

**WHOLLY
GUACAMOLE**

CONSERVATION

THE FIRST STEP TO SUSTAINABILITY

THE AVOMEX STORY

**BILL PETERSEN
SALES AND APPLICATIONS MANAGER
ICONOTECH - CLINTON, CT.**

When it comes to pre-printed corrugated inventory, efforts to reduce costs goes hand in hand with sustainability gains.

Whether your company focus is to reduce corrugated costs or to improve sustainability scorecard measures, you will end up at the same place: huge cost savings and leaner, less wasteful business practices.

There is one item under your control that you do NOT want to have excess inventory of: pre-print corrugated inventory. Besides taking up more space than just about any raw material you purchase and being a very expensive purchasing strategy, it leads to severely bloated and very wasteful inventories.

Cutting corrugated costs and improving sustainability measures can seem like a daunting task, but really, they are not. It all starts with conservation and the commitment to do more with less. Lets take a look at how one company attacked bloated inventories and high costs.



Fresherized[™]
FOODS

WHOLLY[™]
america's #1
GUACAMOLE

“Using pre-printed corrugated inventory is an expensive strategy, especially in light of the fact that we produce to a customer order, not to a forecast. We needed a way to cut costs and gain control. Moving to a generic case program and printing cases on a just in time basis with an Iconotech print system is the way to go. The equipment is simple to operate and reliable. The cost savings benefits are huge”.

Steve Parnell
President - Fresherized Foods

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Fresherized™ FOODS

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Fresherized Foods is the largest guacamole and avocado packager in North America

The corporate office and distribution center is located in Fort Worth, Texas

Known as a Maquiladora, the packaging facility is located in Sabinas Mexico

- Pre-printed boxes are shipped from San Antonio to Mexico
- Plant converts to finished goods
- To avoid tariffs and taxation, the company must account for items on a FIFO basis as they cross the border back to the U.S. to be shipped to individual customers



Avocados are processed for the food service industry and guacamole is packed for the retail market

With a history of innovation, Avomex uses a state-of-the-art "High Pressure Food Preservation System"

Due primarily to the shelf life of the product, they manufacture to the customer's order



Changes were needed

- Drive down costs and boost profits
- Reduce the complexity of ordering and warehousing pre-printed SKUs
- Gain internal efficiencies by streamlining operations
- Improve workplace experience for employees
- Have greater flexibility
- Become more responsive to customer's needs
- Become more sustainable in their manufacturing practices

Options Freshetized faced

- Ink Jet - lack of coverage and bar code readability
- Labels - lack of marketing impact and high cost
- Off-line batch printing

How did they succeed in these changes?

- Generic Case Printing Program
- Iconotech "Plateless" Case Printing System

What did we learn last year?

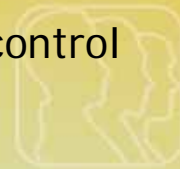
SKU Based Purchasing Model

- Based on a forecast, which can be very different from what is needed for production
- Buy early, buy excess
- Not a sustainable practice
- Competitive disadvantage
- Bloated costs in many areas
- Requires vast amounts of time and manpower to manage
- Extreme scrap and obsolescence
- Jammed warehouses with unsafe conditions
- Huge costs for rubber print dies
- Line down-time
- Poor relations with box supplier
- Loss of flexibility



Generic Case Purchasing Model

- Based on average usage history of each generic size
- Print and use only what is necessary for immediate production needs
- Generic Case Printing is a sustainable practice with conservation being key
- Competitive advantage lets you regain control
- Reduces costs dramatically
- Requires only a fraction of the time to manage and maintain
- No scrap or obsolescence
- Frees up warehouse space to be converted back to productive uses
- No rubber print die costs
- No line down-time
- Excellent relationship with supplier
- Immediate customer response





Benefits of a pre-print look

- Greatest marketing impact
- Unbeatable logos and graphics
- Warehousing friendly
- Ingredient statements and Nutrition panels

Over time, pre-printed SKU proliferation is unmanageable and very costly

In Summary

- Focus on the history of fewer generic case sizes
- Avoid focus on multiple SKUs based on a unreliable forecast
- Eliminate the inflexibility, cost and lead-time associated with rubber print dies
- Print generic cartons with plateless technology as close to production as possible
- Regain control and negotiating advantage
- It's not magic, it's a smart, lean manufacturing strategy

The Avomex Case Study

Cost savings principles are applicable across a wide range of industries, every company is different

Underlying requirements for a successful generic case program

- Multiple SKUs packaged in a common case size
- Desire to regain control and uncover hidden savings
- Willingness to act and make changes, paralysis by analysis will doom you

The benefits of a generic case program are best viewed by looking at total impact

- Small savings in several areas adds up to huge savings overall
- Significant cost savings can be immediate but total impact may take 1-2 years

Avomex cut costs and impacted the bottom line by \$300,000 annually

- This easily recovered their \$70,000 capital investment
- It is much easier to find cost savings than increase sales

Avomex saved or will save in the following areas

- Effective purchasing
- Eliminating rubber print dies
- Competitive bidding
- Eliminating obsolete cartons
- Efficiency gains for simplified operations
- Improvements in customer service, speed to market and on-time delivery
- Sustainable practices

Effective purchasing

- The goal was to consolidate 150 pre-printed SKUs into 50 common case sizes
- Actual first year results converted 81 SKUs into 33 common generic case sizes
- This represented a 12.6% cost reduction or \$136,000 in annual savings
- Let's look at one common generic case size - 14 oz. Wholly Guacamole

