

Generating Significant Savings in the Poultry Supply Chain

Overview

Our client is one of the largest producer of poultry products, and another, a top producer of beef and poultry products, are the two key suppliers of chicken items for a QSR's menu. They provide about 500 Million pounds of poultry products for the QSR's domestic and international chicken product sales.

SCA Technologies™ Value Proposition

- Improve product yield
- Reduce by-products
- Optimize supplier product profile
- Optimize finished product specification
- Optimize chicken size

Solutions

- Strategy for buying and selling raw meat from the commodity market
- Investment plan for future capital expansion
- Dynamic integrated process for deciding poultry product volumes

Results

- Saved total system cost of 5-8%
- Improved product yield by 1%
- Reduced market purchases and increased raw meat commodity sales revenue by 50%

Supply Chain Characteristics

The supply chain starts with a chicken laying an egg. The process then goes through a grow-out procedure, where the chick is grown to a certain size and weight. The chicken is then slaughtered and taken through a production process. This process is broadly categorized into the "first" and "further" processing steps. "First" processing focuses on the production of raw meat from the chicken. Excess raw meat can be sold to the commodities market and any shortage can be supplemented by purchasing from the market. The "further" processing step is the actual cooking of the raw meat to produce various sandwich fillets and fried products such as nuggets. The end products are transferred to distribution centers and then to the stores. This total system picture presents some of the most complex combinatorial possibilities of sourcing from and selling to the market, producing in-house, and transferring meat between plants and enterprises.

Challenge

The prospect of chicken sales growth coupled with consumer taste change presents the suppliers with the interesting challenge of creating a strategy to manage the uncertainties. The strategy includes elements of investing in additional capacity, optimizing process parameters for various stages, and evaluating the possibility of changing product specifications. A pre-requisite to strategy creation is gaining consensus from the system participants to base their confidence in the concept of total system-wide cost reduction, 'benefits for all', and the cost modeling methodology used to accomplish these goals.

About SCA

For over a decade, SCA Technologies has provided category sourcing and cost management solutions that help industry leaders maximize profits by better managing market, supply and demand volatility. Supply chain, procurement, finance and corporate social responsibility professionals use the unique cross-functional approach of the SCA Planner™ suite to make better decisions for billions in category spend each year. With our patented technology, customers can finally address the tough challenges of volatile commodity prices, extended supply chain networks and corporate social responsibility tradeoffs in a coordinated manner. Our innovative, cloud-based solutions deliver increased visibility and quicker response, leading to an average 3-5% reduction in the cost of goods sold on an annual basis. Learn more at www.scatech.com

Why SCA Planner?

SCA Planner is more than just a cost optimization software. Part of its value proposition is its methodology that generates “benefits for all”. This approach wins the confidence of the participants involved in the supply chain, and enables the implementation of decisions suggested by SCA’s models. Cost data is a sensitive piece of information in the poultry business. Equally important to cost analysis is credibility in cost modeling and presentation of cost results. SCA’s depth in these areas results in the reliable modeling of various cost components and subtleties such as meat utilization and bird size. Its expertise in optimization techniques allows efficient evaluation of many strategic possibilities involving capacity investment, meat buying and selling policies, which are integrated with the more tactical issues of finished product and chicken volumes and sizes.

SCA Planner’s Contribution

The poultry analysis evolved from a simple optimization model. Initial savings in the number of chickens suggested a more detailed analysis. The next model included the interaction between the number of birds and bird size, “first” processing capacity, and commodity market prices. Subtleties of dependence of process yields on bird size were also introduced into the model.

Impact of various changes were analyzed to identify those that:

1. Had the greatest impact
2. Were easy to implement

A long-term strategy was created based on the results of the analysis. The strategy included forecasted commodity market prices as well as demand growth for each product category.

Our Client’s Results

The end result is a supply chain that is more aligned to a market driven product mix, and a capital investment plan on when, where and how much to invest to sustain the forecasted demand growth.

Changing market conditions and technology innovations in the poultry business capitalizes on the model’s reusability to facilitate analysis on an ongoing basis.

Contracts that are annually negotiated can be analyzed and revised based on the results from the supply chain model.