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Food Security Practices among Food Retailers, Foodservice Companies, and Wholesalers: Indicators of Excellence

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Thank you very much Alan; I appreciate to be here as final session for this morning's activities which I have found to be very useful and informative. As Alan indicated, the Univ. of Minnesota under Professor Jean Kinsey is working with Alan and Dr. David Closs is part of this total benchmarking project.

Our area where we are looking spending most of our time at really has to do with wholesalers and retailers, both supermarkets and restaurants and basically the supply chain as it goes from the manufacturer down to the retailer and to the ultimate consumer. This is a chart that we've used time and again and I think that there are a couple of things that I would like to indicate on it.

What I call the strength of the U.S. food distribution system and its efficiency also relates or has generated if you want to call it a fair amount of complexity. On the one hand you have basically two totally separate distribution channels – food service, restaurants, hotels, secondary school feeding programs would be – use very different products than the supermarket side. Generally, the day-in-day-out operation of the system, about 50% of the dollars that are spent on food are spent away from home or on the food service side about 50% is spent on the supermarket side. However from a tonnage standpoint, about 80% of the tonnage would be done on the supermarket side day-in-day-out. What we did in the numbers in the brackets are just the numbers of companies that we've done our preliminary interviews with as part of the study that we are working on.

What is interesting is that many times a retail store and a restaurant will have what I will call multiple distribution channels. In many ways there's that old adage, you always want to have two sources of supply; there are any number of restaurants who will order from one food service distributor on Tuesday, somebody else on Friday, exact same products and it will vary and they will play back-and-forth against the other.

Generally in supermarkets, you are not going to get quite so much variability just because of the sheer tonnage that you are moving. Nevertheless you could see at any one of the five largest chains it would not be at all atypical to see maybe a food service distribution truck in that parking lot because they are dropping off prepared food items for the deli.

You might see other trailers that are totally unrelated to the company again because I think as we've talked about a little bit earlier on the transportation side, we do have a very – what I will call open and flexible transportation system. While this is a source of efficiency it is also, let's call it more difficult to document from a security standpoint.

What we are doing is being involved in a benchmarking program where we were basically interviewing – we contacted a total of about 18 companies through a variety of means. We generally spoke with individuals in four areas, usually starting with quality control. Quality control would usually bring in the security or what's often called LP, Lost Prevention, it would always tie into the logistics in terms of truck schedules, etcetera, etcetera and increasing people have a concern of, well, you know, we really ought to have the legal department be involved with that. And basically, it took a little bit of time sometimes, but all in all, I was very pleased with the response that we got from what I would call major corporations in terms of their willingness to participate. It's a little tricky to find out you know who we should speak to but once we did that we were hitting at about a 50% acceptance rate, which I think is pretty good.

My feeling is that we are going to be having a larger survey – it's going to be going out in January. We had a very good session this past Wednesday in terms of communicating with some of the major retailers, distributors and wholesalers and I feel very confident that we are going to get a nice sample that will provide, I think, a very useful benchmark. When I say, a useful benchmark, I think it will do two things. One it will tell us where we are now and also it's going to identify what are the best practices. Then as some of our previous speakers have said this morning people are going to have to say, okay what are the practices that make the most sense for them to implement at any one time.

Basically, what we did is with our first round of interviews, we ranked people on what I'll call different components on a 1 to 4 scale, the idea of being 1 being what I would call minimal level of preparation or shall we say we had an uncomfortable feeling after we got through discussing that area as opposed to a number 4 which said it can't provide for any and all contingency but I certainly feel that these people basically know what's going on and are well prepared to act.

We basically divided our groups up following the chart before, in terms of retail, grocery, wholesale grocery, food service – restaurants, hotels, schools and then the distributors that supply them. In terms of just that basic question, what did we feel in terms of initial assessments, what we found – granted in this limited sample that we did, that there wasn't a significant difference between what I'll call the retailer, the supermarket side of the distribution channel than there was with the food service and the distribution.

One of the areas that was – I'd say of continual concern has to do with the truck trailers. You know, whether it's the 28-foot pups used by food service or the 53-footers used by supermarkets that generally

when we looked at the control of the trailers we did not see the same – what I would call it intensity of effort, the same definition of what was going on than in other areas.

