teething problems (see producer comments in items 3.1.1 to 3.1.5 below). Despite the list of frustrations, it was agreed that the potential benefits of a distribution network for Food & Drink Devon members (see 3.1.6 & 3.1.7 below) hugely outweigh the initial problems encountered during the pilot study.

3.1.1 Sales Issues

- Size of individual orders seemed to decrease, possibly because the Wholesaler does not have a minimum order quantity, and possibly because frequent deliveries are guaranteed. This reduced order size is expected to be compensated for by more frequent ordering
- During the pilot period, producers expressed little success in incentivising wholesaler staff. There was concern that if the FDD product was not easy to sell, wholesaler staff would revert to easier or more familiar alternatives
- Using a wholesaler introduces the risk of conflict of interest where there are other, similar products stocked. In one instance with the pilot participants, the wholesaler owns a competing manufacturer

3.1.2 Customer Care Issues

- Handover of customer data to the Wholesaler required a high degree of trust from the FDD producers and in many cases proved to be problematic
- The Wholesaler system for handling newly introduced customers appeared somewhat heavy handed to project participants
- The Wholesaler responded to issues with individual customers, but did not appear to apply the learning to other FDD producer customers
- Producers did not receive information on which of their lines the Wholesaler's customers were buying
- Information for producers on who their products were being sold through to was not readily forthcoming. Individual producers made their own enquiries with varying degrees of success. The Wholesaler, by their own admission, prefer to be viewed as the customer and were reluctant to divulge their own customer information to producers
- Producers did not find a way to incentivise Wholesaler drivers to give the quality of customer care they would have liked

3.1.3 Collection & Delivery Issues

- Non collection was an issue for one small producer. The Wholesaler failed to collect on two successive occasions. The pilot did not work for this producer despite their offer to drop the product for collection by the Wholesaler at a local hub
- For another producer the Wholesaler collected on time, but there was considerable damage to stock – far more than with their own delivery - suggesting rougher handling by Wholesaler staff

- Damaged stock was not recompensed - £1000 was in dispute at the time of the pilot study meeting in December 2008
- Some product lost through delivery to doorstep then picked up by passers by!
- Back delivery of empties was slow – expensive containers not returned quickly

3.1.4 Stock Issues

- There was no information for produces as to how Wholesaler stock levels were being drawn down, and thus no indication of how much new product to produce
- The Wholesaler did not appear to be holding stock leaving the producer to make to order

3.1.5 Payment Issues

- Late payment was an issue. Promised 3x a month but found to be sporadic. Payments received up to 2 months late
- Even for Cash on Delivery customers – money from the Wholesaler was not forthcoming to the producer
- Comment that the Wholesaler did not hold stock but they did hold cash!
- BACS system seemed to ease the cash-holding tendency
- Perception by producer of ambient goods that they may have been paying over the odds for delivery of goods at chilled prices

3.1.6 Benefits for FDD Producers

- Distribution through the Wholesaler has opened up whole new opportunities which couldn't have been contemplated before the project
- Potentially huge benefits from such a network
- Distribution network could increase demand to such an extent that it goes beyond production capacity – demand management required
- Production efficiencies from making larger batches of product
- Pilot enabled FDD producers to develop more realistic expectation of the Wholesale delivery mechanism

3.1.7 Benefits for FDD End Customer

- Wider availability of product to retailers and caterers
- Frequent and reliable delivery
- Reduced need to hold stock
- One delivery for all FDD products
- Minimum order quantity reduced

3.2 Wholesaler Perspective

3.2.1 Sales & Distribution

- Producers could have done more to incentivise the Wholesale telesales representatives with better induction and by taking part in Wholesale RaRa days
- Producers (or FDD) would have benefitted by advertising in the Wholesaler catalogue (approx £500 for full page colour advert)

