

## **WHITE PAPER**

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# **Creating a Culture of Quality in the Food and Beverage Manufacturing Industry**

## Creating a Culture of Quality in the Food and Beverage Manufacturing Industry

For years, the food and beverage manufacturing industry has been in the midst of a struggle between two opposing forces – efficiency versus quality. On the one hand, companies are looking to speed the “farm to fork” cycle through more effective supply chain management. On the other hand, manufacturers know the role quality management plays in delivering products that meet regulations and are safe for consumers. The challenge: How to reconcile these seemingly contradictory goals and link the manufacturing quality to efficiency in the supply chain to produce quality products manufactured efficiently.

### Why then are supply chain management and quality management so difficult to reconcile?

A number of reasons leap to mind. A genuine disconnect between C-level management and those responsible for ensuring compliance with strict quality standards and procedures ranks near the top of the list. Senior-level management is acutely aware of how effective supply chain management affects the bottom line. Accordingly, management aligns business strategies with streamlining the manufacturing process. Quality sometimes lacks the same level of visibility at the most senior levels of an organization, although it shouldn't. This despite its inarguable importance and contribution to the bottom line. The only way to address this disconnect is for organizations to create a culture of quality that begins at the top and permeates the entire organization, including the various channels of the supply chain.

The FDA's increasing focus on the food and beverage industry and a spate of pending legislation are driving a renewed push toward a systematic approach to quality. The agency intends to develop binding regulations to serve as a foundation for a prevention-oriented food safety system.

Regulatory scrutiny is one of the most influential external drivers for developing a culture of quality, but good reasons for making quality a priority exist within the walls of your company. The business benefits of quality are both powerful and quantifiable: higher margins, lower risk, improved public perception and, ultimately, greater market share, among others.

Developing a culture of quality is, of course, much easier said than done, regardless of its many benefits. It has to be more than a clever catchphrase. It requires investment and commitment. And it certainly won't happen overnight. A well-considered approach should begin with an awareness of the various challenges and hazards facing manufacturers.

### Challenges and Impediments to a Culture of Quality

In the food and beverage industry, ensuring that the raw materials and finished products meet the requirements and specifications of government regulatory bodies can be enormously difficult. Incidents of contamination and other quality breaches in the supply chain garner enormous media attention and can cause public panic. This kind of negative attention can cause lasting damage and, in the worst cases, prove fatal to the brands involved. A by-product of food and beverage quality scandals is increased government regulation and oversight. In the U.S., pending legislation such as the FDA Globalization Act, the Food Safety Modernization Act, the Food Safety and Tracking Improvement Act, and the Safe Food Enforcement, Assessment, Standards and Targeting (FEAST) Act promises to place even greater scrutiny on the food and beverage manufacturing process. These bills, currently under consideration in Congress, would strengthen the enforcement authority of the FDA by allowing it to:

- Order recalls;
- Require all products to be traceable through electronic records;
- Detain unsafe food when inspectors find it;
- Impose new civil fines on food companies that violate the law; and
- Detect unlawful conduct by protecting whistleblowers from retaliation.

Another dilemma facing manufacturers is how to rein in the spiraling costs associated with massive supply chains and stagnant inventory turns. How quickly can new products be introduced to drive top-line growth? How quickly can a manufacturer reuse existing capital and move it from one end of the chain to the other – buying materials, manufacturing the finished product, getting

it on store shelves and into the hands of consumers? If an organization manages to accomplish this process 15 times per year as opposed to 10, revenues and profits will obviously increase. Procuring ingredients that conform to the standards necessary to support the supply chain can be a major challenge. Nonconformance leads to unacceptable variations in the finished product that must be addressed. When confronted with nonconforming raw materials, organizations must either disposition them, rework and use them, return them to the vendor or scrap them altogether. These materials represent investments of an organization's capital, and nonconformances result in longer inventory turns and significant additional costs.

