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Nutritional Supplement Maker Manages Growth with Inventory Control

A conversation with Tony Harnack II, president of Wellington Foods, Long Beach, Calif.

Established in 1974, privately held Wellington Foods is a custom contract formulator, manufacturer and packager of nutritional supplements in both liquid and powder forms. In recent years Wellington's business has boomed, fueled in part by an aging baby boom generation. Double-digit growth rates strained the company's supply chain and led it to seek an integrated solution from Atlanta-based CDC Software, designed for its specific batch processing needs.

Q: Can you give our readers a little background on Wellington Foods and its supply chain?

Harnack: Wellington Foods is a medium-sized, family-owned business that operates as a contract manufacturer of nutritional supplements for branded distributors. If you go into retail stores, you will see these products on the shelf but you won't see the Wellington name on them.

We are growing significantly year over year, and managing our supply chain through this growth is a challenge. We have to deal with many of the same issues as larger, fast-growing corporations, but as a smaller company we don't have as many resources, so, in a way, it is more challenging for us.

In terms of our supply chain, we have around 900 different vendors who supply us with materials and services and we do all of our manufacturing and distribution from our location here in Long Beach. One of our big challenges is managing this large number of vendors, many of which are small and not very sophisticated companies. As a result, we haven't had the opportunity to implement the types of vendor-managed inventory programs that a lot of larger companies have.

We ship to the DCs of our branded-distributor customers or, sometimes, directly to retail stores.

We have numerous channels: drugstores, mass market and club stores, and even independent health food retailers, both domestic and international. Many times we will have different configurations for the same product, depending on the customer. We may package 12 products to a pack for Costco, for example, but a convenience store will need a much smaller configuration. That results in about 500 SKUs and makes for a relatively complex operation for a company our size.

It is difficult to maintain all of this without an integrated system and, until recently, we have been relatively unsophisticated in the way we managed our supply chain.

Q: Were you doing everything manually?

Harnack: Well, we had purchased a software package, but because we were not very sophisticated in this area, we bought a package that was designed for discrete manufacturing, which is a totally different model than process manufacturing. Our type of manufacturing involves mixing batches of materials to certain temperatures, then adding intermediate ingredients to the batches and, finally, bottling them off in a production run. We may put 1,000 gallons of something into the tank anticipating that we will get 8,000 bottles out of the production run, but there is always some loss or scrap. The discrete software package we had wasn't able to handle this. It wanted us to put in a set number of ingredients and get output of a set number and that just didn't fit our operations.

We also had some challenges with the bill of materials. The discrete manufacturing program wanted BOMs to be written in terms of unit of sale,



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such as a 16-oz. bottle of liquid mineral supplement. But, in reality, we may make 1,000 gallons of a product at a time. When you explode the nutritional panel on a 16-oz. bottle into a 1,000-gallon batch, a number of rounding errors can happen. For example, say I put two pounds of ascorbic acid into a 1,000-gallon vat, hoping to obtain 50 mg of ascorbic acid per bottle. If there are not enough zeros to the right of the decimal point to accommodate those kinds of rounding issues, after every production batch I will be many pounds off on my inventory numbers.

In addition, a number of materials, like ascorbic acid, are used in a variety of different formulas. We may purchase such a material in kilos and use it in one formula as pounds and in another formula as grams or ounces. To keep our inventory accurate, we need a system that can convert these different units of measure. With the discrete system, if I made a 1,000-gallon batch and do that several times a day, by the end of the week inventory can be so skewed because of rounding errors that inventory reports are basically worthless.

So we realized that we really had to be in a batch-process world to get functionality specific to our manufacturing processes. That's when we got smart and implemented Ross ERP from CDC Software.

Q: Other than the process manufacturing issue, were there other drivers for choosing this solution?

Harnack: We also have a lot of regulatory and lot traceability issues, so those capabilities had to be part of a solution. As with most organizations, we are customer service driven and it is important for us to keep our prices in line with the market and to have good turnaround times on orders, all of which comes down to good inventory management. We definitely were lacking in terms of visibility to accurate inventory information, which resulted in our sometimes placing orders for materials that weren't really needed. And unneeded inventory equates to having cash sitting on our floor. On the other side, there is nothing worse for a manufacturing organization than to schedule production based on inventory reports and find out at the last minute that those reports were incorrect. Then you have to change the production schedule and possibly miss an obligation you have made to a customer. So visibility of accurate inven-

tory was really what we were trying to achieve.

Q: How did you decide on the Ross solution?
Harnack: We initially worked with a consultant, who walked us through a needs assessment. Then we threw out the net and broadly looked at 20 different companies. We narrowed that down to four or five and, with guidance, down to two or three that presented live demonstrations and proposals. Ultimately, Ross or CDC, won out for a couple of reasons. It actually was a little more expensive than its closest competitor and was a little outside our budget, but it had all the functionality we wanted. We had allocated a budget amount that we thought was reasonable, but when we got into it, we realized that our number was really a little too low for what we wanted. We didn't want to go three-quarters of the way and then stop short because of budget issues. So we decided to spend the extra 25 percent and get the functionality. We figured that we were going to be with this partner for years to come and the last thing we wanted was to marry a technology partner and then find out it didn't have the applications we needed.

Another key driver was that the CDC solution was fully integrated. Another application that we were looking at closely was good from the manufacturing standpoint, but it did not have the accounting back end. This vendor said we could stitch accounting software from another vendor together with its manufacturing software in a seamless way, but two different vendors mean two different support programs, maintenance contracts and so on. We really wanted something that was written as a fully integrated piece.

Also, Ross was able to demonstrate compliance with the FDA traceability requirements with a very robust solution that could perform lot tracing in a matter of minutes. It has bi-directional capability so it can trace forward to retailers and backward to raw materials manufacturers. This really gives us competency in an area that is very important not only to the FDA but also to our distribution partners.

Finally, we wanted a partner that was big enough and financially stable enough to be around for a while and also to have money to invest in R&D, which would ensure that it would keep adding functionality. This includes as well having a support

department that could handle lots of calls. With an implementation like this, when the consultant leaves you will invariably look at each other and say, 'now how did they do that?' The next thing you know, you are on the phone to the support line. If the vendor can't take your call or give a quick answer, you are dead in the water. So we were very interested in finding a partner with a strong support department and with the financial wherewithal to continue to invest in the R&D process. We do not want to still have 2004 technology in 2014.

Q: Have you quantified benefits from the system?

Harnack: I don't have a lot of specific numbers, but it certainly has given us increased ability to handle higher transaction volumes. By giving us real-time inventory information it enabled us to demonstrate competency to several different customers and distribution partners, who are now new business partners. This includes several national accounts whose business we likely could not have competed for prior to implementation of the software. The difference was our ability to demonstrate competency in issues like lot traceability and compliance. We could show competency in these areas in the past, but it was all paper based and just didn't have the same credibility that we are able to show because of the Ross implementation.

It also helped us achieve organic certification, which is a big issue for us. The audit for this certification is very thorough and one of the key capabilities they want to see is the ability to segregate organic from non-organic materials. With the help of Ross, we were able to show that we not only could physically segregate things within our facility, but also separate them digitally through different part numbers, barcodes, colors of stickers and so on. That was a capability that we didn't have prior to implementation and it did enable us to land our organic certification, which has been a great opportunity for us and resulted in new business.

It has also been a big help internally. Having more accurate inventory information and visibility to that has allowed us to be more efficient and keep costs down. ○



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