

FROM DINING OUT TO EATING IN: **REMOVING BOUNDARIES TO SUPPORTING CHANGING CONSUMER BEHAVIORS**

Will Heywood (00:09):

Welcome to “All Business. No Boundaries.”, a collection of supply chain stories by DHL Supply Chain, the North American leader in contract logistics. I’m your host, Will Heywood. This is a place for in-depth discussions on the supply chain challenges keeping you up at night. We’re breaking beyond the boundaries that are limiting your supply chain. Let’s dive in. Today’s episode is “From Dining Out to Eating In: Removing Boundaries to Supporting Changing Customer Behaviors.” My guests are Randy Day, who is Senior Vice President, Supply Chain, and Operations at the J.M. Smucker Company, and Mark Smith, Senior Vice President of Operations at DHL Supply Chain. Welcome to you both. Thanks for being here. Okay, Randy, I think a lot of the public understands Smucker’s from the jams and jellies standpoint, but I know you have other product lines as well. Can you maybe give an overview of the various divisions and brands of the J.M. Smucker company?

Randy Day (01:03):

Yeah, sure. Thanks. You know, Smucker’s is our namesake brand for sure, but we have a portfolio of brands that cut across our consumer foods business, which are primarily Smucker’s and Jif. And then we have our coffee portfolio, again, Folgers is the namesake brand there, but we have the Dunkin Donuts brand and Cafe Bustelo brand. And then in terms of pet, we have a number of brands, but Milk-Bone, Meow Mix, and we have some emerging brands there as well, like Rachael Ray Nutrish. So we have a pretty broad portfolio of human food and pet food.

Will Heywood (01:36):

Got it. Mark. Same question to you.

Mark Smith (01:38):

Yeah. So, you know, DHL, just in 2019, was a 50-year-old company. Most people identify with us in the yellow vans and the three red letters running around the streets and the big airplanes that fly parcel packages all over the world. Probably from a parcel perspective, much larger in the European markets than we are here in the North American markets. But, I’m currently part of the sector in North America called Consumer. We have different divisions of DHL globally. We have the parent company; Deutsche Post DHL is the parent company. We’re part of the DHL Supply Chain division. I have a large portion of business in North America with oversight for the consumer sector, which is a nice fit to the conversation today with Randy. And it just so happens that Smucker is also one of my direct customers that I sponsor.

Will Heywood (02:37):

So Randy, maybe to go a little bit deeper, various manufacturers set up their supply chain operations differently. Is yours responsible for all of Smucker’s various business lines? Or are you dedicated to a few?

Randy Day (02:51):

Yeah, so we have one shared service group that kind of supports all of our businesses. We have operations of course, and plant locations that are specific to those businesses that produce specific product lines, but one supply chain kind of supports North America. And then we have an export market international business that we support as well.

Will Heywood (03:10):

Got it. And just rough dimensions. How many people are a part of that organization?

Randy Day (03:17):

So, we have about 5,000 people that support our supply chain. Most of those are in manufacturing. We have 25 manufacturing locations across the US.

Will Heywood (03:25):

Okay. Gotcha. And roughly percentage-wise, how does the revenue break out by those divisions?

Randy Day (03:33):

Yeah, roughly pets represent about 40% of our sales and then the two, the coffee business to consumer business are pretty equal after that. So about 30% apiece after that. So 40, 30, 30.

Will Heywood (03:45):

Okay. Mark, in addition to Smucker's, I know you have responsibility for a handful of other customers. Do you see a similar kind of setup with their supply chain organizations?

Mark Smith (03:55):

I do. You know, Randy mentioned the percentage of the pet care business that they're focused on now. And I would say that Randy, just in the last couple of years in the relationship, we've seen you guys peel off a lot of your baking brands and focus more and more on the pet side. It appears, at least from what I'm seeing and what your folks that I work routinely with are telling me, that it's going to become a greater focus on the pet care side for Smucker. But, yeah similar. Will, I would say that similar approach to most of the customers that I'm supporting, especially on the CPG side. When you get into the food side of the business and the consumer business, the behavioral patterns of that particular consumable product are very much the same and consistent across all those different brands and companies.

Will Heywood (04:48):

Randy, to build on Mark's observation about Smucker's changing up its portfolio a bit. How does that affect your operations focus, your supply chain organization? Is that disruptive or what's that mean to you?

Randy Day (05:03):

Yeah, well, you know, interestingly enough, the history of our company has always been built around quality products, regardless of whether they're for human consumption or pet consumption. And so a lot of the systems we've built over the years, really world-class quality systems for human food, have really reapplied nicely for pet. And so although the core technologies might be slightly different in each of these businesses we have in coffee and consumer and pet, a lot of the base systems capability, whether it's our work system or our quality systems, reapplied quite easily and quite naturally. So it's been a nice marriage of these brands into our company. I don't think we've really missed a beat. A lot of the same issues that we face and challenges we face from a supply chain standpoint are very much the same. Although the end consumer might be different. As we all know, pets are a pretty important part of our families. We treat those processes and those products with the same care as we do our human food.

