



LIDD

SUPPLY CHAIN
INTELLIGENCE

SECRETS BEHIND SUCCESSFUL FOOD STARTUPS:

Five Operational
Infrastructure Tips
You Need to Know



ABOUT THE AUTHOR

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INTRODUCTION

Do a search online for advice about launching an e-commerce food business and you'll find lots of information about marketing, branding and how to build a transactional website - all the front-end customer-facing elements you need to be successful. But you won't find much practical advice on the operational infrastructure required: what facilities, technology and processes you should build to run a profitable online food manufacturing or distribution business.

- ✓ This eBook explains **FIVE KEY IDEAS** food startup entrepreneurs should incorporate into new e-commerce operations.

These tips come from years of experience working with entrepreneurs and seeing the most common mistakes or omissions in the field. These ideas are best considered early on, but are still very relevant for companies with a year or more under their belts. These recommendations can help you develop a solid foundation to support future growth.



RECOMMENDATION #1

BUILD **FLEXIBILITY** INTO YOUR DISTRIBUTION OPERATION



A startup food manufacturer planned to sell its new product as a subscription service direct to consumers online, sending customers a box of food on a recurring basis.

The founders built their supply chain infrastructure – mainly custom order management software and a third-party logistics contract to handle fulfillment – to support the subscription model.

A few months after launching, the company could see demand for the product in the market, but subscriptions weren't taking hold. Customers kept asking to buy the product a la carte. At the same time, the company made a few opportunistic bulk sales. The founders now wanted to sell in ways they hadn't previously anticipated, but their narrowly focused infrastructure couldn't easily handle the new sales channels.

Their system only understood recurring orders of one box per customer. There was no way for an individual to buy a different quantity of food, and wholesale orders had to be recorded manually outside of the system.

The company managed to readjust after a couple months, but not without a lot of scrambling and headaches that could have been avoided with more foresight.



As you start your business, you'll develop a plan for how to sell your product. While honing your marketing message and raising capital, you'll focus in on the distinct sales channels which will define your company. Perhaps you'll sell direct to consumers through a website. Maybe you'll try local markets and pop up shops, or you might convince wholesale distributors to carry your product.

But, experience shows that you'll likely end up changing or adding to the first sales channel you try. This kind of change is natural, so plan ahead and build infrastructure and processes that are not too narrowly defined. Pick systems and partners, e.g., third-party logistics providers (3PLs) that can handle diverse types of orders. **You may not have the bandwidth to implement procedures for multiple sales channels at the beginning, but having sketched out alternative plans will help you pivot quickly down the road.**



If you're pulling from the same inventory pool to serve multiple sales channels, be sure to consider how each channel's systems will see available stock and increment or decrement inventory levels accordingly.

COMMON SALES CHANNELS

SALES CHANNEL	METHOD	OPERATIONAL CONSIDERATIONS FOR STARTUP
Retail (traditional) <ul style="list-style-type: none">› Brick & mortar stores› Pop up shops, markets, fairs	Sell items directly to consumers in person	<ul style="list-style-type: none">› Point-of-sale system to track orders› Location and size of physical space› Inbound deliveries
E-commerce (online retail) <ul style="list-style-type: none">› Individual orders› Subscriptions	Sell directly to consumers through a website	<ul style="list-style-type: none">› Website and backend system to process and track orders› Tying website to inventory levels› Packing and shipping small orders composed of a mix of individual items
Wholesale <ul style="list-style-type: none">› Grocery› Convenience stores	Sell large quantities to retailers or distributors	<ul style="list-style-type: none">› Electronic data interchange (EDI)› Packing orders and shipping in case or pallet quantities› Vendor compliance requirements› Warehouse & order management systems
Foodservice	Like wholesale, but aimed at restaurants and institutions	<ul style="list-style-type: none">› Finding distributors› Package size

RECOMMENDATION #2

INSTITUTE A SALES & OPERATIONS PLANNING PROCESS FROM THE START



Imagine you're running an online grocery store. The marketing department puts raspberries on sale in July when they're plentiful. Customers order them in droves. Problem is - no one told the warehouse in advance.