Again, it's a very small sample but I think what is interesting is that we are – clearly we are finding differences between different parts of the industry. One of the areas that was kind of interesting was in the area of IT, Information Technology and Logistics Systems. Again it was kind of interesting that the distributors who are in a position where they are going to be competing for customers on almost a daily basis when it comes to dealing with street accounts or independent restaurants, it was very interesting but that there – whether it was the backup of their IT Systems, whether it was the redundancy and the security and protecting the access – much further along than you would see at the supermarket side or the actual restaurant; wholesale grocers, again, not as much as the food service distributors but still higher.

Again, we are seeing clearly at the end of the day I feel a little more comfortable about the IT and the Logistics Systems than about the truck trailers at this point. In terms of the contingency plans, again, much stronger at what I'll call farther up the chain of the wholesale grocery and the distributors – one of the other things that we've learned from doing the survey is that when we have in terms of key infrastructure, the one thing that we were not explicit enough is how long could we operate without the internet. Electricity, we've got stand-by generators; water, well, depending on the operation, road access, well, unless you got into some of the more peninsula parts of the United States, there are usually multiple routes to get to most distribution facilities.

But increasingly we got into the question of, okay, yes, we've got the food, we've got electricity, but if we don't have access to the internet we're going to have a heck of a time running our systems. So that is certainly one of the things that we will be expanding. Part of the survey going forward is to really understand where we are with regard to the internet in this whole process because it does provide so much of the embedded communications that is being used by industry on a day-to-day basis.

The area of employees is certainly another area; this is an industry that is marked by certainly high turnover at restaurant and retail grocery level. I think that the questions that always need to be asked is, given what is the – what are the roles of the individual at any one time?

How much vulnerability is there – but this is an area where while I think that there is more that is being done in the IT area, I think this is an area that companies are continuing to look at and to look at in more detail, what can they be doing in this area. Training is still basically kind of uniformly across the board and not as high as I think we would like it to be. The material I showed you was done with telephone and face-to-face interviews with a number of companies. We then moved into the next phase, developing an internet study to test the phraseology to make sure it was clear and we ranked these on a – on a 1-to-5 scale, one being lowest, five being the most prepared.

I'd like to spend just a few minutes taking you through some of these. I'm just showing you what we've learned so far. One of the things we said is look you might have a security program but how often do you verify it? As you can see, not as high as you would have liked and then when you certainly take a look at where empty trailers are kept, quit often those empty trailers are left in what would certainly be an unsecure environment.

More in terms of training with regard to information on how to protect and defect, to respond to tampering, needless to say there's been more concern over the past 20 years on tampering issues with regard to individual products. So in many ways, as more and more companies have looked at those issues and especially in terms of companies that

have good experience with recalls, they have many of the processes in place to basically know what they have and keep track of it.

Backdoor and backdoor receiving is certainly what I'd call one of the bright spots of what we picked up. Again, this whole idea of perimeter control of the four walls of the store is generally pretty good. Just an aside, this is one area where perimeter control only receiving trucks with scheduled appointments – you say, is that a security effort?

Well, yes, but it's also a productivity effort because obviously you want to have a truck arrive when it's supposed to arrive, not early or late so you can turn it around quickly, load it, unload and then anything that can be done to make sure that you know what you are going to be receiving and the specificity that you need, it pays off and that's why I think we saw such a – what I would call a relatively nice number at 4.67.

In terms of overall effectiveness in dealing with food contamination – and this was really dealing more in terms of the quality assurance people with a quality assurance – there was a what I would call, there was a pretty good feeling and in terms of looking at this, the usual way we would go back is how did you handle recalls, different recalls to providing some sort of guidelines. In terms of overall preparedness, to defend our facilities against terrorist attacks, I think in terms of physical attacks, probably pretty good. In terms of anything with regard to the overall vulnerability, with regard to data, especially via the internet, there remains very much a concern. When we look at defining the supply chain, one of the things and it was certainly brought home when we had the Wednesday working group session, is when we say the term, supply chain, it can mean any number of things to different people.

Large organizations will refer to an internal supply chain. Once something enters our system, how do we handle it? Supply Chain also can refer to domestic products dealing with the classic manufacturer, wholesaler and then selling it to a third-party restaurant or retailer. But there is also an international supply chain and that increasingly, we are talking about a global food system and certainly when we get into talking about perishable produce, fruits and vegetables, there is sometimes those products as we all know are sourced domestically part of the year and those who spend the weekend here with the Produce Marketing Association, they are sourced in the Southern Hemisphere as well.

Just some preliminary observations from going through the overall – going through this process so far, I've kind of thought about the analogy of the double-edged sword. I would call that double-edged sword, flexibility; flexibility in sourcing a product in transportation and labor really contributes tremendously to profitability.

