Playbook for Achieving Operations Optimization Within Your Companies
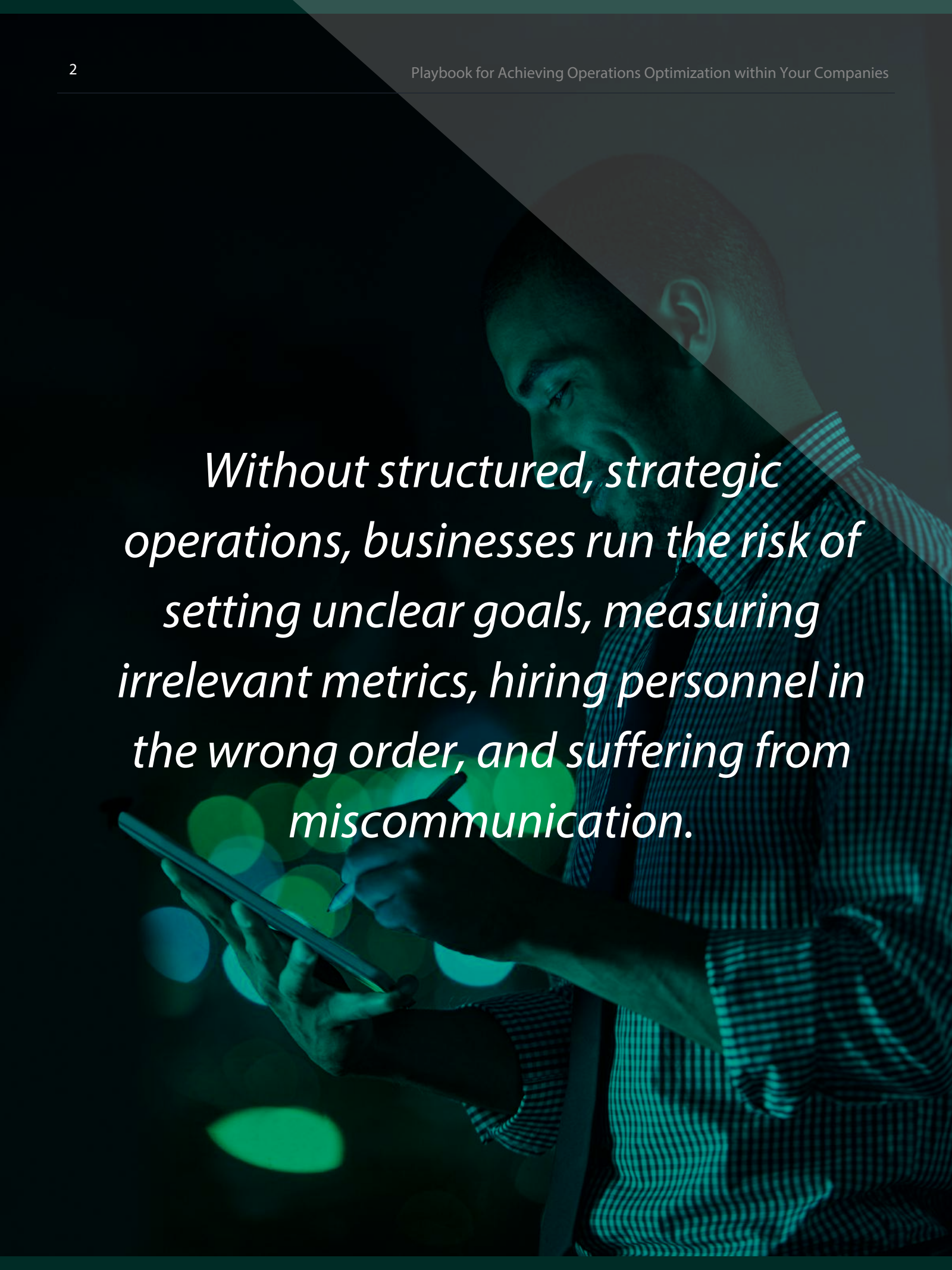
INTRODUCTION

As an investor, protecting your assets is a top priority. Just how much does operations optimization matter for CPG startups? Without structured, strategic operations, businesses run the risk of setting unclear goals, measuring irrelevant metrics, hiring personnel in the wrong order, and suffering from miscommunication. All of these mishaps impair productivity, and ultimately, profitability.

