



## CASE STUDY

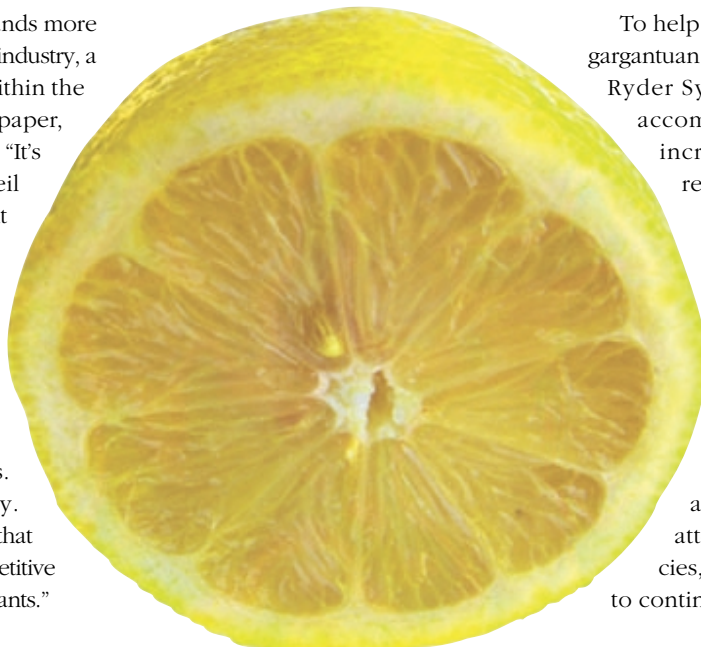
# Snapple Found Handling Logistics In-house Left A Sour Taste

BY KURT C. HOFFMAN

*With industry giants invading the product niche that it created, the beverage maker turned to logistics outsourcing as a means to achieve a higher level of customer service, cost control and data integrity. Its attention now is focused on innovation and flavors.*

**N**owhere is the battle of brands more fierce than in the beverage industry, a fact evident to anyone within the range of radio, television, newspaper, magazine or billboard advertising. "It's extremely competitive," says Neil Volkmar, Snapple's vice president of supply-chain operations.

"In the beverage world, the big carbonated folks — the Cokes and Pepsis of the world — are seeing a great deal of the business move into the non-carbonated, healthier-alternative, new-age products," he explains. "And that's right where we play. Snapple pretty much established that market, but it's become very competitive and now we're going up against giants."



To help sharpen its edge against such gargantuan competitors, Snapple turned to Ryder System of Miami, Fla. "We've accomplished our primary goal of increasing service quality while reducing cost," says Volkmar of the Ryder partnership. In addition, outsourcing has enabled the company to focus its attention on innovation in packaging and flavors. "And that's where we really want our management team focused," he says. "With Ryder on board, we're able to devote our time and attention to our core competencies, to those things we need to do to continue to be a growing and pros-

perous business, while leaving our logistics challenge in the hands of the experts.”

Having been acquired in October 2000, Snapple Beverage Group now operates as an independent unit of Cadbury Schweppes, which also owns Motts, Dr. Pepper and 7-Up as well as having a considerable presence in the confectionery market. Headquartered in White Plains, N.Y., Snapple boasts a beverage portfolio manufactured and marketed in the U.S., Canada and Puerto Rico that includes Snapple, Mystic, Orangina, Stewart’s and Yoo-hoo.

Snapple originated as Unadulterated Food Corp. The company’s motto, “Made from the Best Stuff on Earth,” initially found a receptive audience among health-food shoppers in the early 1970s. As general consumers became more health conscious, demand blossomed and flourished. Snapple harvested nearly \$1bn in revenue during 2001 and spent \$40m on freight.

Though outsourcing was an established element of supply-chain strategy at Snapple, the company’s managers decided late in the 1990s to address some of the data gaps created by its multi-faceted distribution network. On the supply side, Snapple purchases about 1,000 different raw materials from 100 or so suppliers that are fed into 30 manufacturing facilities in North America. Five of these are company-owned while the other 25 are co-packing facilities. Snapple ships product from these facilities to 20 distribution centers that are primarily run by third-parties. Approximately 400 finished good items are shipped out from the DCs to several hundred distributors, which in turn resell to delis, convenience stores and cold vending machines as well as grocery and club stores.

It makes for a complicated execution, because all those deliveries have to be made on time, says Volkmar. “We’re really committed to maintaining the highest level of product availability that we can, and we’re shooting for 100 percent. We never want to disappoint a customer.”

