United States Department of Agriculture
Agricultural Marketing Service
Commodity Procurement

The following is a summary of vendors' comments regarding process improvement collected by AMS' Commodity Procurement Staff during Business Model Improvement (BMI) breakout sessions at the 2017 Annual USDA Foods Contractors and Suppliers Industry Meeting, Oct. 24-25, 2017.

Dairy, Grain, and Oilseeds Industry Meeting BMI Discussion

Forecasting

- A vendor started out by describing how to drive forecast. He asked how their businesses were split between what slice of the pie for either a bulk supplier to processors versus brown box. Another vendor answered they provide to both, heavily to processors; one vendor was the opposite, heavily to brown box. How to produce forecast for either bulk vs. brown box would be different. (Cathy Smith)
- When doing K 12 commercial business, how does forecasting work? Both vendors said they do not do K 12 commercial business, everything is USDA. (Cathy Smith)
- One vendor indicated they have systems that use historical data to predict what customers order. One company indicated that USDA provides the biggest lead time. (Cathy Smith)
- They do not get 2 months' worth of orders. In fairness to the customer, 2 months from now, it could be 2 cents cheaper. Economic adjustments are made either monthly or every 2 weeks. (Bill Lang)
- Two firms indicated that – all of our product is made to order. Because of the shelf-life, product has to be made to order.
- One vendor said they currently do not forecast, and just wait for solicitations to come out.
- One vendor said they would like a more evenly distributed, monthly volume of orders for two reasons: 1) especially for their barrel cheese because the supplied barrel volume is so much more than processed cheese and 2) some months they only get 1 load, which is not worth the line time, and other months can be 20 loads, which exceed their capacity.
- The "low" months of winter and summer break effects barrel production more than processed cheese.
- Commercial side can be forecasted because of consistency.
- One vendor said they also can't over-commit on a bid to supply product because they have to account for their commercial side numbers. Forecasting would help with this challenge.
- One vendor said the current 45 days advance notice is fine for them for forecasting.

Supply Planning

- One vendor said that processors drive delivery dates.

Long-term Contracting

- Two companies seemed amenable to multiple year contracts (2-year would be best, 3-year might be pushing it, but they'd take it).

- At first, two companies indicated using fixed price, but then they talked about using futures or some sort of market price. They indicated if it's a 2-year deal, they could use fixed price – particularly if USDA is contracting f.o.b. origin.
- Vendors also talked about fixed contracts and hedging. They would have to know quantities (pounds) when hedging. All vendors would have to bid the same way (across mozzarella vendors, as well). They guessed they do, but . . . it depends on their risk profile – different companies have different risk strategies (co-ops, corps, etc.). USDA could not dictate the hedge/risk management tool. (Bill Lang)
- Long-term contracting could affect competition. Multiple awards would help with that. One Vendor talked about splitting up the volume to aware multiple contracts (i.e., one 3-year contract to lower bidder, another 1-year contract to second lowest, etc.).
- Two vendors agreed longer-term contracts (2-3 years) would be better—particularly longer term without them having responsibility for transportation (or bid transportation separately).
- For cheese a 1-year contract is perfect. Award by October 1st of the year and they want CP to be more proactive by moving the solicitation date up to late August/early September. Please provide a longer window for bids due as well because they need to request for freight rates which takes some time.
- For yogurt USDA does four solicitation for the year, but the volume isn't high enough to make it worth being in the program. The only reason some vendors stay is that it's a priority for their leadership to help.
- Long-term contacts are great (6 months to 1 year for Yogurt and 1 year for Cheese).
- For Dairy, long-term contracts are beneficial.
- LTC would be difficult for non-manufacturers.
- This option used to be in place, where it was a base year plus additional years. Vendors liked that option.
- Commercial contracts are usually one year for barrels, but the process side has longer term contracts, 3 years max.

FOB Origin Purchasing

- A few vendors had a preference. One said their transportation group would like to deliver, but they would be open to either one. If USDA had a bid on transportation, they would like to bid on that as well. They indicated that the freight piece is very complex and some firms take a loss on freight.
- One dairy vendor did not necessarily want to discuss it in front of competitor.
- One vendor talked about the difficulty gaining good trucker relationships since transportation is outsourced to the entire vendor community. Vendors indicated they do have larger customers picking up. It doesn't matter to them which way USDA goes. USDA would be absorbing the risk. One vendor indicated that if USDA wanted to pick it up, that would be fine – particularly with year-long contracts.
- One dairy vendor had some trouble arranging for transportation (i.e., FEMA needed all available trucks). They would prefer USDA to pick up. Additionally, dealing with Distributors is a headache (i.e., not taking appointments). It would eliminate a lot issues, but that is part of doing business.

- Some customers want to pick up smaller (less-than-truckload) units, and vendors would prefer them to pick up.
- Delivery windows – Vendors indicated they like the 2-week window because it allows them to manage deliveries better.
- One dairy vendor ships product to commercial further processors as well. They indicated that although it is not required to meet the processors' date; they try to be a good partner. They work well together when they communicate. One pain point – variability in volume. Most customers take X amount per week. USDA is up or down.
- One vendor said it would be nice if commercial processors take on some of USDA practices. If they can get the orders by the 15th for delivery the next month, they're ok.
- Fob origin is still landed cost to recipient. Need transparency in the bid. This would include forecast of volumes to delivery destinations. Vendors talked about lanes, with CA = 20 and WI = 20??? It's 25 to every state? Haven't worked out how to evaluate bids. One vendor indicated there were a lot of things to consider – small, large, etc. (Cathy Smith)
- If USDA does FOB origin, one vendor said USDA would need to be consistent with pick-up (freight) to resolve the storage issue. Their commercial clients have a consistent schedule.
- Would USDA then be taking ownership of product when it is loaded on the truck, taking responsibility for any product damages, temperature issues, late deliveries, or liquidated damages?