This playbook is designed to help investors in the CPG industry mitigate risks and promote profitability in their investment companies. It begins with an overview of general recommendations for process improvement, followed by an analysis of three key business areas that should be examined for improvement: supply chain, human capital, and technology.

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Process Improvement

In order to optimize operations as a whole, founders and managers need to break down individual company processes that are outdated, inefficient, and error-prone. A fully optimized process is one that is documented, consistent throughout an organization, repeatable, and free from error - every time. Effective processes reduce waste, keep employees more engaged, and consequently drive up profits. What company doesn't want to adopt this method of "lean thinking?"

Making Change

The first step to enhancing operational efficiency is identifying what processes are problematic. The Six Sigma approach suggests using the "5 whys" to uncover the root causes of business problems. See below for an example of this practice in action:

5 Whys

Problem: A luxury soap company is experiencing frequent out-of-stock issues at a particular retail location.

Why? Merchandisers are unable to keep shelves fully stocked at all times.
Why? Sufficient real-time data about stock levels is lacking.
Why? Merchandisers are using pen and paper to document stock levels during store visits, hence they cannot place replenishment orders until hours after noticing the deficiency in product on shelves.
Why? Management has been slow to implement a new system for monitoring stock levels and order taking.
Why? There has been an aggressive focus on adding more retailers to the repertoire rather than ensuring a strong performance at those which have already been supplying the brand.

And there you have it! We are one step closer to fixing a broken process that translates into increased sales. The next step for process improvement is to identify factors that are inside and outside of your company's control. Keeping with the same example, a luxury soap company cannot control unexpected fluctuations in consumer demand or a spike in competition. However, the brand has power over how it produces and distributes its products and how stock is monitored and replenished.

We've articulated the problem what's to blame for it, while taking into account those factors outside the realm of control that will affect how to fix it. It's now time to draw up a new process. In the instance of our luxury soap out-of-stocks, it might make sense to refocus organizational goals and implement a mobile, cloud-based system to replace the pen and paper. For more information on how to uncover and find solutions for faulty processes, refer to this document or handbook.

Maintaining Change

Any investor should be conscious of the TOPSCAN model when designing or improving a business process. Using this framework ensures that your process adds value across every level of the organization. Below is an explanation of the model's principles:

TOPSCAN

- **T**eam Building: recruiting and servicing the company's human capital
- **O**perations: streamlining administrative, accounting, legal, and technological functions
- **P**erspective: defining strategy, competitive positioning, and the target market
- **S**kill Building: garnering advantageous skillsets, with a particular focus on senior management
- **C**ustomer Development: identifying the ideal customer and bringing the product to them
- **A**nalysis: measuring and reporting performance, even at the earliest stages
- **N**etwork: accessing the investor's network

Always keeping these principles in mind, an investor can provide direction to founders and senior management on how to enhance efficiency. Some general guidelines for implementing and maintaining operational excellence are as follows:

1. Set realistic timelines based on priorities. Decide what needs to be accomplished in a given day, week, month, year…

2. Define overarching annual goals and the individual steps that need to be taken in order to achieve them within the allotted time constraints.

3. Be consistent with reporting; you can't improve if you're not measuring. Every individual employee's results and shortcomings should be accounted for. Remember that employee-level ownership of work promotes accountability and engagement.

4. Formalize a meeting schedule so that appropriate individuals can be in touch about the status of projects. Cut out or consolidate unnecessary meetings whenever possible.

5. Put procedures in writing so they can be referred to at a moment's notice. This also helps expedite new hire onboarding.

6. Always be communicating your strategy, whether it be in-person during meetings or digitally via instant message.

Principles & Practices

The fundamentals described above can be applied to specific organizational functions. In the sections following, we will discuss organizational challenges (principles) and how CPG startups can overcome them (practices) within three critical departmental functions.

