Outsourcing Food Production:

How to Mitigate Risks and Build Stronger Partner Relationships Using Industry-Specific Software

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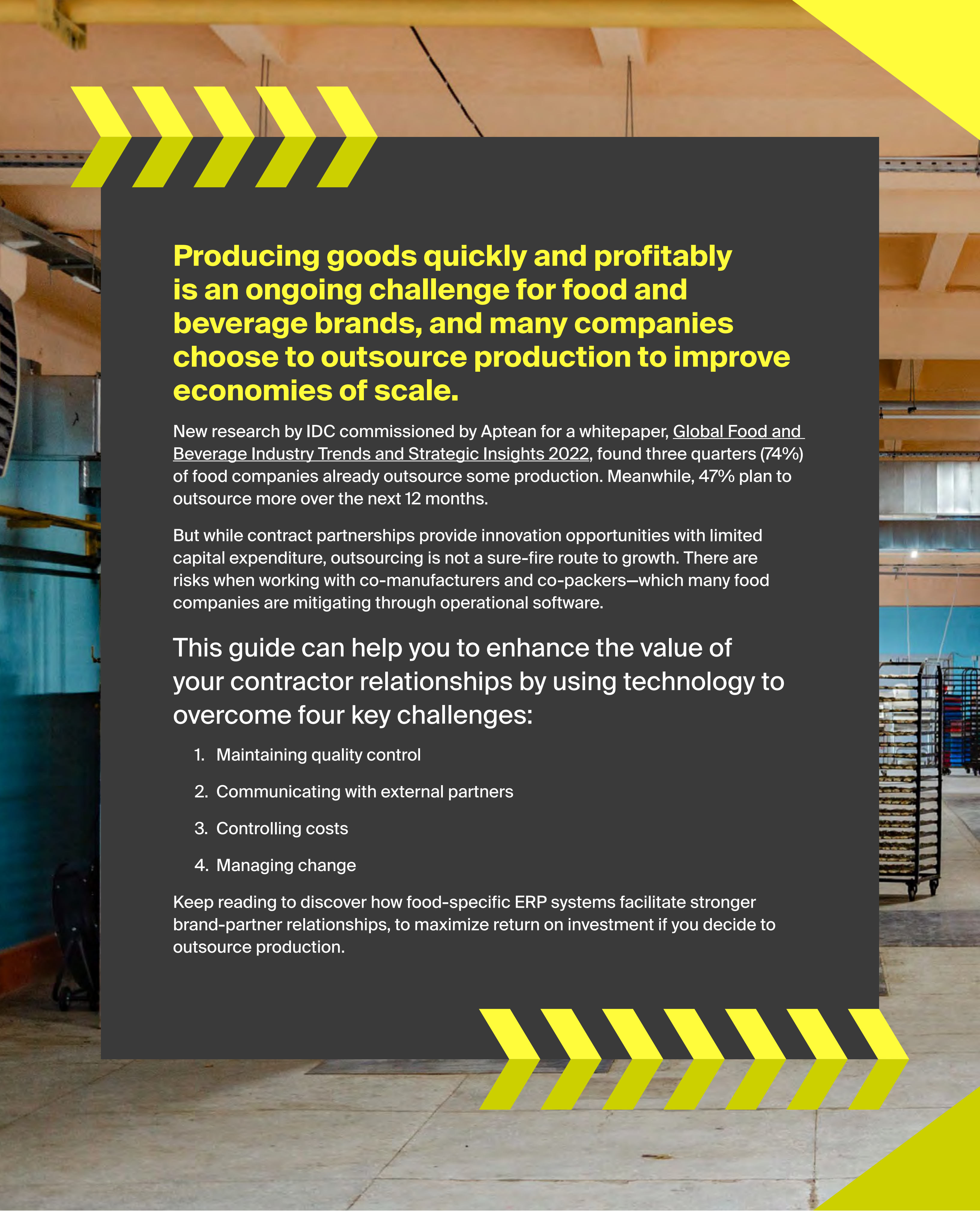

Producing goods quickly and profitably is an ongoing challenge for food and beverage brands, and many companies choose to outsource production to improve economies of scale.