Transportation Management

- A dairy vendor said most issues are with transportation so USDA would be absorbing all of that responsibility
- One company said it would be beneficial for a non-manufacturer and not so much for an actual manufacturer that has their own trucks.
- A vendor said they are ok with the process as it is.
- Another vendor is concerned about USDA being responsible for transportation because of possible shipping schedule and warehousing issues. Because they already have control of their own shipping, and have a steady cycle of production and shipment, things move smoothly out of their plants. If there were to be issues with USDA taking over, then delays would cause problems in warehousing and storage of product that normally gets moved out on a constant basis.

Checkloading and Inspection/Grading Requirements

- Dairy has no problem with checkloading and has yearly audits performed.
- USDA should examine the differences between products with a standard of identity (processed cheese) vs. products without (less/unprocessed cheese). All vendors already have their own inspection processes and scheduling indicators for products with a standard of identity and FDA FISMA (food safety plan). Online inspections from USDA become redundant.

- Some of these inspections could also possibly be waived by utilizing performance history as well. One vendor said they have their own KPI traits that are used for their commercial products and have their own online inspection. This would save the USDA on additional costs in the bid price.
- Products with a standard of identity may be the best for a pilot to scale back online inspections.

Distribution Centers

- Two dairy companies indicated they would be able to fill multiple SKU's on a truck. However, all must be fresh or all be frozen.
- Pain Point for one dairy vendor is the variability in volume.
- No disadvantages noted at one table if USDA gets involved in DCs.

Supplier Management

Processing Program

- Being a processor would be a challenge for one vendor because it would require more salespeople to market to schools and truckloads would be too small. They feel they are disadvantaged in the current process because they would get only 1-2 truckloads, thus not worth the extra administrative costs.
- To resolve the issue above, if there were regional distribution centers, and products coming out of the processing program were purchased by a larger, more regional cluster of schools then it would be advantageous. These two factors are needed to make it work, 1) coop of regional schools and 2) the distribution center help with the increased demand in volume.
- Commercially one vendor said they send their product to distribution centers.
- 3-6 months of forecasting would also be necessary.

Electronic Capabilities

- For communicating with dairy farmers, EDI is a big thing. One dairy vendor said they have been using it for 20 years (for orders, cvi's, and signed bol's). If they could use it for Advance Shipping Notifications and have further processors receive it via EDI, they would. They're on SAP. Vendors use Valia, and when they receive orders, it's through Sterling. They would prefer direct EDI. Sysco uses a different system. They have a good EDI staff and direct seems to take a lot of costs out.
- Invoicing with EDI – They would still need to include the certificate of inspection; if receiver would put it in and transmit everything, that would be great. It could automate payments too.
- EDI - Is it connected with GS-1?
- One dairy vendor said one of their divisions is, but when they sell totes, it is not really applicable.
- One vendor said they don't use GS-1 (maybe for one customer, but no further).

- One vendor brought up disbursement statements and the frustration with receiving via the mail versus e-mail (if, at all). Disbursement statements go to SAM address, which may not be the appropriate person. (NOTE: Heather Calhoon asked them to contact her and she could provide information.)
- Another vendor said they use EDI.
- One dairy vendor said they use EDI-their VAN is Sterling.
- Will review how EDI works with commercial customers, including tracking average monthly pricing prior to submitting a bid. They seem confident that it can work for USDA just the same. For example, USDA's order comes in 6 weeks prior to ship, but the price is not established since it is based on prior month's average, so they do not have that information 6 weeks in advance. However, they have commercial clients that have orders similar to our timeline, so they maybe could make it work and said they will get back to us.
- Would like to see the "adding ship to" process in WBSCM improved.
- Invoicing function isn't very intuitive, would like to see that improved and possibly fully integrated in EDI.
- One vendor said they are capable of uploading all the data that is needed for all required USDA processes.
- They would like to see fully electronic invoicing, receipting, ASNs, POs, etc.
- ASN function could be modified to accommodate vendors with regular, established, constant deliveries and recipients so they could put in multiple ASNs at once for an extended time period.
- Truck line required POD.
- A few vendors said they are interested in EDI, it's very popular.
- Products and pallets are all barcoded.
- Ordering, purchase orders, shipping, advance shipping notices, invoicing could be done via EDI.
- One vendor suggested EDI should interface with WBSCM.
- Companies want customers to use EDI as well.

Assortment Planning

- USDA is pretty stable in what they buy. SKU's have been pretty stable. FNS is considering sliced cheddar/mozzarella in the future. Not sure about the demand. String cheese was recent edition.
- USDA has lower sodium. Although the specification is not an issue, do not go any lower. Product is run only for USDA because they adjust the sodium.
- Same pack sizes for commercial.
- A few vendors talked a bit about BST-free. Everyone's jumping on the bus, everyone wants it, and it's declared on the film.
- For yogurt the 4 0z./ 24 pack is a problem because it's not a commercial product, but if USDA changed it to 4 Oz./12 pack they would be able to take if from their own inventory (industry standard).
- There is no standard of identity for Greek yogurt which is hard to deal with.

- One company would like to bid on solicitations for blended product, but they never have before. They are unsure about what that process is and who to contact to move forward. Specifically, how do they have product that they've never submitted bids for tested and approved.
  - We were able to give them Laura Walters' information since she is in charge of DGO's new product development and taste testing. This vendor essentially wants to be a vendor who could send in sample for those purposes.
- One vendor noted Dairy Management Institute is great for resources and public info about trends, volumes, and new products.