3.2.2 Distribution

- Retail distribution was less efficient for the Wholesaler than Food Service distribution as Food Service distribution forms their core business
- The distribution model works best for the Wholesaler if the producers see the Wholesaler as a key customer
- If the producers see the Wholesaler as a key customer, they benefit from the full range of wholesale services which include catalogue production, catalogue distribution, telesales, product collection and distribution, invoicing and debt collection
- Alternative model, where producers see the Wholesaler as a 'wheels only' transport mechanism, is less attractive to the Wholesaler. However, the Wholesaler emphasised that they are happy to run with the 'wheels only' model if it is negotiated on an individual basis
- Subject to individual negotiation, the minimum cost to producers for the 'wheels only model' is the same as for the full service model

3.2.3 Finance & Admin

- Everything comes down to individual negotiation
- Any problems the producers have can be dealt with by liaising with the Wholesaler MD. It is up to producers to liaise and negotiate on an individual basis
- Most cost effective deal for Producer is when the Wholesaler collects on demand, sells their product and delivers it
- Least cost effective for FDD member is when they take time selling, then they invoice and debt collect and then even deliver to the Wholesaler. This leaves the Wholesaler with just delivery to the customer
- The Wholesaler will charge the same price however much of the service the Producer uses.
- For the Pilot Project, the Wholesaler buys at a discount of 16.66% below the standard trade price. For the Wholesalers this gives a selling price of cost plus 20%.
- The usual pricing formula for the Wholesaler is based on a minimum of trade price discounted by 20%. i.e. the most the Wholesaler will pay producers is 80% of their trade price. (This equates to a selling price of cost plus 25%)

3.2.4 Summary of What Works Best for the Wholesaler

- When producer regards the Wholesaler as the customer
- When producer puts more effort into enthusing the reps
- When producers talk to the Managing Director individually
- When sales are to food service customers rather than retail
- When the Wholesaler collects once a week and holds stock

3.2.5 Benefits for the Wholesaler of working with Food & Drink Devon

- to bring new suppliers to their portfolio
- raises the quality of the Wholesaler offering
- introduces new top end customers
- raises Wholesaler profile supporting the local community

4 Discussion of Anticipated Project Outcomes

A number of outcomes were anticipated for the pilot project as itemised and discussed below

4.1 Delivery of quality locally produced food to catering establishments 6 days a week

Yes.

4.2 Reduction of food waste by regular delivery and improved stock control

This was not conclusively proved by the pilot project, but the potential to reduce food waste is believed to exist. The Wholesaler offers the facility for next day collection and delivery, increased sales and increased stock turn. Many premium products have reduced shelf lives and increased stock turn should reduce food waste.

4.3 Improvement in output and efficiency of member producers by up to 20% and an increase in marketing activities

The pilot study is considered too small to yield reliable quantitative data on output and productivity improvements. However some trends and indicative figures have emerged:

Production benefits as a result of the project were not conclusive, but one producer estimated a gain in production/marketing/admin time of 1 day per week, which represents a 25% increase in productivity.

Marketing benefits as a result of the project have not been quantified by participants, but the catalogue produced by the Wholesaler has been widely distributed, and there have been telesales activities carried out on the producers' behalf. One producer recorded 6 new accounts afforded by the project because of the increased delivery abilities and another one recorded 4 new accounts.

Admin time related to orders generally appears to have increased during the project. Customers passed to the Wholesaler by the producers were swept into the regular wholesaler systems with cash on delivery requirements and strict debt collection routines. These routines were inappropriate for established customers and took an additional 5% to 10% admin/customer care time by the producers to smooth out.

Delivery time savings are not conclusive but savings of 5% were achieved by one pilot project participant. Another participant reduced the time his vehicle was on the road from 3 days to 1 day.

In terms of delivery costs, it appears from the data provided by participants that the average cost of own deliveries is approx 8.5% of sales value (based on monthly mileage before the project, costed at 40p/mile, an average speed of 25mph (including deliveries) and a driver cost of £6/hr). This increases to 11.5% of sales value if the delivery speed assumptions are halved.