However, that same flexibility certainly makes for a far more – open system than I think many of us envision as to what would be optimal. Perimeter security, in terms of within the four walls of a warehouse, within the four walls of a store or restaurant, is influenced by many factors in addition to food security and in many ways on a day-to-day basis

Food security on what I call general perimeter security is really giving loss prevention within many large organizations a very clear mandate to control backdoor access, points of receiving and increasingly people I think are taking more of a look at who are our employees and what access to they have within the facility.

Finally what I will call the open production is a concern; when I say, open production really kind of looking at it from 2 dimensions. Take a look at any agricultural growing area and you will see a lot of raw product that is basically growing in a field where it is susceptible to any number of influences. It's also an open production system because walk through your favorite supermarket when you go come and you will see produce items that conceivably different times of the year can come from different states, different parts of different states or even different countries.

University of Minnesota Benchmarking Food Retailing, Foodservice and Wholesalers

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Food Service/ Restaurants
(1)

Consumers

Retail Food Stores
(4*) (*Same Companies)

Specialty
Distributors

Self
Distributing
(4*)

Broad-line
Distributors
(1)

Specialty
Wholesalers
(2)

System
Distributors
(1)

Third Party
Wholesalers
(2)

Manufacturers (1)

Benchmarking Practices

- Interviews with companies (18)
 - » Quality Control
 - » Security
 - » Legal
 - » Logistics
- Research Groups judgment ranking of responses – judging whether there is a lot of activity or not
- Rated on a 1-4 scale with 1 being low or very little or no preparation and 4 being very prepared.
- Sample Results.....

What initial assessments of food security procedures and operations has your company conducted?

Company Type	Average Rank Scaled 1-4
Retail Grocery	3.0
Wholesale Grocery	3.25
Food Service	2.5
Distributors	2.83

Does your firm have a defined process for evaluating potential security risks of trailers and containers?

Company Type	Average Rank Scaled 1-4
Retail Grocery	2.36
Wholesale Grocery	2
Food Service	2
Distributors	2.44

Describe the measures that your firm has taken to ensure the reliability and security of its IT and logistics systems and shipping and receiving procedures.

Company Type	Average Rank Scaled 1-4
Retail Grocery	2.83
Wholesale Grocery	3.13
Food Service	3
Distributors	3.6

Do you have updated contingency plans in place, and how long can you stay in operation, in case of a security threat or event to public/government infrastructures such as electricity, water, communications or access to transportation?

Company Type	Average Rank Scaled 1-4
Retail Grocery	2.25
Wholesale Grocery	3.25
Food Service	3
Distributors	3.22

When screening employees, what kinds of background checks are performed and for which employees are they completed?

Company Type	Average Rank Scaled 1-4
Retail Grocery	2.25
Wholesale Grocery	2.88
Food Service	3
Distributors	2.19

Is food security awareness incorporated into employee training (for full-time, part-time, temporary, seasonal, contract and volunteer), including information on how to prevent, detect and respond to tampering and other malicious, criminal, or terrorist actions or threats?

Company Type	Average Rating Scaled 1-4
Retail Grocery	2.31
Wholesale Grocery	2
Food Service	2.5
Distributors	2.5

Benchmarking Practices

- Written Survey Results – Short Internet Survey (N=7)
- Tested questions with industry advisors
- Rating on a 1-5 scale with 1 being the least prepared and 5 being fully prepared.

Questions

1-5 scale

Our firm regularly verifies the effectiveness of security management programs.	3.17
Our empty trailers and containers are maintained in a secure environment.	3.67

Questions

1-5 scale

Our firm incorporates food security training for our management team(s) including information on how to prevent, detect, and respond to tampering or other malicious, criminal, or terrorist actions.	3.83
Our firm has implemented procedures to monitor and control receipts at our plants and warehouses (or our back doors).	4.67

Questions

1-5 scale

Our firm has developed effective processes to defend against food contamination.	3.83
Our firm has developed effective processes to defend our facilities against terrorist attacks.	2.83

Questions

1-5 scale

Our firm has initiated procedures to assess supply chain protection capabilities:	
internally	3.83
with regard to domestic supply chain partners	3.33
With regard to global supply chain partners	2.50

Preliminary Observations

- Flexibility in operations facilitates profitability and vulnerability.
 - » Sourcing
 - » Transportation
 - » Labor
- Perimeter security is being influenced by many factors in addition to food security issues.
- Open production is a concern.