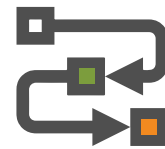
All of a sudden, four times the normal amount of raspberries arrives at the dock. The vendor's packaging turns out to be flimsy, and every unit has to be individually repackaged. The warehouse muscles through, but it causes overtime and not all the berries get packed properly. Some customers complain that their raspberries arrived crushed.

The promotion should have been a hit, but instead the lack of communication caused stress and frustration among employees and customers alike.



A lack of communication between the sales and operations sides of a business can cause tensions. Sales & Operations Planning can help resolve this. S&OP, a common management practice, is a planning and decision-making framework designed to balance supply and demand. The process coordinates planning, promotes internal communications, and produces a sales forecast and product release schedule around which the whole company can organize itself.

Establish S&OP early – even before there's much to plan – and keep expanding the process as your business grows.



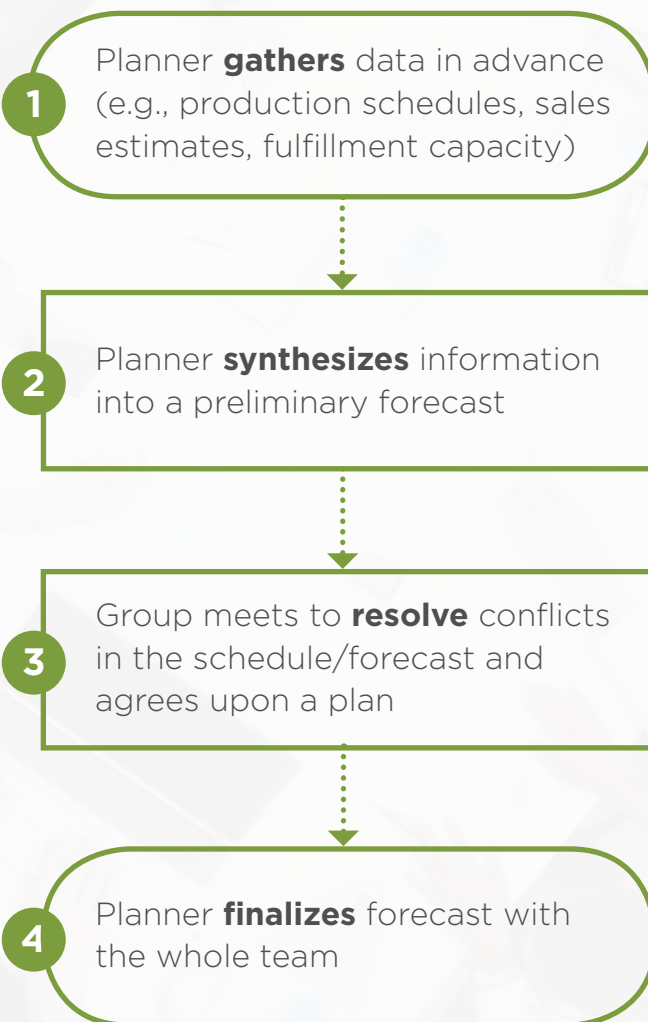
Establish S&OP early – even before there's much to plan – and keep expanding the process as your business grows. Building a culture where the sales/marketing/merchandising side of the company and the production/fulfillment/distribution side of the company respect each other helps ensure teamwork when the size and complexity of the business demand it.



Sales & Operations Planning is a common management practice designed to balance supply and demand.

HOW DOES **S&OP** ACTUALLY WORK?

S&OP usually takes the form of a recurring meeting that brings together the people responsible for marketing, sales, merchandising, product development, production and distribution.





RECOMMENDATION #3

IMPLEMENT PURCHASING PROCESSES AT THE BEGINNING

Good purchasing practices are fundamental because if you don't know exactly what you bought, received and sold, you can't control spending.

