

4 Ways To Save Money on Bulk Oil Ingredients Used in Manufacturing

Hi and thanks for joining us today! Today, we're going to be going through how to save money if you are a manufacturer on your oil ingredients, if you're looking to save money but not cut your oil quality. I'll tell you right off the bat, there is a way to do this and we'd love to walk through it with you.

My name is Hannah. I work with Centra Foods. Keep in mind you can find us on Twitter-- our handle is @CentraFoods. You can also find us on Facebook. We'd love to meet with you there.

We're going to be going through 4 different primary ways today for manufacturers to save on their ingredients. Every concept that we're going to look at today, the goal is to keep your oil quality the same (so that your end product is exactly the same) but you're cutting your ingredient cost. It's just adding to your bottom line so we want to help you do this. I'll go through them first and then we'll dive into detail on each one.

The first thing that you can do to change your oil is **(1) packaging**. Second will be **(2) delivery**, how it's delivered. The third idea to save money is **(3) direct deliveries** from the Mediterranean. And the fourth is using **(4) forward contracts**.

So let's first dive into the first one, your packaging size. Your packaging that you choose can end up having a big impact on how much money you end up spending on your ingredients. Even if it's the same quality of oil, how it's packed is going to affect the price.

If you are receiving your oil in drums, you're not alone-- most manufacturers actually are ordering in drums because they're an easy smaller size to use. The easiest change across the board today is going to be switching from drums into totes. It's the same layout of the pallet;

instead of receiving 4 drums you're going to receive 1 tote. Off the bat, you're going to save about \$0.02 /lb on your oil. Whether they're Bag in a Box or caged totes, both of those will help you save quite a bit of money in the long run and it's a really easy change to make. If you're already using drums it will be really simple for your production line to switch to those totes. Just keep in mind, you do want to have a fork lift or pallet jack if you want to think about that change.

Number two, the next packaging size that you could switch to is actually the next size up. It's a much bigger jump but if you're using enough oil it's totally worthwhile. It's actually switching to in-house storage tanks where your oil will ship either in a flexitank or in a tanker and be delivered and pumped into your in-house storage tanks. So you're not going to have any smaller packaging that's sitting in your warehouse. It's going to be a very large storage tank. If you don't already have a storage tank set up, typically the initial investment is about \$30,000.

We only recommend it for companies that are using about 250,000 pounds or more per year. If you're using that volume (per grade, per year) you're going to see a savings... After your initial investment you're going to see a return on that investment within about 6 to 18 months or so depending on how much you use and what grade it is. So it's a fast turn around, it's definitely worth the investment.

Depending on what type of oil it is, what the market is like, normally you're going to save about \$0.10 /lb compared to the totes. So you can do your own math actually-- just times [multiply] \$0.10 /lb by what you use (in terms of pounds per year) and you can see how much your savings would be.

The next thing that you should keep in mind is, *how is it delivering?* For example, if you are getting drums we want to caution you against getting just one drum at a time. If you are getting one drum at a time-- say you're using one drum a week-- it's much better to purchase one pallet per month and just lengthen how often you're getting your shipments. That way, you're going to save a lot of money on shipping primarily.

So for example, if your shipping cost is \$300 to ship to you for a full pallet of four drums. If you ship just one pallet [drum] depending on the carrier that you use, it will either be \$300 (the exact same cost) or something like \$200 or \$225. It's not going to be ¼ of the cost just because you're shipping ¼ of a pallet. So you can save a lot of money by always shipping full pallets across the board. Just know that you'll have extra inventory in house and you can use it a little bit later.

The next thing that we would recommend for people to save money is to look at direct shipments from the Mediterranean. This is a different system than having your supplier ship you LTL shipments (which means *less than truckload*, just a few pallets at a time as you need them) and it is a worthwhile idea to take a look at. A lot of manufacturers don't feel like they're ready for that kind of a change but a lot of people actually are and we'll give you some of those volume breaks where it's worth starting to look at.

So first, a direct shipment from the Mediterranean means that instead of shipping from your suppliers domestic site, they would actually ship you a full container (which is typically 80 drums or 100 drums depending on whether it's a 20' or a 40' container) direct from overseas, from the Mediterranean. So that would deliver straight from there, right to your warehouse. So you're cutting out all of the LTL shipping cost from your suppliers location to you. You're also cutting out any inherent overhead, storage costs at their facility and the inherent shipping costs to get from the manufacturing site in the Mediterranean to their location as well.

You can save quite a bit of money when you make this change. Normally, I see somewhere between \$0.10-\$0.30 /lb, depending on if you're also changing your packaging size at the same time. You can get containers of drums, of totes, of the flexitanks. So many different option [you choose] depending on what's going to be best for your facility, you can still do these direct deliveries.

