



Webinar: How to Save Money on Bulk Oil Ingredients for Manufacturing
Without Changing your Oil our Ingredient Quality

Hello everyone, I'm Hannah Broaddus with Centra Foods.

The topic that we're going to be covering today is How to Save Money on Bulk Ingredients for Manufacturing, without changing or modifying the ingredients that you're using.

Centra Foods is a supplier of bulk olive oils and other blended oils to food and body care manufacturers in the US. One of the central points of our business is working with customers to make their buying run "smarter"-- this means doing evaluations of how they're getting their oil to see where there are opportunities to save money. This can be applied to the purchasing of all ingredients in bulk, especially commodities. But because we're in the olive oil business, that's what all of my examples are going to be.

Just to give you a little bit of a background, there's two opposing ideas in the marketplace right now-- 1) there is a rise in demand for healthy, natural and high quality food (and therefore, ingredients the ingredients that go in them) and at the same time, 2) there's a strong drive (that's always been there) for manufacturers to cut costs. This puts purchasers, as I'm sure you all know, constantly in a tight place, trying to weigh all of their options and decide what it's all worth-- every sacrifice in the oil has to be weighed with the gain and the profits that you're making.

So the result is that this constant pull in two different directions forces them to look at different ways to save money that may not have been explored yet. We're always really surprised to see that some of the major manufacturers in the US can really utilize taking a look at some of these different ideas and putting them into practice. It's very simple to do, but a lot of people just haven't explored it yet. So we want to take you through some of those options.



When purchasers are first looking at a product and they're looking to cut cost, the first thing that you can look at is the ingredient itself: we need a cheaper product! But in today's marketplace, we have seen over the last 30 years the quality of the ingredients brought down and down further, and the demand now is really increasing for ingredients that are higher quality, that are natural, that are whole and that do your body good. This especially stands in the olive oil market. With that in mind, you can't always reduce the quality of your ingredients. So as we're having this discussion today, we're taking the quality of the ingredient as a given. If you've found a quality of an ingredient that works really well for you, just take that as a baseline and we're going to start from there to see what other types of ways you can save money without having to change the oil in the slightest. Now I say oil, but this can be any ingredient that you're using.

When you're first searching for a product, the purchaser has a benchmark for what they're going for, for a price. This is all based on the demand in the market, the cost that you can sell the end product and you can work backwards to find out the cost you'll need your ingredients to fit within-- all staying in a normal range that fits in the market. As you're doing price comparisons, especially in the commodity world, you're going to find that a lot of the prices are right in the same range. So price is not always the best benchmark to use as you're comparing suppliers.

There's actually a lot of other, different ways to cut cost without cutting ingredient quality. There are lots of other logistical things that play into price, and looking at those can really help bring your costs down. I'd like to go through each one of those with you. We will cover

packaging

shipping

direct delivery programs

forward contracts



As you're looking at each of these factors, know that your ingredient quality and sometimes even your suppliers are all going to stay the same. But by taking a close look at some of those warehouse, storage and delivery details you can help cut down on unnecessary cost.

Packaging

Easiest and most under utilized way to save money

Most manufacturers are using drums, that's the most common manufacturing size, even with some of the largest manufacturers in the US-- it's become the norm.

Drums: standard size that people are comfortable with. They're smaller, but to move them around the warehouse you do need a pallet jack or a fork lift. They pump out of the top, or some manufacturers even pour them upside down into each batch that they're doing. So they require a reasonable amount of labor to use them.

Now, a similar pack size is the totes. This is the first thing that I recommend for people to look at when they tell me that they're using drums is to consider the totes, and consider why they haven't looked at switching in the past. There are a few different sizes of totes, but they all take up the same amount of space on the pallet. A pallet holds 4 drums, or one tote in the same 4ftx4ft space. The height and volume of the tote can vary from the smaller 264 gallon, up to the 330 gallon size.

So when you're looking at at the difference in drums and totes, with some of the totes you can pack quite a bit of oil on this one pallet. The tote has a spigot at the bottom, and if you have a drum pump that you're attached to, you can often still use this out of the top of the tote.

For anyone using drums, it is really simple to consider switching to totes. In terms of the cost savings, I usually see a price drop of a few cents a pound when using the totes on the oil itself. Obviously, if you're removing packaging, your cost goes down.



Now, you can actually save a even more on shipping if you consider the 330 gallon totes. The shipping costs are very similar no matter if you're shipping drums or totes. But because you can fit 6 drums of oil in the one tote, vs. four drums on a normal pallet of drums, your shipping costs become 33% lower shipping those BIB totes. To give you some real numbers, If a pallet costs \$300, and you ship 4 drums on it, each drum costs \$75 to ship. But if you can ship 6 drums of oil for the same \$300, it costs \$50 per drum... Saving you \$125 over the course of the pallet. That's \$0.05 /lb, that's nothing to scoff about!

The next largest packaging size up that can cut costs even more is the large FlexiTank deliveries. With olive oil, when it's an imported product, it's going to come in FlexiTanks. If it's a domestic supply that you're pulling from, it's going to come in tankers. We've found that the Flexitanks are a lot cheaper because you're cutting out a lot of warehouse and overhead costs, and domestic shipping.

No matter whether you choose tankers or flexitanks, both of these options are cutting out packaging which is significantly reducing your cost. The FlexiTanks I've seen can cut costs by \$0.10, \$0.20, \$0.30 /Lb-- it all depends on the grade.

