

The reshaping of the CPG supply chain

Collaborative agility key to a successful post-pandemic future

— BY MARK JUHASZ —



Over the past 12 months, the COVID-19 pandemic has brought significant challenges and opportunities for food company supply chains. Disruptions to processing, trade, distribution and consumer demand have changed the nature of business. Consumer packaged goods (CPGs) companies have been confronted with rapid changes in the sourcing and transport of ingredients, including embargoes on exports and higher costs. For example, the Netherlands Enterprise Agency reports that the price of ginger increased by 300 per cent at one point in 2020 as consumers sought to boost their immune system function.

Cancellations and restrictions in the distribution of some staples have left elements in the supply chain without sufficient inventory, while others have been dealing with excess stock. According to John Cranfield, writing in the *Canadian Journal of Agricultural Economics* (CJAE) in 2020, “how the agricultural sector fares in light of physical distancing and possible disruptions to agricultural markets... lends itself to the possibility of higher food prices... demand-side factors will drive most of the changes we will observe in food markets.” Particularly vulnerable to the impact of COVID has been small- and medium-sized companies. According to Getu Hailu, also writing in the CJAE, 90 per cent of the approximately 6,200 food processors in Canada in 2019 have fewer than 100 employees, and many, with less working capital, are at greater risk of bankruptcy.

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Risk higher for meat processors

A sub-sector of food CPGs particularly affected has been meat processors. According to a 2020 study by Food Quality and Safety, over 460 U.S. meat packaging plants have been impacted by the COVID-19 pandemic. In Canada, workers have contracted COVID-19 at the Cargill plant in Alberta, at the Olymel pork plant in Quebec, and as recently as February 2021, at the Belmont meat plant in Ontario and the Olymel pork plant in Alberta. In meat processing, workers often operate in closer quarters, where English might be a second language, and where health and safety training might require additional emphasis. Workers may also take public transit and may lack health insurance, further increasing risk of transmission. In addition to the human impact within meat processing, closures have affected supply and prices. A 2020 study by studioID and Mintec in the U.S. noted beef plants are operating at 80 per cent capacity compared to the previous

year, and the USDA stated wholesale pork prices rose by 90 per cent at one point last year.

All of these persistent impacts on food CPGs places critical considerations in the spotlight. CPGs must adapt to new operating costs including increased employee screening, staggering work shifts, training and sanitation. These processes have an impact on productivity and new operating costs. Ingredient and packaging substitutions require modifications dependent on availability, regulation and retailer requirements. Canada’s reliance on imported produce, especially during winter months, and on temporary foreign workers, will need to be further considered.

Food CPGs are also affected by consumer buying patterns. Consumers are making fewer trips to grocery stores and buying more per trip. They are also buying more through e-commerce. In response, grocers are narrowing down assortments by culling less-profitable SKUs. As a result, there is greater pressure on CPGs to innovate their product offerings. ➔



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Prepare to meet sustainability metrics

It's also expected that CPGs will need to address a growing number of supply chain metrics and initiatives related to sustainability presented by regulators, consumer groups and their own industry. For example, a reusable food product container pilot project was recently launched by Loblaws and Loop. In addition, in early 2021, over 40 leading CPGs, NGOs, and government institutions (including Food, Health & Consumer Products of Canada, Coca-Cola, Unilever, Kraft Heinz, Maple Leaf Foods, Danone and General Mills) formed the Canada Plastics Pact. The pact sets out specific targets to be achieved by 2025, including addressing "problematic packaging."

Another fundamental aspect reshaping the food CPG supply chain is the need to obtain and use data — and collaborate based on that data — for faster and more accurate decision-making. Digitization is enabling complete product-ingredient traceability and much more, allowing companies to reduce uncertainties and anticipate potential disruptions.



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Supply change responsiveness

In a 2020 study, McKinsey & Co urged CPGs to build in supply chain transparency with data systems connecting all players, from suppliers to retail. As the CEO of C&S Wholesale Grocers (the largest wholesale grocery supply company in the U.S.) said at BMO conference in 2020, there is “a big disconnect from demand signal to a production signal... So how do [you] shorten that cycle time to make manufacturing processes more responsive to shifts in [consumer] demand, and so that there isn't obsolete or excess inventory in the supply chain?” Part of the answer is to allocate more resources to supply chain responsiveness. Three important areas to bolster supply chain responsiveness include investment in multiple backup facilities to respond to orders, demand forecasting and greater operational flexibility.

Indeed, according to a recent study by Bain & Co. and Microsoft, significantly more companies now expect their supply chain teams to provide input to major strategic decisions. And major food product manufacturers are now realizing that more collaborative supply chain relationships and effective use of supply chain data is a competitive advantage — not just in dealing with the pandemic, but in light of climate change, potential geopolitical issues and the growth of e-commerce (studioID/Mintec, 2020).

The future of food CPGs and their supply chains will be bright with the right planning and adaptation. Successful companies will achieve a new normal of innovative, proactive and collaborative agility, edging out those that cling to static, traditional modes of operation. ●

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