New research by IDC commissioned by Aptean for a whitepaper, Global Food and Beverage Industry Trends and Strategic Insights 2022, found three quarters (74%) of food companies already outsource some production. Meanwhile, 47% plan to outsource more over the next 12 months.

But while contract partnerships provide innovation opportunities with limited capital expenditure, outsourcing is not a sure-fire route to growth. There are risks when working with co-manufacturers and co-packers—which many food companies are mitigating through operational software.

This guide can help you to enhance the value of your contractor relationships by using technology to overcome four key challenges:

1. Maintaining quality control
2. Communicating with external partners
3. Controlling costs
4. Managing change

Keep reading to discover how food-specific ERP systems facilitate stronger brand-partner relationships, to maximize return on investment if you decide to outsource production.

Challenge 1:
Maintaining Quality Control

Time to market is the number one reason that food brands outsource production, according to IDC research. Fluctuating demand can make the manufacturing process difficult to manage and partnering with a contract manufacturer removes some of the limitations created by depending solely on in-house resources.

However, speed should not come at the expense of quality.

Three in 10 food companies say less control over product quality is their main barrier to outsourcing. Outsourced production is more challenging in the food sector than other industries, as there are unique and complex regulatory requirements that must be achieved, from expiration tracking to allergen management. Additionally, formulas and recipes need to be maintained across contract manufacturers.

Being able to see and track data across both your internal and outsourced operations is critical to delivering quality and consistency to your customers. Food and beverage ERP software can enhance your outsourced model to maintain quality control when you're relying on contract partners.

Managing Quality, Consistency and Traceability Through Food ERP Software

ERP technology improves operational visibility so you can communicate critical information to co-manufacturers and co-packers and analyze progress in real-time.

The strict quality controls you've created for your business—from expiration dates to allergen-controlled formulas—can be communicated and transferred to your partners using ERP technology.

Market-leading systems like Aptean Food & Beverage ERP include built-in quality control features. These features allow you to run spot checks on inventory produced by co-manufacturers and co-packers to compile data for quality checks. External partners can upload photos and attach documents within your ERP system as proof of workmanship.

You can even define quality triggers in your ERP software to automatically flag products that don't meet your standards.

Challenge 2:
Communicating with External Partners

Attracting skilled talent has become much more difficult over the past 12 months. According to IDC findings, U.S. food manufacturers highlighted labor shortages as their second biggest concern for 2023, just behind rising inflation—and outsourcing production is a viable alternative to internal recruitment.

But while outsourcing is quick to mobilize and can cost less than recruitment, communications can be more challenging when you're reliant on a co-manufacturer or co-packer. For example:

Varying regulations and production standards can mean co-manufacturing or co-packing partner's quality compliance levels don't always match your internal standards

Cultural and linguistic differences make it difficult to share instructions and set expectations: 12% of U.S. food manufacturers say language is their main barrier to outsourcing

Lack of insight into the manufacturing/packing process when outsourcing can result in late identification of production issues

An ERP system can help to improve communication, coordination and transparency in the production process, limiting disruptions and misunderstandings to ensure you continue delivering high quality products.

Even if your chosen co-manufacturer or co-packer has their own systems and working processes, there is still a strong business case for investing in food ERP technology. The more data-driven your internal operations become, the better you can understand your outsourcing goals (and if they're being met).

Improving Communications Through Food ERP Software

A food-specific ERP can become the glue holding brand-partner processes together by channeling communications through a single operational platform.

ERP software enhances communication from the outset by enabling food brands to provide a clear brief to co-manufacturers and co-partners. For example, Aptean Food & Beverage ERP platform generates subcontractor worksheets and submits production orders to co-manufacturers when raw materials are ready.