However, with competition continuing to heat up in its market niche, Snapple was facing two primary challenges that together led the company into a new era of logistics outsourcing. “One driver was our need for information,” says Volkmar. The company had little visibility to the delivery of its products, he explains. “People weren’t complaining, but we didn’t really know” what our performance was, he says. “And if there’s some-

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## *The need for information led to outsourcing.*

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thing really important about your business, like when someone touches your customer, and you don’t know exactly what happens there - that’s a big risk. We needed more information about that last leg of our supply chain, and we knew that the demand for more information, as well as the value of that information, would continue to increase over time.”

The other driver was the continuing quest for better service at lower costs. “We need high quality and low price,” Volkmar says. “Since the carriers are actually touching our customers, we’re extremely sensitive about quality. And that comes back to information: We want to know the quality of the service being delivered to our customers.”

### **Outsourcing or Not?**

Thus challenged, Volkmar and a group of very senior executives at Snapple launched an initiative in mid-1999 to address these needs. “We first had to answer the more obvious questions about whether to continue outsourcing or to bring this task back in-house,” he says. “Was this something we should try to develop as a core competency of our company? If we brought it in-house, could we get some strategic or tactical advantages in this competitive environment? Or were there other ways to outsource, using other companies and different



methodologies, to take us where we wanted to go?"

Initially the Snapple team took a look at how other industry verticals such as automotive and electronics were addressing supply-chain needs, keeping a particularly watchful eye on gathering data relative to the last leg of a product's journey.

The notion of bringing the logistics task in-house dissipated fairly quickly. "We didn't see where we would be able to put together something that would really be a core competency as well as a differentiator for us," says Volkmar.

The executive team then shifted its focus to other logistics service providers and their respective methodologies. They read logistics trade magazines, scrolled through internet sites, and talked with individual manufacturers, retailers and distributors, "seeing which names kept coming up when the discussion centered on those doing leading-edge logistics work," says Volkmar.

After several months of research, Snapple narrowed down to six the ranks of potential providers. With these finalists, Snapple execs conducted site visits, sat through dog-and-pony shows, and talked to references. "We're big believers in talking to references," says Volkmar.

In the end, the decision boiled down to more of a gut feeling than a matrix score. "The same couple of names kept cropping up, Ryder in particular, as being an industry leader in several of the categories we were looking for," says Volkmar. "Determinations about quality of service can be made from analyzing operational data and talking to existing customers, but price is a very difficult thing to compare up front, so we looked at some of the competitive levers that someone would use on our behalf. For example, quantity is one of the most common things used to try to get the price down, so who had the largest volume and was leveraging that volume in the marketplace? Ryder was a clear leader there and in several other categories that were important to us. And they had outstanding references."

The Snapple team examined processes in depth and toured

Ryder transportation management facilities, two actions that crystallized the vendor selection. "When we looked at the various processes each supplier used to go out and get rates and to manage quality, Ryder had

the most comprehensive and exhaustive bid processes and some of the

best supporting documentation that we could

find," explains Volkmar. "Everybody

claims to have the highest quality and the lowest price, but

when we start asking why, the Ryder

folks had the best answers. They would start

describing the processes that



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*Incomplete orders are channeled to a separate data warehouse where any missing or inaccurate data is supplied or corrected.*

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they would put together for us, and it was a comprehensive, detailed presentation. It carries a lot of credibility when people can give you rock-solid reasons when you ask 'why?'"

That being said, leverage was a big part of it, he acknowledges. "Ryder had a freight-under-management level that just dwarfed everybody else, which told us two things: first, they had the leverage in

the marketplace, and second, when the time comes to develop and pay for additional technology and infrastructure, Ryder can

spread those costs over more loads and more companies than anyone else."

The two companies signed

a contract in November 1999. Here's

how it works: Though it has a sales force spread throughout North America, Snapple's management functions, including back-office operations, are highly centralized in White Plains. Orders from distributor customers arrive there via phone, fax, EDI and e-mail, though web-based orders continue to grow as a percentage. Those orders are fed into Snapple's MSG Pro ERP system manufactured by QAD of Santa Barbara.