Supply Chain

Principle: Weatherproofing

Practice: Unpredictable weather can be tragic for CPG supply chains. However, there are certain measures shippers can take to minimize risks caused by inclement weather. Consider the types of transportation your providers are using and find out if they have the ability to transport additional freight volumes if necessary. Investigate whether or not your providers can handle the impact of several storms in short time frame. Make arrangements to temporarily use other suppliers who won't be affected by bad weather. Also make sure there is room in your budget for the added expenses associated with weather-proofing.

Principle: Corporate Social Responsibility (CSR)
Practice: CSR has a drastic impact on brand image, and in turn, on sales. Where are you sourcing the raw materials for your products and how are they harvested? Many consumers will be turned off by a company that does not ethically source its materials or who ignores its environmental footprint. How your products are produced delivered to consumers is equally important. Using clean energy sources to create, package, and ship products will give a huge kudos to your company's CSR.

Principle: Route Scheduling
Practice: Inefficiencies in shipping routes are a waste of time, labor, and fuel costs. Use GPS tracking to design the most direct routes possible.

Principle: Forging strategic relationships with suppliers and distributors.
Practice: Your company's relationship with its material suppliers and product distributors is mutually dependent; you need them to deliver products into the hands of consumers and they need you to stay in business. Strengthen these relationships by using hard data to make more accurate predictions about units sold. The more precise you are with your forecasting, the more likely that suppliers and distributors can keep up with your customers' demands. This data becomes even more pertinent for businesses that are impacted by seasonal fluctuations.

Principle: Satisfying retailers' demands.
Practice: CPG companies are responsible for maintaining on-time delivery and quality. Ensure that production never starts until all materials are available so as to keep continuous flow and not have half-finished products sitting around in a warehouse. Food and beverage companies should pay special attention to this matter in order to maintain freshness. Use a mobile retail execution tool that allows representatives from your company to place replenishment orders on the spot to prevent stockouts.

Human Capital

Principle: New Hire Onboarding
Practice: Effective onboarding is crucial for employees' long-term success. Policies and procedures for every job function need to be documented, ideally in a digital format, so that new hires can reference them quickly as needed. Add relevant meetings to new employees' calendars immediately so they can begin to become fully integrated into day-to-day operations. Arrange for a team lunch or happy hour to get everyone acclimated; strong relationships outside of the workplace translate into boosted intra-team trust and productivity. This step is especially important for those employees who will spend the majority of their workday outside of the office. Don't forget to make business cards. You want any new hire to be the best possible representative for your company, and not having business cards to hand out looks very unprofessional. Have any necessary paperwork prepared beforehand so as not to waste time.

Principle: Employee Scheduling
Practice: Poor scheduling leads to frustrated customers and discouraged employees. Use an appointment scheduling tool that allows managers to update employees' calendars in real-time as daily changes occur. Use this checklist for superior schedule optimization.

Principle: Avoiding Burnout
Practice: Burdening employees with unnecessary administrative tasks and an overloaded schedule will inevitably lead to burnout. In addition to designing a strategic schedule, organizational leaders should implement mobile tools that remove the need for handwritten invoicing, note taking, and time keeping.

Principle: Managing a Multicultural Workforce
Practice: No one wants to feel like an outcast. Promote a company culture of acceptance and equality within your organization. Don't let managers and peers keep themselves in the dark; encourage team members to ask each other appropriate questions about aspects of their cultural backgrounds. Respect employees' celebrated holidays and cultural traditions that might impact their workday. Call employees by the names they wish to use. Incorporate anti-discrimination into your company's mission.

Technology

Principle: Minimizing training time.

Practice: The more time managers have to spend training employees to use a new system, the longer it takes for employees to start performing revenue-generating activities. When choosing tools for your team members to use, consider their complexity. Anything that comes with a thick manual upon purchase is probably not worth your time. Lean startups should be using agile, easily-adoptable software systems. Tools that have a social collaboration component also keep employees in constant contact with each other and with management, thus making it that much easier to ask questions as needed and get work done.

Principle: Collecting accurate, timely data.

Practice: Data is king, especially in the CPG world. Handwritten record-keeping and manual data transferring put CPG companies at a competitive disadvantage. Mobile, cloud-based data collection tools enable employees to collect data in a customized format and automatically sync it to their home office. Digitizing the field data collection process also reduces the risk of human error, as certain solutions enable mandatory form fields be filled out before submission.