Clear instructions are just the baseline. You also need an infrastructure that will help you to set expectations and measure performance against agreed criteria.

Choosing ERP technology with business intelligence (BI) capabilities will help you benchmark progress against key metrics to ensure contract manufacturing partners are meeting your requirements.

When used with Aptean Food and Beverage ERP, Aptean Business Intelligence tracks more than 300 food and beverage-specific KPIs, even when production is outsourced. Providing a quantifiable framework helps contract partners to understand what's expected of them, and it helps your business to communicate if your needs aren't being met.

Challenge 3:
Managing Costs

The cost of doing business is a major concern for food companies. IDC research found that rising prices and high operating costs are manufacturers and distributors' biggest worry for the next five years.

Outsourcing manufacturing, packing and distribution can lower costs by reducing operational overheads and cutting capital expenditure. It's particularly cost-effective for SMBs and mid-sized food brands, as you can grow production capacity while maintaining a lean set up.

We've already outlined some of the ways in which ERP technology can streamline outsourced relationships, and 98% of U.S. food manufacturers and distributors are either using ERP technology to manage their operations or plan to use it in the near future.

However, there are other solutions your business should be considering if you want to enhance your outsourced relationships and manage their cost to your business. For example:

- Implementing integrated EDI software creates a direct link with external partners for streamlining and automating data transfers.
- Deploying routing and scheduling software enables your organization to plan distribution requirements based on product volume calculations and perishability.
- Your choice of solution can also make a significant difference to how technology drives your outsourced relationships. To maximize value, look to the cloud.

Managing Outsourced Costs Through Cloud ERP Software

Whether you're focused on an ERP system or looking at a broader suite of solutions, investing in cloud software can make managing technology simpler and more cost-effective. For example, cloud applications are managed remotely, minimizing technical downtime and maintenance overheads.

Cloud integrations are also easier to plan and execute. They require few modifications or customizations to link systems, so you can run data-driven relationships with outsourced partners.

Most importantly, cloud software can drive higher revenue. IDC research found that U.S. food manufacturers achieved double the increase in revenue and profit from 2021-22 compared to on-premises ERP users. Higher revenue increases were also achieved by food brands using an industry-specific solution compared to those using horizontal ERP software.

Challenge 4: Change Management

Product development is critical to staying competitive in the food sector, and 1 in 10 U.S. brands believe outsourcing could help them improve innovation. Some contract packers and manufacturers offer integrated services like recipe formulation and packaging design to help SMBs and mid-sized companies address any skills gaps.

But while many hands can make light work, some food brands are concerned about the implications of adding more stakeholders to the product development process. Without effective tools to manage innovation, contractor relationships can become slow, strained and expensive.

If you're using contract manufacturers and co-packers for innovation support, embracing PLM software can smooth communications and expedite product development.

Managing Change Using Food-Specific PLM Software

Running R&D through PLM technology will enable your organization to formalize processes for developing formula-based products. For example:

- Each product iteration can be verified via an integrated ingredients database to ensure it exactly matches your brief
- Nutritional information and individual ingredients lists can be automatically calculated to ensure no unlabeled allergens enter your products
- Supplier portals give your external stakeholders an area to engage with internal teams, expediting new product creation processes and establishing a single source of truth
- Digital workflows assign responsibilities at each stage, clearly showing stakeholders who should be working on any given piece and allocating specific tasks to specific individuals

Aptean PLM for Food and Beverage supports faster, more focused product innovation while ensuring your brand meets product, packaging and labeling regulations.

Finding the Right Technology to Run Your Outsourced Partnerships

As we said at the beginning of this guide, outsourcing is not a silver bullet. It only works if you're transparent and communicative with your contractors, and you develop collaborative systems for managing speed, cost and production quality. This is something your organization can achieve with industry-specific food and beverage software.

Over half (57%) of U.S. food manufacturers plan to increase their investment in enterprise software over the next 12 months. A dynamic technology stack will empower your brand to embrace changing conditions and maximize the value of outsourced relationships.