Will Heywood (06:06):

Speaking of challenges, we had a pretty big one hit in February or March of last year in COVID. And I know we had some supply chain disruption across all industries, but thinking about it from the food standpoint and from Smucker's perspective, how did you guys respond to COVID?

Randy Day (06:28):

Well, you know, as you could imagine, everyone's lives changed almost in an instant, right? We went from our normal life-style to being able to dine out some, right, and away from home meal occasions just went away instantly. So all of a sudden the pressure was on for the North American food supply to just turn on a dime and switch to consumption at home. So, certainly, it's benefited our businesses, but I really have to hand it to our teams, our frontline workers that just rose up to the challenge, went after it, and it just plays such a critical role in ensuring a safe and stable North American food supply. And for many of us, we transitioned to working from home. And I would say without maybe quite as much disruption as those that had to go in every day on the front lines and produce a product, show up for work with all the other challenges going on in the background. So just a lot of credit to that team and to how they've been able to step up and respond and meet the consumer needs.

Will Heywood (07:32):

Yeah. I mean, just reflecting on my own personal experience. Outside of the toilet paper and paper towel aisle at the grocery store, I don't recall a lot of stock-outs. Is that an accurate reflection of how you guys saw your business?

Randy Day (07:47):

Yeah, I mean, I think the way we would describe the supply chain response overall, it's been very, very good. I would say it's still a fragile supply chain. And I think that this is one of these times where you really test your partner. So DHL has been a great partner. In many of our raw material supplies and kind of business continuity plans, we've taken a much more conservative posture and went out and qualified new suppliers to try to meet the need. And so we've been, I say, fortunate that we've had a number of international suppliers that we've worked with for years that gave us some early insights into COVID and what was coming. They operate in Asia and across the world. And we were able to learn from that and reapply some of that quickly, which really helped us get a jumpstart from a safety protocol standpoint. And I think, safe to say, probably well ahead of where maybe some of the CDC guidance was early on. And I think that's allowed us to maintain safework environments and stay ahead of this thing. You know, we're far from being out of the woods, but pretty proud of our overall response in a way our team has stepped up, did what they had to do when I think there was a lot of questions out there as to how this thing, and there still are in terms of how this thing's going to end, but just really, really proud of the response.

Will Heywood (09:05):

Yeah. Mark, within the DHL world, how in touch were you and your team with Asia businesses, European businesses? Did you find that to be similarly helpful to putting your plans in place?

Mark Smith (09:18):

Yeah, I would say so. You know, Randy mentioned just out of the gate, it was very surreal to start with. At one point, I think we were all shell-shocked, right? Like, is this really happening? And are we really going to these extremes? And of course, Will, you mentioned that toilet paper and paper towel products being depleted on the shelves. And we have all seen the horror stories about that unfolding and many people asking why. I think DHL collectively did a phenomenal job. Randy says how proud he is of his organization. I would say being directly involved in the logistics of supply chain and moving the product. And the one thing that's important to point out is that in the consumer world, especially consumables, whether it's pet or human, there was no option to not move that product through the supply chain. It was absolutely an essential supply chain that had to continue on, there had to be flow. We had to make sure that there was that continuity, not only across North America but globally across all of our markets. Where there's people, there's consumption. Where there's animals, there's consumption. So we had to quickly align not only our regions around the globe but get global continuity together. And I think DHL did a fantastic job and at a very accelerated rate that is very unprecedented at the speed at which we moved and changed. And, at the end of the day, it all went back to how efficient and effective we were, how well we serviced and took care of customers like Smucker, right? So it absolutely was a must. There wasn't an option and like Smucker, we had to absolutely make sure that we had environments for our essential workers safe and for the first two or three months, we all weren't sure that our safety methods and our approach to it were absolutely the right ones. And in fact, the CDC, I think, and the WHO, when you look at it globally, they also struggled to determine what the right course of action from a safety perspective was because they were learning at the same pace we were about the pandemic. But I think we got our footing quickly, continuity was there, it remains there. And other than some of the pinches that, probably from a manufacturing side, JMS has struggled or been challenged with just like all the other manufacturers. We know the pipeline is tight. We know manufacturing to market is very tight. We know all that safety stock that once kept the shelves full. I remember somebody asking me that I'm close to, that's not in logistics, actually said, you know, I don't understand why the shelves aren't completely full and if the manufacturers are still making the product, why isn't it instantaneously on the shelf? Well, the answer is that there is such thing as not only supply chain, but the logistics to get it to certain places in that supply chain. And there is something called inventory and safety stock. And when you see, at the grocery store or any place that you shop, that your shelves are full all the time, that's because there's a nice buffer of inventory in a distribution center close by that is feeding that particular store. So that's all gone. So right now what's happening in the supply chain, and Randy can certainly speak to this, it's basically getting manufactured and trying to rush it to the shelf in the store until that safety stock and inventory is built back up, there's always going to be pockets of space on the shelves. That will eventually catch up. But at this point in time, it's the reality of the pandemic.