At the beginning, your company might transact at a low enough volume that you can track purchases in your head, on credit card statements, or with just a few notes. But as volumes grow, you'll need systems to track purchasing.





Here are some tips for starting off on the right foot:

- Get a good accounting program, configure it thoroughly, use it, and keep it up-to-date with how your business runs. You might also consider outsourcing accounting.
- Record purchases using purchase orders, or at a minimum, record what items you buy in a clean Excel spreadsheet. Set up item (SKU) numbers for products you produce or buy frequently to help make purchase orders easier to write and analyze.
- When you receive products from vendors, record those receipts as being connected to the original purchase order, noting any discrepancies.
- When you receive an invoice or bill, check it against both what you ordered and what you received so you're sure to pay the correct amount. A best practice would be for different people to complete each of these transactions (ordering, receiving and paying) to ensure accuracy and reduce the chance of fraud, though in a startup that might not be possible.

WHAT'S A PURCHASE ORDER?

A PO is a binding document that a buyer sends to a seller detailing the items, quantities and prices for products or services to deliver.

A PO USUALLY HAS 3 SECTIONS:

1

Header

- › Date
- › Purchase Order Number
- › Buyer's name and contact information (billing & shipping)
- › Seller's company name and contact information

2

Body

- › Order lines – item, quantity, and unit price
- › Freight / shipping & handling
- › Taxes
- › Total dollar value due

3

Footer

- › Delivery instructions
- › Payment terms
- › Legal notices

Your Company Name

Your Address
City, State ZIP
Phone 123.456.7890 Fax 123.456.7891

Purchase Order

To:	Ship To:
Name	Name
Company	Company
Address	Address
City, State ZIP	City, State ZIP
Phone	Phone

P.O. DATE				

QTY	UNIT	DESCRIPTION	UNIT PRICE	TOTAL

SHIPPED VIA	F.O.B. POINT	TERMS

SUBTOTAL	
SALES TAX	
SHIPPING	
OTHER	
TOTAL	\$

Authorized By: _____

Signature: _____

Date: ____ / ____ / 20____



RECOMMENDATION #4

DON'T LET **PACKAGING** BE AN AFTERTHOUGHT

While your product is the star, packaging sets the tone for the customer experience. For example, does the shipping box match your branding? How much packing material was used? Did the product survive delivery unscathed? The answers to these questions will impact your customers' perception of your company almost as much as the product itself.

It's important to plan packaging carefully from the beginning. Get prototypes made of both the interior and exterior packaging. There are firms that specialize in making prototype packaging, and many production houses have a group internally that can produce samples for you.

Begin testing your packaging as soon as you can. Organize trial runs to see how the packaging holds up in a warehouse environment and during shipping and delivery.



Test shipping different weights and shapes, in multiple temperature conditions, and for varying distances. Approach the testing like a science experiment and learn which variables impact outcomes the most.

Packaging solutions can require compromising among competing goals:

- › protecting the product
- › minimizing cost
- › enhancing the aesthetic and brand experience
- › reducing environmental impact

It's hard to win on all counts, so understand the possible tradeoffs and be ready to talk to customers about your choices.



Weight is key if you plan to ship through the mail. Every ounce costs money, so work to minimize shipping weight with creative shapes and varying material thicknesses.



A company that ships food through the mail did an early test run of 30 prototype boxes. They found that the packages were getting crushed in the mail, especially on cross-country shipments. Since they'd started early enough, they had time to redesign the box before launch, and were able to strengthen the structure without increasing its weight.



RECOMMENDATION #5

GENERATE **SMART DATA** YOU CAN USE

Your business can generate lots of data, but that information will only be useful if you collect it and keep it in ways that can be analyzed. Here are two fundamental ideas about data collection to keep in mind as you set up your business processes:

- 1 Name your data clearly.** Give your products unique, simple product IDs (often called SKUs), and use the same descriptions for them everywhere. Sales orders, purchase orders and production orders should have their own unique ID numbers.
- 2 Keep historical data.** Don't overwrite each week's or month's numbers with new data. Make sure the old data is searchable and can be pooled to show performance over time.