Globalization – and the resulting lengthening of the supply chain – presents another business impediment. In the past, when ingredients were sourced locally, quality was more easily monitored and tracked. Today, the ingredients for a single product can number in the dozens and originate with suppliers across the globe – and all are subject to different standards and varying government regulations. In addition, the finished product itself must comply with the regulations of the country in which it is sold. In order to avoid costly missteps, manufacturers must ensure that proper processes are in place at their suppliers. They must maintain a high degree of visibility into each supplier's controls, and they must enforce quality standards at the source. Only then can they guarantee that the products sold under their brand names are manufactured correctly and meet or exceed expected quality standards. Controlling all the interactions that take place across an extended global supply chain is extremely difficult. It requires time and resources that until now many companies either didn't have, or simply weren't willing to devote. The changing regulatory climate now dictates that they rethink their approach to oversight of their global supply chains.

A laundry list of challenges now faces food and beverage manufacturers, and there will never be a cure-all solution that addresses all of them. But it's still possible for every manufacturer to adopt a culture of quality, and reap the business benefits associated with it. Let's take a look at several examples of what companies can do to adopt a culture of quality in their organizations.

## Finding Solutions

How are manufacturers addressing potential quality issues? Many are turning to closed-loop corrective action systems that enable companies to implement a corrective action to immediately address quality process problems repeatably and reliably. But is this type of system enough? Not if proper escalation procedures aren't in place to ensure that preventive actions are identified and taken quickly. When an unanticipated event occurs, who gets notified? How quickly can that person react before it becomes a bigger problem? Do they have sufficient authority to initiate changes to the process? This is where the C-level influence comes into play. Executives at the highest levels need to put procedures in place ensuring that the right people are notified and the correct steps are taken when quality problems arise.

Even this can be a tricky proposition. Many companies still rely on manual reporting, notification and escalation processes. Without automation, these procedures are more subject to human error. It's easy to see how this could lead to missed calls and botched communication by busy people who are being asked to do more work with fewer resources in today's leaner business environment. In short, quality can easily take a backseat to production and profit. When a problem occurs, agencies that inspect the quality of goods will investigate it and find the root cause or causes. Companies will then be asked to remediate the issue or issues. Effectiveness checks and a closed-loop system are where most companies' quality management processes fall short, mainly because they are often treated as an afterthought. For example, many companies don't make it beyond a corrective action to a preventive action. Instituting proper escalation procedures ensuring that quality issues can be immediately identified, addressed, resolved and tracked can make the difference between a cycle of continuous improvement and an event that could lead to serious negative consequences, such as company-wide shutdown.

Audit management is another important component of a robust culture of quality. Audits monitor critical processes, identify gaps and stimulate companies to improve quality. An audit management system will help senior management assess the effectiveness of the procedures your company has put in place and focus resources on the areas of greatest risk – including risks associated with your extended supply chain. A good audit management system will provide a tool for tracking issues across your organization and your supply chain as well as monitoring the resulting corrective and preventive actions.

Another step companies can take to support a culture of quality is instituting a proper process for customer complaint and inquiry management. After all, customers are the source of your revenues, and the window through which you can win over first-time customers is a limited one. Customers will choose to spend their dollars elsewhere if their experience with your product – including your customer service process – is not satisfactory. The sooner you can resolve a customer's issue, the more amiable they'll be, the more likely they will stay loyal to the company and the more likely they'll be to refer others to your company. Today's more technologically savvy customers have a multitude of public platforms for sharing their experiences with your products, both good and bad. Providing prompt resolution to any problems can turn a negative experience into a positive one, or at the least reduce the likelihood that the negative experience will spiral into a grassroots campaign against your company. The process of identifying customer needs and resolving issues should be a critical component of your organization's culture of quality.

### A Culture of Quality Is Essential

So where does that leave us? Being able to reconcile supply chain management with quality management is not simply important. It is critical to delivering profitable products that deliver on your brand promise to consumers. We know how crucial it is to uphold supplier quality management, but we also know that a plethora of issues do accompany that process. Sadly, there is no magic bullet. While implementing the right software certainly may help, if the business processes in and of themselves are flawed, technology will not automatically resolve the issues.

The real answer? Top executives need to believe in the importance of quality and provide financial support for it. Only when a culture of quality has taken hold will we see a real difference in the industry both for organizations looking to improve their bottom line and for consumers seeking safe food products.



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