Inventory challenges in foodservice distribution

APICS Fox River Chapter – May 17th, 2017

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Agenda

- Introduction to our business
- Perishable inventory – the challenges and how they are tackled
- Inventory optimization across multiple items under total order size constraints
- Leveraging data to prevent inventory losses
- A global food and beverage distribution company
- 12th largest privately held company in the United States with sales of over $23 billion
- Operations in North, Central and South America, as well as Europe, the Middle East and Asia Pacific
The parent company of Reyes Beverage Group, Martin Brower, Reinhart Foodservice, Great Lakes Coca-Cola, and Reyes Fleet Management
Reinhart Foodservice

- 5th largest U.S. foodservice distributor
- $6.5 billion in annual revenue
- 29 distribution centers
- 5300+ employees
Reinhart’s customers include over 60,000 restaurant locations. We service independently owned restaurants as well as fast food chain restaurants such as Burger King, Subway, etc., school and office cafeterias, nursing homes, etc.
The foodservice supply chain – Our products

- Reinhart is a full service distributor – We stock thousands of products - supply pretty much everything that a restaurant or a cafeteria might need to run their business.

- Examples of products supplied by Reinhart include fresh produce, dairy, meat, seafood, bakery goods, dressings, disposables, equipment and supplies.
The foodservice supply chain

A customer may place an order by 5pm today. A Reinhart truck will arrive at their doorstep with all the products they ordered by tomorrow.

- Reinhart purchases these products from hundreds of manufacturers of food products (Reinhart is a distributor, not a manufacturer).
Reinhart foodservice has made significant gains in inventory management over the past year.

- **Inventory levels**: 7% decrease
- **Fill rates**: Slightly better
- **Inventory losses**: 22% decrease
We have several highly perishable products, which make inventory management challenging.

- **Fresh strawberries**  
  Shelf life ~ 1 week

- **Spring mix**  
  Shelf life ~ 2 weeks

- **Fresh Mozzarella Cheese**  
  Shelf life ~ 3 weeks

The short shelf life implies a very slim margin for error:

- **Too much inventory** on hand *very quickly* leads to an *inventory loss*
- **Too little inventory** on hand leads to **poor fill rates** to the customer

Above mentioned shelf life is the shelf life remaining when received in the warehouse.
These perishable products are often have significant demand variability and relatively high lead times as well.

How to order the right amount of inventory?

- Order too little → Poor fill rate to customer
- Order too much → Inventory loss
We have traditionally adopted a dual-sourcing strategy using co-packers to manage this challenge.

- Purchased directly from the supplier
- Purchased from local co-packer

Supplier

Local co-packer

Reinhart Division

Lead time: ~2 weeks

Lead time: < 1 day

Holds stock of ingredients
Blends, packs and ships small quantities as per requirement
Tight procedures and controls are critical for successfully managing perishables

- Perishables need to be carefully inspected while receiving to meet quality requirements
- Robust procedures and appropriate training are crucial
- Mis-rotation means inventory loss
- Keeping inventory levels low and inventory turns high reduces the probability of a mis-rotation
- Maintaining the correct temperature during storage and transportation is a food safety imperative
- Need to foster a culture where handling the product with utmost care comes naturally to employees
Case study: Inventory balance across multiple items is crucial to optimize inventories, when the total order size is constrained

**Situation:**
- A vendor supplies two items to a Reinhart DC
- Vendor requires truckload orders (or ordering truckload quantities provides huge savings)
- Both items are very important for customers and hence require very good fill rates

**Complication:**
- We are running out of item B, but we have a lot of inventory of item A

**Options:**
- Place an order: Excess inventory for A
- Don’t place an order: Poor fill rate for B

500 cases per week

5 cases per week

**Solution:**
- Neither option is desirable
- Safety stock levels for the slower mover should be set high enough to avoid this.
  - How high depends on variability and fill rate requirements for the fast and slow movers
- Inventory segmentation (A/B/C/D/E classification) was updated to appropriately reflect this approach
We have mitigated losses on perishables using internally developed robust IT tools.

We have a product that is not selling fast enough. This could result in inventory loss:

- Which customers have purchased the product in the recent past?
- Which customers purchased similar products in the recent past?

Sales increase and inventory loss is prevented.

One click automation

- Which customers have purchased the product in the recent past?
- Which customers purchased similar products in the recent past?

Offer a targeted deal to each of the identified customers

Sales increase and inventory loss is prevented

Supply chain team partnered with our IT team to develop this automation

Concept was piloted in one of our division and its showed very promising results.

Today, we have rolled this out successfully across Reinhart and are reaping the benefits in the form of reduced inventory losses.
Setting high standards, detailed performance monitoring and fostering the right culture have played a crucial role in our success.

- Setting standards based on opportunity (not just 5% or 10% lower)
- Benchmarking to determine the opportunity. Normalize for business parameters such as category mix, volume mix etc. that affect performance while setting standards
- Regular and granular measurements to quickly pinpoint any deterioration in performance
- Monthly performance reviews
- Focused programs to optimize performance where there is significant opportunity
- Encourage team members to question the status quo
- Root cause analysis to identify and fix underlying problems
- Embrace sound logic in favor of ‘winging it based on experience’
Key takeaways

- Perishables allow a very slim margin for error in inventory management
  - Too much inventory on hand *very quickly* leads to an inventory loss
  - Variable demand and long lead times exacerbate these challenges. Building a responsive supply chain has enabled Reinhart to tackle them
  - Tight controls and robust procedures are essential to manage perishable inventory

- Inventory balance across multiple items is crucial to optimize inventories, when the total order size is constrained

- Inventory losses on slow moving perishables can be prevented using targeted deals. Leveraging historical sales data to set up appropriate deals can increase their effectiveness.

- Setting high standards, detailed performance monitoring and fostering the right culture have played a crucial role in Reinhart’s success
Questions?
Thank you

For any additional questions, please reach out to Darshan Patankar at darshanpatankar@rfsthrives.com