There's an optimal point somewhere between collecting too much data and not enough, and the challenge is finding that sweet spot. Err on the side of more until you figure out what works, but be sure to capture at least some transactional data and use it to understand and improve your business.

WHAT MAKES A GOOD SKU NUMBER?

A SKU is a Stock Keeping Unit or product ID, and each product should have a unique one for internal use. A SKU is different than a universal product code (UPC) or bar-code, which is a type of Global Trade Item Number issued for external use by [GS1](#), a standards organization.



Here are some simple guidelines for creating good SKU numbers, but remember that there's no one right answer for all businesses:

- Length – Between 4 and 8 digits is comfortable, and keep them all the same length. The number of digits depends on the number of items you expect to sell: for more products, leave yourself a larger namespace (i.e., more digits).
- Characters – Use numbers and letters (except I and O), but don't use symbols.
- Human-readable – You should be able to read and say the numbers aloud easily.
- Simple – Don't try to imbue the numbers with too much meaning. The system will likely lose its original significance as you need to name items you never conceived of at the beginning. A simple numerical list is OK as long as you have clear names and descriptions.

CLEAR SKU DESIGN

SKU	Internal Description
10101	Milk, Skim, Gallon, Conventional
10102	Milk, Skim, Gallon, Organic
10103	Milk, Skim, Half Gallon, Conventional
10104	Milk, Skim, Half Gallon, Organic
10105	Milk, Whole, Gallon, Conventional
10106	Milk, Whole, Gallon, Organic
10107	Milk, Whole, Half Gallon, Conventional
10108	Milk, Whole, Half Gallon, Organic
10201	Juice, Apple, Gallon, Conventional
10202	Juice, Apple, Gallon, Organic
10203	Juice, Orange, Gallon, Conventional
10204	Juice, Orange, Gallon, Organic

POOR SKU DESIGN

SKU	Description
11C4	Wholesome Skim Milk (1 gal)
11C6	Wholesome Whole Milk (1 gal)
11O4	Wholesome Organic Skim Milk (1 gal)
11O6	Wholesome Organic Whole Milk (1 gal)
12C4	Wholesome Skim Milk (1/2 gal)
12C6	Wholesome Whole Milk (1/2 gal)
12O4	Wholesome Organic Skim Milk (1/2 gal)
12O6	Wholesome Organic Whole Milk (1/2 gal)
21C7	Apple Delight (1 gal)
21C8	Orange Delight (1 gal)
21O7	Organic Apple Delight (1 gal)
21O8	Organic Orange Delight (1 gal)

- ▶ Numbers are simple to read and type. “Noun, adjective” pattern makes list easier to read and alphabetize.
- ▶ Starts “juices” on a higher number to leave space for more “milks” but doesn’t try to subdivide the namespace further.
- ▶ Product names for external (marketing) purposes can be different from internal descriptions.

- ▶ Ordering items by SKU or alphabetically does not make the list easy to read.
- ▶ The numbering system is trying too hard to make each digit represent an aspect of the product.
- ▶ Use of the letter O is confusing with the number 0.



FINAL THOUGHTS

The food business is **competitive** and margins are low. Making a profit depends on solid operations that minimize waste and maximize efficiency in capital, labor and materials.

The recommendations and best practices in this eBook can help you set up a **strong foundation**. Down the line, it will be easier to expand the size and increase the complexity of your business while staying profitable.



Please share this with your team as well as with all the players in your value chain and join in the discussions on [our blog](#) and [LinkedIn page](#).



We'd like to **hear your opinions** and learn from one another's experiences. After all, in a world filled with noise, the only way we can win is to cut through the clutter and invest time and effort in **making real connections**.

CONTACT US



Schedule a **Discovery Call** to talk about your goals & define your needs



Learn more about becoming a client

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