Will Heywood (13:25):

Randy, I'd be interested in your thoughts on that phenomenon.

Randy Day (13:29):

Yeah. You know the only thing I would really add to that is the eating occasion changed, right? So the supply chain has to respond to that. So as you can imagine, the American consumer has, over the years, moved to a more away from the home eating experience. The pandemic forced us to move that all back home. And so clearly the supply chains and logistics to support that are much different than an away from the home eating occasion. So that, that really caused the initial angst. And there was a little bit of panic buy-in there too, I think because there was probably some uncertainty whether we were going to be able to step up and respond as a US CPG food industry. But I think we've risen to the challenge there. It was not perfect. There's a couple of gaps here and there, but overall I think people are feeling a little more secure about that. We've had a number of great calls with our customers over the past few months, obviously. And everybody would like more of a few things here and there in certain markets, but overall, the feedback has been good that we've been able to step up and meet the need as an industry. So it's overall, it's a great positive story. And all of that comes back to our frontline workers and their ability to step up and respond and really meet the needs. So, you know, it really is a great story. I think across our country when there certainly has been some challenges and some divisions to see people come together for a common goal is just a great to see. So it's just a great story.

Will Heywood (14:52):

So I know we can't predict the future perfectly, but we have learned a lot and are learning more. Mark, starting with you. I wonder if you have thoughts about where you see things going into 2021 and beyond. How are your customers planning for the year?

Mark Smith (15:10):

Good question. So if you were to look at where we're at today, I would say it has a similar look and feel to what we had in the last 10 months, if you will. I foresee that, at least in all the discussions I've had with all of my customers or our customers, that they don't see a drop or necessarily a change in the status quo for probably months longer. In fact, we're seeing volumes now that are typically very low volume. It's a very off-peak period. And we're seeing volumes still in the month of January that are peak-level volumes. So most of the feedback that I'm getting from the customers currently is that they're projecting or forecasting that to continue probably into the middle of the year, at least. Some are even projecting through the third quarter of this year and maybe even longer. So I think we have a ride here. I think it's still a little bit of a bucking horse, right? The good news is that what we know now and how we navigate those disruptions, those challenges we're able to get on top of those very quickly and manage those and mitigate any of the rough ride if you will. So I certainly feel much more optimistic about where we're at now and the fact that the new normal is still that last 10 months of activity, but we have our hands around it and we're able to convincingly and confidently ride this out until we get to that end state. And we're all certainly hoping for that. I think right now, steady as it goes until we at least get into mid-year.

Will Heywood (16:55):

How are the volume trends at Smucker's, Randy?

Randy Day (17:00):

They're really strong. You know, I think Mark probably said it well. We don't know when it's going to end, we think that a lot of the changing habits that consumers have adapted are going to stick with us and we expect this trend to continue for some time. A lot of the habits that people have formed around eating at home are going to stick. You know, we feel like we can certainly take advantage of that and meet some consumer needs. We'd rather have it kind of back to normal, so to speak, as soon as possible. But we are optimistic that we've learned a lot and we're better situated as a supply chain to meet this need than we've ever been. We've had a number of great learnings around our business continuity plans and risk mitigation plans. And we feel quite confident that we're able to do this on a sustained basis. And, you know, it's just like always. You're as good as maybe your weakest supplier. And so we've learned a lot through this in terms of how important those customer-supplier relationships are and how important they are to meeting our consumer needs in the end. You know, we're really optimistic about the future and we think we're well prepared to meet the consumer needs.

Will Heywood (18:06):

That was an interesting comment about when we get back to normal, some of what's happened through the COVID period will stay in place. I wonder why you think that?

Randy Day (18:14):

Well, I think there's a lot of reasons for that. One of the unique things about this is I think that there's a lot of trusted consumer brands and we think we have a lot of them in our portfolio that in some cases, people kind of drifted away a little bit from, and I think we've seen them come back and we think we offer many times not only a great value but great quality, right? And I think we've seen that in a number of our categories. Coffee is a great example where people are realizing the value of brewing coffee at home. There's been a number of new coffee makers sold, new K-cup machine sold, so that bodes well for our business. People want to get a return on those investments. They realize it's a pretty darn good product at a fraction of the cost. So I think we've turned on a new group of consumers that we're cautiously optimistic we can retain them and we're seeing great repeat. So we're, we're really optimistic about the future.

Will Heywood (19:12):

That's great. That's great. And very interesting how this has brought some new consumers into the market. Well, I want to thank you both for being with us today and for the conversation. I really enjoyed it. If you enjoyed the conversation today, please share it with a friend and rate us on Apple Podcasts. You can find us online at dhl.com/all-business-no-boundaries and follow us on LinkedIn and Twitter @DHLSupplyChain. We'll see you next time.