



AGRI-FACTS

Practical Information for Alberta's Agriculture Industry

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Distribution Consolidation: Working Together Along the Value Chain

This factsheet is one of a four-part series:

- *Distribution Partners: Working with Regional Carriers*, Agdex 845-26
- *Distribution Logistics: Getting Your Products to Market*, Agdex 845-27
- *Distribution DIY: Building a Solid Foundation*, Agdex 845-28
- *Distribution Consolidation: Working Together Along the Value Chain*, Agdex 845-29

These factsheets present innovative thinking and practical tips to help agricultural food producers and processors transport their goods to market. This factsheet explores key issues and opportunities when collaborating with other producers and professionals to distribute your products.

You have been supplying food products to retailers or restaurants, but the cost and logistics of shipping are sometimes overwhelming. You are either transporting your products yourself at a cost to your family, your business and vehicles, or you find that your volume is too small or too irregular for a transportation company to give you competitive rates. You may also need to bring in supplies, like jars, boxes and packaging materials.

Many producers and small processors make transportation economics work for them by collaborating with other businesses in the same region to pool their transportation needs and share the costs.

This factsheet will help you investigate the pros and cons of collaborative shipping and/or outsourcing distribution services in several ways:

- understand the benefits and challenges of creating a local producer-run shipping co-operative
- create a consolidated shipping agreement that works for everyone
- explore options outside the farm by hiring co-packers to manufacture or process and distribute your product
- hire distribution professionals to get your product into new markets

Local shipping co-operatives: benefits and challenges

Some Alberta producers and processors have found that collaborating with others can result in significant transportation savings and added benefits for their business. All that is needed is a little flexibility, organization and an open mind.

There are pros and cons to collaborative shipping and/or outsourcing distribution services.

Benefits of consolidating your shipping with other producers:

- higher volumes and regular shipments that are more attractive to transportation companies, which can result in lower freight costs and reduced service charges
- efficiencies that extend to inbound opportunities where producers and processors buy their supplies in bulk
- consolidated shipping gets companies working together, resulting in added opportunities like greater market reach and competitiveness
- collaboration with similar businesses can provide mentoring opportunities and a network of helpful partners for future business challenges

Challenges of consolidating your shipping with other producers:

- requires a collaborative mindset and individuals may need to compromise for the sake of the larger group
- some individuals may see more savings than others, depending on existing freight rates, location, volume and number of shipments
- more than one transport company may be required if local companies do not deliver to all points, increasing the complexity of the co-ordination
- a good organizational system is required to track each company's needs
- a co-ordinator may be needed to organize the co-operative arrangements and participants need to share the cost of this service
- could be significant upfront time to work out the details for the group (it may even require an outside facilitator to reach an agreement)

Building a producer/processor-run consolidated shipping agreement

Here are some questions to explore with the group when putting together a collaborative agreement.

Questions for **outgoing** freight consolidation:

- which transportation companies in our community/network will we consider?
- what is the process to select the transport companies?
- what is the desired frequency of service?
- is there one day of the week that would work best for all?
- what is the farthest shipping distance needed?
- what is the system for collecting shipping requirements from each participant?
- is there a need to consolidate products in one location for shipping? – if so, who would provide the space and needed equipment?
- how will invoicing be handled?

Questions for **incoming** freight consolidation:

- which suppliers are currently being used and which others should be considered?
- what is the annual quantity for each type of material?
- are price breaks available if higher quantities are ordered?
- what are the processes to do the following:
 - request proposals from prospective suppliers, review bid submissions and select the supplier of choice?

- collect details for supply and material requirements by participant?
 - request ongoing quotes from the chosen supplier?
 - issue blanket purchase orders?
- who will co-ordinate this process and should that person be paid (and how much)?
 - how will administration/co-ordination costs be allocated so that all participants benefit?
 - how will we maintain accurate inventory records to keep participants informed on the status of their materials?
 - if a warehouse is needed, who will provide the space and where?
 - how will we allocate operating costs for warehousing?
 - how will liability be handled if there is loss or damage?

Going outside the business: using co-packers

Co-packers can be used to manufacture and distribute your products. Co-packers are food processing companies or private label packers that manufacture and distribute products for producers.

Using a co-packing company allows you to market your food product without owning a production facility or expanding your current facility. Co-packers also have established marketing channels that give you access to expanded markets.

Benefits of co-packers:

- you save the capital costs associated with equipment and facilities
- you reduce your lead time for getting your product to market and/or expanding into new markets
- you can get help with navigating complex federal and provincial regulations on manufacturing, labelling and food safety
- you can access additional facility space to store ingredients and finished products
- you can lower your input costs by taking advantage of the co-packer's bulk buying for supplies and ingredients
- you can often access other services such as product stability testing, nutritional labelling, formulation assistance, ingredient substitution and new product development ideas

To find a co-packer in Alberta, do an online search for "Alberta Agricultural Processing Industry Directory," Find out about specific co-packers by talking to other producers or food processors at association meetings,

food trade shows, Alberta Food Processors Association events or by contacting federal and provincial food inspection agencies.

Hiring a distribution professional to access new markets

A broker or a sales and marketing agency can represent your product to a variety of prospective buyers, including retailers, wholesalers/distributors, foodservice operators, industrial users and other trade channels. These professionals represent a variety of (usually) non-competing goods, including consumer packaged goods, food products, general merchandise, equipment and health/beauty items.

In the United States, sales and marketing agencies represent an estimated 50 per cent of commodity distribution for grocery outlets. In Canada, these agencies represent an estimated 35 per cent of warehouse withdrawals.

Brokers are not affiliated with the buyer, so are not subject to the buyer's control. You will pay the broker a percentage of sales ranging from 3 to 10 per cent, but their services cover important functions that you would have to do yourself anyway – likely at a higher cost and less efficiently.

Services provided by broker:

- consumer marketing, including introducing/launching products in new markets
- distribution, warehousing, scheduling deliveries, maintaining ordering systems
- regular contact with retailers to ensure consistent distribution of products
- in-store merchandising (rotating stock, handling damaged goods, building displays, organizing product demos)
- administration duties like invoicing, order processing, deductions and reconciliations
- sales monitoring, reporting and management analysis

Brokers can give you more efficient access to retailers, improved customer satisfaction and greater logistical expertise and flexibility. These benefits are especially helpful if your sales and marketing has remained locally-based because you do not have the resources to grow your market. For help selecting a broker, search the Alberta Agriculture and Rural Development website for the factsheet called “*Market Guide for Alberta Food Processors: Food Brokers.*”

Whether you decide to pool your resources with other producers and processors or get help from an outside broker or agency to access existing and new markets, these important resources are available to help you develop new and exciting opportunities along the value chain.

For more information about distribution for agricultural food producers and processors, see the factsheets on “*Distribution Partners,*” “*Distribution DIY*” and “*Distribution Logistics.*”

For a comprehensive study about food distribution along the value chain in Alberta, visit the Alberta Agriculture and Rural Development website www.agriculture.ab.ca and search “*Distribution of Local Food: Best Practices.*”

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