Keep reading to learn more about how Aptean's industry-specific food solutions are helping companies to drive growth through co-manufacturing and co-packing partnerships.

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Aptean Food & Beverage ERP

In this competitive industry, you can't settle for cookie-cutter solutions. Aptean Food & Beverage ERP is an award-winning, cloud-based ERP solution made specifically for the food and beverage industry.

Aptean Food & Beverage ERP can help you run an outsourced model by providing:

- **High levels of consistency and quality control during outsourced production:** set up mandatory quality checks throughout production, accurately tracking expiration dates and controlling the release and delivery of goods based on predefined test results.
- **End-to-end traceability down to ingredient level:** deeply define each lot using a wide range of criteria to enable full backward and forward tracking across your entire supply chain, including across subcontracted activity.
- **Quickly capitalize on surging demand:** our subcontracting worksheet allows you to easily find and submit production orders to co-manufacturers when raw materials are ready, moving your supply chain forward with limited interference.
- **Closer, better integrated relationships:** Aptean Food & Beverage ERP processes subcontracted activity directly within the solution using vendor-assigned work centers.

Aptean EDI

Aptean EDI (electronic data interchange) streamlines data transfers with contract partners, automating orders, shipment notifications and invoices directly within Aptean Food & Beverage ERP without any third party add-ons.

Aptean PLM

Aptean Food & Beverage PLM enhances collaboration across your organization and with external partners, accelerating time-to-market for food and beverage product development. Our software works within the framework of evolving regulatory standards governing ingredients, packaging, labeling and product claims.

Aptean Business Intelligence (BI) and Analytics

BI software integrates critical data to provide crystal-clear operational information for making quick, accurate, sustainable decisions. Aptean Business Intelligence tracks more than 300 food and beverage specific KPIs to help you model simulations and measure projected contract manufacturer output. Subcontracted activity costs can be measured in either production time or flat charge per unit.

Aptean Routing & Scheduling

Aptean's route optimization solution gives your manufacturing and third-party logistics partners a way to plan and optimize routes for each vehicle in your fleet.

An established solution like Aptean Routing & Scheduling leverages decades of transportation experience via advanced, proprietary algorithms to reduce route planning costs by up to 30% and decrease total miles driven by 5%.

Useful Co-Manufacturing and Co-Packing Resources

Aptean Contract Manufacturing Solutions

Visit our webpage dedicated to technologies that help food brands work successfully with contract manufacturers and packers.

Visit Now ❯❯

How Purpose-Built Food and Beverage Software Can Facilitate Working with Contract Manufacturers

Read our blog post on the benefits of using industry-specific technology to facilitate co-manufacturer and co-packer relationships.

Read More ❯❯

The Association for Contract Packagers and Manufacturers (CPA) is another useful starting point if you're looking for more resources to kickstart your outsourcing journey.

Aptean: Get Ready for What's Next, Now®

Aptean specializes in empowering food and beverage companies with a strong technological foundation and "single source of truth" to Get Ready for What's Next, Now®.

With decades of collective industry experience, our dedicated professionals "speak your language" and understand the specific challenges that food and beverage companies like yours face, as well as how to best overcome them and succeed in a dynamic marketplace.

Are You Ready to **Learn More?**

Discover how Aptean Food & Beverage ERP can drive better collaboration with external partners to accelerate your business growth.

Contact us at **info@aptean.com** or visit **www.aptean.com.**

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About Aptean

Aptean is one of the world's leading providers of purpose-built, industry-specific software that helps manufacturers and distributors effectively run and grow their businesses. With both cloud and on-premise deployment options, Aptean's products, services and unmatched expertise help businesses of all sizes to be Ready for What's Next, Now®. Aptean is headquartered in Alpharetta, Georgia and has offices in North America, Europe and Asia-Pacific.

To learn more about Aptean and the markets we serve, visit **www.aptean.com**.