These figures suggest that producers seeking a 'wheels only' only service would be better of continuing their own van deliveries rather than pay the Wholesaler full price deal of 20% of sales value. However, producer delivery figures do not take into account the opportunity cost of the time released for the producer, nor do they include the added benefits included by the Wholesaler with marketing, telesales, invoicing and debt collection.

4.4 Food miles will be reduced

Food miles will have been reduced by the project for every FDD customer delivery as the Wholesaler vehicles are on the road anyway.

4.5 Local population and holidaymakers will have easier access to quality, healthy local produce

Yes as the Wholesaler distribution network gives better coverage than existing producer coverage.

4.6 The route to public procurement will be opened to local food producers

Not tested.

4.7 Members will have immediate access to new customers through the delivery network

At the time of the meeting with producers in December 08, the Wholesaler had not released any information as to which customers they had been selling to. Producers were therefore unable to identify whether any new accounts had been generated by the Wholesaler.

4.8 The results of the pilot scheme will be available to all Devon Food Groups

The pilot project evaluation will be widely distributed to any interested parties including Devon County Council, District Councils, Devon Renaissance, The Dartmoor Partnership, North Devon Plus, etc. It will also be published on the new Love the Flavour website in the business section, which is available for anyone to view.

4.9 Productive links will be established with other relevant bodies, such as the Devon County Council Food & Drink ICT Animation & Skills project, Field to Plate, the Devon Renaissance funded Quality Ready Meal Producer, the West Devon Food Network & Somerset Food Links

All businesses involved in the pilot project were signposted to the DCC ICT project. Field to Plate (Field Fare) were one of the producers participating in the pilot. The West Devon Food Network is under the umbrella of FDD and therefore, were kept fully briefed. Somerset Food Links are no longer in operation. However, Somerset County Council has commissioned research into setting up a County Food Organisation and they have been fully informed of the pilot project.

5 Conclusions & Recommendations

- 5.1 The advantages and opportunities afforded by a centralised collection and delivery network for FDD producers far outweigh the disadvantages.
- 5.2 The pricing model operated by the Wholesaler is least cost effective if producers view it as a 'wheels only' delivery service. The greatest cost benefits are derived when the producer effectively views the Wholesaler as a single customer, thereby taking advantage of the full range of wholesaler services from marketing and telesales through to invoicing and debt collection.
- 5.3 There are advantages and disadvantages with the full service approach. There are significant opportunities for the producer to scale up, but direct contact and feedback from smaller buyers is lost and risk is concentrated in one large buyer.
- 5.4 For the Pilot Project, the Wholesaler agreed with FDD to buy at a discount of 16.66% below the standard trade price. For the Wholesaler this gives a selling price of cost plus 20%. The usual pricing formula for the Wholesaler is based on a minimum of trade price discounted by 20%. i.e. the most the Wholesaler will pay producers is 80% of their trade price. (This equates to a selling price of cost plus 25%)
- 5.5 Despite the generous financial terms offered by the Wholesaler for the pilot study, the frustrations experienced by FDD producers highlight an underlying conflict between two different business models:
- Wholesaler business model is based on volume sales and price competition
 - FDD producer model is based on low volume, quality goods and premium pricing
- 5.6 Project participants voted overwhelmingly for an FDD centralised distribution network to continue. It was agreed that FDD should explore ways of overcoming the problems encountered during the pilot study. These might include:
- Dedicated FDD staff in the Wholesaler organisation to handle FDD customer accounts
 - Ways of ensuring a 'soft' transfer of FDD customer accounts to the Wholesaler
 - Improved stock monitoring & feedback system to help small producers with production schedules
 - Ways of overcoming the loss of customer contact at the point of delivery e.g. by increased consumer marketing, trade marketing etc
 - Training drivers so that customer care and product handling are improved
 - Research other distribution options to determine whether there is a more compatible business model for FDD producers