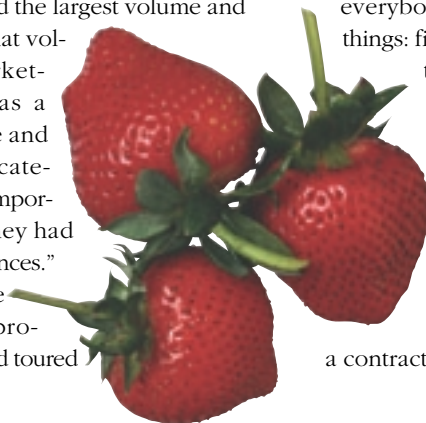
Snapple has three types of orders: purchase orders, for raw materials heading inbound to the co-pack facilities; distribution orders, which are transfers from one Snapple facility to another; and finished goods, which also are referred to as sales orders. Three times a day the Snapple system zaps order-data EDI feeds directly to Ryder's Transportation Management Center (TMC) in Fort Worth, Tex. Purchase orders and distribution orders can be transmitted during the scheduled feeds at 11:30 a.m. and 3:30 p.m. Sales order transmissions are restricted to Snapple's 2:30 a.m. feed, which is ample time to make any changes that may have occurred since the order information initially was received by the QAD system.

Until they are transferred to the Fort Worth center, the orders reside in the QAD system and are cleared through a credit check. Once in Fort Worth, the orders are electronically reviewed; "good" orders are passed through to the carrier management system (CMS) data warehouse, where the orders also can be touched by operators in Fort Worth. "Bad" or incomplete orders are channeled to a separate data warehouse where any missing or inaccurate data is supplied or corrected. A bad order would be, for example, an order for a new distributor whose contact information is not provided.

#### **Fixing Bad Orders**

At the Transportation Management Center, individual coordinators working on the Snapple account are assigned site responsibilities for a series of specific co-pack facilities. Each coordinator is responsible for checking for any bad orders initially destined for the particular coordinator's assigned sites, fixing the orders, and re-routing them to the CMS warehouse for processing.

Orders sent to Ryder arrive with site and destination codes. As they flow into the CMS warehouse, they are placed in "wait" status until a coordinator pulls up all of the orders for his particular sites and then executes the orders based on due date.





Lead times vary. Inbound materials to co-pack facilities can have a lead time of several days, and Ryder dedicates a group of employees to these shipments. A different group is responsible for moving finished products out to distributors, a task generally assigned a one-day transit time. Consequently, those finished goods orders, which are sent to the TMC during the 2:30 a.m. feed, must ship out of the respective facilities before the end of the day. However, Snapple actually faxes the orders to the co-pack facilities the evening before so they know what workload to expect.

Once orders are picked and packed at the co-pack plants, ready-to-ship releases arrive at the Fort Worth TMC. "The release procedures vary among the co-pack facilities," says Bill Sideravage, Ryder's operations manager. "Some work on fax releases while others use e-mail." Since Snapple doesn't own all of those facilities, it cannot quite force upon them a standard solution. "We try to work with what works best for that particular facility."

While the TMC awaits the release notices, the coordinator either assigns or rate-shops for a carrier, tenders the load to that carrier via fax, and confirms carrier receipt and acceptance of the load tender. Ryder maintains primary, alternate and global carriers for each contracted lane and uses the rate-shop function within i2 Technologies' transportation management software to shop loads where applicable. The coordinators already know the low-cost and/or primary carriers in each lane and have the option of assigning a particular carrier to a load or initiating the rate-shop function.

While Snapple does not require Ryder to confirm each delivery, the coordinators working the finished goods side of the business on behalf of Snapple make individual telephone calls each morning to confirm the previous day's pick-ups.

Ryder's data management capabilities provide important performance information to Snapple. "For example, we run reports

that will help Snapple understand who is providing better lead times," says Sideravage. "Which co-packing facilities are providing adequate lead times to us, and how does that affect Snapple financially? This is critical information in such a competitive industry as theirs."

Ryder also helps maintain restrictive pressure on the more questionable calls for expedited shipments, and expenses for expedited or airfreight shipments have fallen off substantially, says Volkmar. Every day Snapple receives an open-order report of shipments that have been released to Ryder and a scheduled order report, which enables company managers to weigh in with their co-packers to ward off potential trouble.

"Ryder also has information available via the web that we can slice and dice and view in all different ways," says Volkmar. "Now we know about that last leg of our supply chain, and we've been able to use this information to continuously improve our customer service, and we're confident that the value of that information will only grow over time."

The Snapple project works so smoothly that the approach attracted the attention of Cadbury Schweppes North America, which recently completed a thorough evaluation process for a third-party service provider to ride herd on all of Cadbury's beverages. Not surprisingly, Ryder emerged at the top of the list for a contract that will bring double the volume of Snapple to the third-party.

"We needed someone that had the combination of scale and flexibility, but often those are mutually exclusive," says Volkmar. "When you are starting a new operation and need to hit things in stride, you need to have somebody that has the scale to be there and to be able to jump right in. Ryder's been able to do that for us." □



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