Now, these direct deliveries, they do kind of overlap, because they are somewhat similar to if you were going to import yourself or if you were going to work with a supplier overseas. It's kind of the same thing. That [importing yourself] is an option, but it can be tough if you don't

have a person nominated exactly for that job, to do that job. Keeping up with suppliers overseas, meeting with folks, how do you know that they're really reputable and that they know what they're doing? That they are going to be sending you exactly what they say that they are. It just takes a while to build those manufacturing and those supply relationships. That can be tough right off the bat.

The other thing is, the US has really high standards for quality control-- the documents that you're going to need to receive. Most places overseas actually don't have those documents offhand and they can be tough to get. So that is another disadvantage to working with someone overseas.

The other tough thing is that you want a supplier that you can depend on. That is going to be there, that understands the same language, that really understands what you're up against. So, there are some reasons to work with a supplier here in the US and still receive direct deliveries rather than trying to do it yourself. You definitely need at least a part time person taking care of that role just between customs and purchasing [if you do decide to import yourself], making sure that everything is coming smoothly. It does take quite a bit of time, so a lot of times the money that you would pay them, it actually works out-- you can work with a supplier here and it will actually end up saving you money.

So that's just a little bit of background. Those direct deliveries are another great option for you to think about and we can chat with you more about your specific situation.

Another option for those is called a *Local Delivery Program*. What that means is that-- say you're located in Florida. Well, Centra Foods does not have a distribution center in Florida right now. So, we can actually use (or you can use) a local distribution warehouse where your oil is stored. It will add a little bit to the cost, but still, it can save you quite a bit of money rather than having to store all of it at one time.

This local supply program is a really good thing for customers that are using a lot of olive oil but they don't have a whole lot of storage space in their facility. If you've got really tight space,

you need just a couple pallets at a time, but you really like this system [direct deliveries from the Mediterranean] it's a good thing to look at. If you take a look at our webinar, we talk about some of the packaging costs and the shipping costs that you're going to save doing this direct delivery program-- comparing it to different options, whether it's coming from the Mediterranean, doing a local supply program or coming from your supplier's facility. Good numbers to look at.

Another thing to look at is if you use a regular volume over and over and over each month or each week, we can actually set up auto-deliveries. So you've got a container delivering between the 10th and the 20th each month, and you don't even have to think about it. You place a PO for 6 containers at a time and we'll just kind of roll them over and the planning is done for you.

Yes, these direct deliveries do require you to sit down and do some planning with you supplier. It requires that you really rely on them (or on us) as a strategic partner rather than just a vendor. The advantage in the long run is that you're going to save a lot of money and a lot of time, because you're not placing all these POs and following up with them and receiving incoming inventory every couple days. It's going to save your whole team, and you, quite a bit of time.

Another option to look at is what's known as forward contracts. Now, any type of oil that you get, typically that's going to be a commodity item. A commodity item just means that the price changes on a-- by the minute, by the hour, by the day.

Olive oil is essentially a commodity item. It doesn't work quite like, say wheat or soybean oil or other items like that in the US that are run off the Chicago Board of Trade. But it is, essentially, in the international stance, a commodity. The price changes on a daily basis so when you're doing forward contracts it's going to be based on the quote that you receive that day. So you're going to have to make a decision and lock in fast.

The advantage is that it can lock you in with a steady price over a long period of time that you can depend on. It also help ensure that if you need a particular taste profile or if you need to

make sure (if you know that supply is going to be low) you need to make sure that you have that inventory and you can be guaranteed it, and you won't come up against any trouble getting inventory in, that will also help.

These forward contracts, if you're using enough oil they're definitely worth talking about. Typically, if you're using somewhere around 3-4 containers a year that's a good time to start looking at forward contracts. For some oil, during some market times it requires that you look at more at a time.

Forward contracts, all of it is just like stocks: it's based off the current market. The olive oil market is always fluctuating; sometimes it's really great, sometimes it's not so good. So you're going to want to be really strategic about when you lock in and for how long. We will help you walk you through that process. Any supplier you're working with should help you walk through that process of understanding when and why you're locking into a commodity contract.

Again, just to review, these 4 different things [packaging, delivery/shipping, direct deliveries and forward contracts], they can have a big impact on your final price. You do not have to lower the quality of the oil that you get to get a better price. You can really look at these logistical factors-- they'll make a big difference in the long run.

If you have any questions, you want to do a consult, talk about some of these and see how you can put them into place in your business and how much it would save you, we're happy to do that with you. We're also happy to answer any questions you've got about any of these different systems and walk you through the process. We look forward to hearing from you, have a great day.