



Using a Good RFP to Avoid Bad Spinach

How Proactive Spend Management Techniques can Help Reduce the Risk of a Food Safety Crisis

By Jason Wolf and Kris Colby

Each year, food-borne disease kills an estimated 5,000 Americans and puts another 325,000 in the hospital. While most of the illness can be traced to meat products, changes in the production and distribution of fresh vegetables (especially centralization and larger production facilities) have been to blame as well. In recent years, some of the biggest names in the food service industry have been involved in safety crises. Among the most notable:

- ConAgra/Peter Pan peanut butter
 - Winter 2007
 - Salmonella in jars manufactured at a Georgia plant led to nearly 300 cases of food borne illnesses
 - Source of outbreak traced to supplier of sprinklers whose faulty product broke leading to contamination
 - Company is currently embroiled in a class-action suit
 - **Recall costs totaled \$18 million**
- United Food Group
 - June 2007
 - Recalled 5.7 million pounds of ground beef after E.Coli was found in several shipments
 - Consumers purchased beef from several major retailers in the food supplier's customer base including Albertson's, Basha's, Fry's, Safeway, Sam's Club, Save-a-lot, Smart and Final and Trader Joe's
- Taco Bell
 - November 2006
 - E. Coli outbreak in lettuce
 - Source of outbreak traced to supply base
 - **\$1.3 billion (8% of total) market capitalization loss** for parent YUM! Brands despite the fact that Taco Bell represents less than 20 percent of total YUM sales
- Chi-Chi's
 - 1993
 - 4 deaths and hundreds of illnesses from a Hepatitis outbreak
 - Source of outbreak traced to supplier (but never proven)
 - More than 300 lawsuits and tens of millions of dollars in settlements and legal fees
 - **Company went bankrupt and was liquidated**

The costs associated with such incidents are enormous and can create significant long-term negative consequences. Food safety scares not only impact a company's current financial performance through reduced sales and product disposal losses, but long-term results due to litigation and remedial measure costs. Additionally, they can lead to increased political pressure for heightened regulation, driving up retailer and supplier costs. And perhaps most important, they can harm standing with customers and damage brand names – the cost of which can't be calculated.

Many food safety issues can't be prevented. But with the right spend management solutions and strategy, companies can reduce their likelihood of a crisis and minimize any negative impact.



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The Challenge

Food safety is a strategic business imperative that touches every aspect of the industry. Most companies have established procedures and trained food safety experts on staff. Trade associations such as the Food Marketing Institute have established committees and food-handling guidelines. And there are multiple layers of governmental oversight and regulation focused on public health designed to provide a standardized system of metrics by which food safety compliance and processes can be measured.

But the system is far from perfect. Companies must still take every step possible to ensure that the quality of their products is never compromised.

Minimizing Risk

The best place to start on this daunting task is at the beginning. By carefully selecting suppliers and setting clear and enforceable expectations about performance and compliance, companies can significantly reduce their exposure to food safety issues. The next step involves implementing a structured, strategic process to source goods and services that includes appropriate questioning and testing during the RFX period and leverages the right tools to communicate with and evaluate suppliers. As part of this process, companies should consider the following steps:

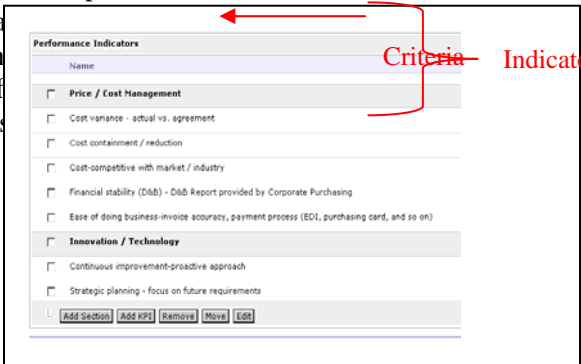
- Include detailed questions about food safety practices and certifications in the RFI
- Include food safety expectations in official documented vendor selection criteria to potential suppliers
- Provide a consistent and structured process via an online system for collecting supplier responses to all RFXs
- Allow for multi-variant bidding during an online event so that suppliers can provide bids factors other than price
- Develop and implement scoring mechanisms for supplier selection that include food safety attributes. For example, award decision criteria could be driven 40% by price, 20% by service, 25% by food safety compliance and 15% by quality metrics
- Set expectations on product testing, site inspections and certificate renewals before or after event award early in the process
- Include product warranty clauses in the RFI, RFP and final agreements
- Educate potential suppliers about the systems and processes that will be used to judge performance on an ongoing basis (e.g. scorecarding)

Closing the Loop

Along with a structured approach to sourcing, it is imperative that companies follow through on commitments made to suppliers after selection is complete. A structured supplier grading and feedback system driven by technology-enabled scorecarding and process management makes it easier to fuel continuous improvement via consistent and objective measurement. Among the key actions involved in creating such a system:

- Be upfront – It is now a common practice to introduce formal Risk Management / Supplier Performance Management programs in RFIs and RFPs.
- Supplier Segmentation – Invest the time to identify the most critical suppliers. Common factors to consider in developing this list include: Spend, Criticality (impact on business, available competition, contract expirations...) and Product Risk.

- Establish a performance management system. Samuel Clemens once said, "If you want to see things done, ask for a performance standard. The same is true for the development of typical Performance Criteria, also commonly referred to as...





- Make the criteria, process and systems consistent and standardized across as wide of a base as possible. This enables the ability to compare like-suppliers in an objective, “apples-to-apples”, manner, inform suppliers where they rank and reward good performance. The ranking principle is particularly compelling in areas that can be sourced frequently where high levels of competition exist because previous scorecard results can be factored into subsequent sourcing decisions.
- Include an established baseline of performance expectations which all suppliers should meet (with the understanding that Performance Improvement Plans or rebates will be necessary should a supplier not meet their goals). This should be clearly established during a supplier’s introduction to the program and closely managed using the data from the scorecarding process.
- Leverage exception-based alerts to quickly identify suppliers performing below the minimum baseline established by the company and trigger a proactive response by relationship owners.

Supplier Performance and Risk Management are rapidly evolving business functions that can deliver and accelerate actionable results. Often the most difficult task is gaining the support and inertia needed to launch such initiatives. If this is the case for your organization, the recommendation is to start simple. Begin by targeting the four to five areas that have the greatest capacity to disrupt your business and produce negative consequences (e.g. single lettuce or spinach provider).

Responding to a Crisis

No matter how robust the processes and systems put in place, the risk of a food safety incident can never be completely eliminated. With proper planning and documentation, companies can head off potentially negative consequences should a crisis occur. By collecting the following data in a single repository, companies can quickly respond to food safety issues and drive appropriate action to correct them:

- Documented proof of monitoring program and processes
- Compiled bidder RFI/RFP responses and supplier scorecards
- Records of alerts and action taken
- Information for litigation support

Many companies may wonder whether they can afford to go the extra mile and address food safety at the supply chain level. But given the potentially damaging effects that a crisis can have, the real question is, can they afford not to?

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