Because it can cost cost by so much, this new packaging warrents being looked at VERY closely by manufacturers. A lot of companies/purchasers have an immediate push-back to this idea because they don't already have a storage tank set up and they don't want to think about doing it. I think it's important to get over this hesitation, because set up is actually quite easy and VERY worthwhile.

Storage tank are a 6-10,000 gallon tank that can tie into your production line. They can take a few week to set up and of course, you need to have the storage space to think about putting this in. They cost about \$30,000 to set up-- however, those start up costs are usually paid off in the savings that you see in 6-12 months, and you start saving money quickly after that. Most companies we see have a \$0-20,000 savings the first year, and usually start saving much more



(like 20,000-80,000 per year) for every year after that. In 5 years, don't you think that would have been worthwhile to put in?!

It's helpful to have a supplier that can walk you through the process. If you went through Centra Foods, here would be the eval process. Normally, we recommend this for companies using 250,000 Lbs per grade or more. It's all based on pricing, so you need to compare the cost savings.

We've worked with major manufacturers that are still using drums or totes, and could benefit from flexitanks. After a cost analysis it turns out that they could save \$30,000 the first year, and \$80,000 for every year after that. The reason people don't is that there is a hesitation to go through "the process" and start a new system, but it's well worth it!

Best thing to do: talk to someone, run some numbers and see what's going to make sense.

Shipping: quick reminder to those who don't already know... Ship a FULL PALLET. Always, no exceptions. If you ship one drum, it will cost about the same as 4 drums, which is a full pallet. For example, if you use one drum a month, don't buy one drum a month! Buy 4 every 4 months, and you'll save 75% on shipping.

Also, at Centra Foods, a price break happens at one pallet, so if you buy less, the oil is more expensive. Across the board, always buy a full pallet.

Next thing that will cut down on cost:

Direct Deliveries from the Mediterranean

Direct Deliveries are full containers that are being delivered direct from the manufacturer. These can be flexitanks, but they can also be full containers of drums or totes. Direct shipments going from the location in the Mediterranean that it's being manufactured at, and it's



going direct to you. You're cutting out ever cost that you can-- domestic LTL shipping warehousing, overhead, re-sellers, and packaging (depending on your size choice).

They work well for for companies that have a prediction of what they're going to need for the next quarter, or have steady usage. It works great for companies that use a lot of oil, but it also works well for customers that have surprisingly smaller usage.

So, one container = 1 flexitank, 20 totes, or 80 drums... This is the smallest container, though there are larger options. These can be mixed grades too, and are quoted with a "delivered cost". You don't have to deal with any of the importing hassle, and there is no domestic truckload shipping cost. It's just like the POs that you placed for one pallet.

Some things to consider: Storage space-- do you have room to hold 20 pallets in your facility at one time, of just one of your ingredients? If your space is in high demand, is that worthwhile to you? If you have a bigger warehouse with ample space, it's definitely worthwhile to consider this.

Now, if you don't have space or you're set up for Just In Time deliveries of 1-2 pallets, there is a good way to incorporate this into the direct delivery program. We can actually set up a what we call a "local supply program". This is where we set up a whole program in advance, where we ship your olive oil by the container direct from the manufacturer to a local fulfillment warehouse in your town. You don't pay a think to get started with this, but it does require a supply contract saying, yes, I'm interested in this amount of inventory for now and if you bring it to a location in my town I'm going to use it within this rough time frame.

We can set up automatic deliveries from this fulfilment center, or you can pull the inventory as you need it by the pallet. It has lower shipping costs than shipping across the country, your lead time are normally 1-2 days, you can pick up same day, you get the same quality oil, and you only pay for it as it delivers. This program is slightly more expensive than doing deliveries



of the full container to your location (few cents/lb more), because it covers our warehousing costs, just like if it was coming from our packing facility.

Still, I'd like to give some number examples for this, because a lot of times people have a hard time understand how smart this direct delivery program is.

Salt Lake City UT Customer, uses 1 pallet per week.

Why don't they just work with a local supplier? You can, but there's only a few large suppliers in the US. If you're not located right near one, you end up paying for shipping costs. We created this system to help some of our regular customers cut down on shipping and oil costs.

Forward Contracts

Any purchaser dealing with commodities has probably heard of, or worked with forward contacts.

Depending on what you're buying, these contracts work differently. Sometimes it's for a volume, sometimes it's a blanket price for a time period with no required time period. Also, these contracts are going to be strongly affected by what the global market is like right at that time.

For example, with olive oil you can sometimes lock in a 1-12 month price contract for a particular volume of olive oil that you're looking for. You have to be using a reasonable amount of volume (atleast 3-4 containers per year) to even start discussing price contracts. You also typically have to agree to purchase a particular amount of volume, and indicate when you'd like to make these purchases.



It all depends on the market: After the price jump in Sept 2012, couldn't find contracts ANYWHERE. When the market is great, you can sign 1-2 yr contracts more easily. It just depends.

Watch the market closely and use your suppliers to get info on the current market, to see if this is something that you'd even want to look into. Talk to them realistically about what you have to agree to on your end.

Conclusion

So work with your team to look closely at the packaging, shipping, direct truckload deliveries and or forward contracts to see if any of these things will work for you and help you save money. Ask them questions, see what's going to work best.

If you want more information, you can subscribe to our blog or download our guide to saving money on bulk olive oil in manufacturing. If you'd rather talk to someone in person give us a call and we can set up a free personal consult for your business.