The 14 oz. Wholly Guacamole

Before Generic Case Printing Program

SKU Product	Price per unit	Volume	Total annual cost
Spicy	24.8¢	202,000	\$50,096
Guacasalsa	21.0¢	117,000	\$24,570
Pico	26.3¢	22,000	\$5,786
Organic	26.3¢	21,000	\$5,523
Original	21.0¢	604,000	\$126,840
		<u>966,000</u>	<u>\$212,815</u>

After Generic Consolidations and in-house printing

SKU Product	Price per unit	Volume	Total annual cost
Spicy	15.1¢	202,000	\$30,502
Guacasalsa	15.1¢	117,000	\$17,667
Pico	15.1¢	22,000	\$3,322
Organic	15.1¢	21,000	\$3,171
Original	15.1¢	604,000	\$91,204
		<u>966,000</u>	<u>\$145,866</u>
			Total savings \$66,949

- This one case size represents 966,000 cases of the annual case volume of 2,700,000 or 35.8%
- The \$66,949 in savings represents 49% of the first year's total savings of \$136,500
- This example shows what happens when you purchase greater volumes of a generic size, effectively spreading the setup costs over a greater volume
- This is available to you without having to negotiate with your supplier, this is a freebie. This is the very definition of Low Hanging Fruit
- In year two, as more items are consolidated, we estimate that an additional savings of \$30,000 annually will be realized



Eliminating rubber print dies

- Rubber print dies will cost you plenty
- Your box supplier wants you to believe that they are providing a service
- Is a Sustainable practice with positive effects on the planet

You might know

- Graphics and die creation can cost \$300 to \$3,000 per SKU
- Lead time is usually 1-2 weeks not to mention production and delivery time for the cases

You might not know

- Your supplier wants to keep you in pre-print
- You can create your own case layouts quickly and easily
- You can reduce your lead time from 2 to 3 weeks to 2 to 3 hours

Your box supplier does not want you to know there is a better way

- Pre-print addiction is hard to break
- When you rely on your supplier for graphics and rubber dies, all negotiating leverage remains with the supplier

Avomex is very aggressive in bringing new items to market

- Meetings are held every few weeks to discuss new products
- Rubber print die costs average \$1,000 per SKU
- Avomex realized \$19,000 in savings by not having to create new dies for new products


For certain customers, Avomex places nutrition panels and ingredients statements on the box

- Over the course of the year, at least 50 changes were required by the customer at an estimated slug cost savings of \$250 each
- Avoiding these changes saved Avomex another \$12,500

Avomex aggressively pursues promotional items; generic case printing allows them to:

- Avoid rubber print dies and make changes on the fly
- Be very quick to market
- Fast track the current promotional items, Dallas Cowboys Salsa and the Breast Cancer Awareness Promotion
- Realize an additional \$2000 in cost savings on promotional items

The total annual savings for avoiding rubber print dies is \$33,500.00



At the end of 2008, Avomex will also realize a one-time savings of \$48,000 for not having to change the print dies over to the new corporate and distribution address

Competitive bidding will save the most

- Like Avomex, if you have 150 SKUs, you may have \$150,000 invested in rubber dies
 - Suppliers are very reluctant or flat out refuse to use another vendor's dies
 - The thought of forking over another \$150,000 is what keeps companies from getting serious competitive bids on pre-print
- This is why you're just kidding yourself if you think you have a backup supplier
 - "Free Plates" really means "Buried in the Cost"
 - Design graphics and layouts yourself, print on demand using generic cartons and plateless printing technology - this is lean manufacturing
 - Now, you can truly bid the business to anyone you want
 - Establish your terms and expectations for doing your business
 - Have generic cases delivered on a routine schedule instead of a fire truck

A generic Case Printing Program may take 1-2 years to fully implement

- Avomex viewed competitive bidding as a year two exercise
- Projected savings for year two are 14% or \$135,000
- This is called regaining control

Eliminate useless obsolete cartons that arise from:

- One time promotions
- Changes to nutrition panels and ingredients statements
- Marketing changes
- Address changes
- Discontinued SKUs

For Avomex, obsolete cartons had to be shipped back across the border to be disposed of to avoid taxes and tariffs

It is estimated that Avomex avoided 48,000 obsolete cartons or 2 truckloads

The sustainability implications are obvious

Annual savings from avoiding obsolete cases is \$19,000

Efficiency gains for simplified operations can have a sustainable impact

Moving from a complicated pre-print inventory to a simplified generic program

- Requires less manpower and attention in monitoring and ordering of cartons
- Requires less manpower and attention in the warehouse
- Cuts line down-time to nearly zero
- Makes life easier and less stressful by streamlining the process

Avomex found savings in three key areas

A new 100,000 sq. ft. warehouse was built closing down two inefficient outside warehouses 7 miles away

- An Iconotech Case Printing system was part of the strategic plan
- Constant trips back and forth to find pre-print ceased
- One day of labor per week was saved



“Hot Shot” pickups were eliminated

- Avomex produces to a custom order
- Orders must be delivered complete
- If pre-print could not be found or not enough was on hand, a driver was dispatched on a “hot shot” run to “hunt down” the corrugated
- This could involve a 450 mile round trip expedition taking over 8 hours
- Prior to the generic program, this occurred as much as 24 times a year

Ordering and managing the inventory was greatly simplified

- Down time was eliminated
- Last minute change overs were eliminated
- Almost 50 fewer items to track, order, cycle count and rotate

Avomex saved an additional \$17,600 from simplified operations

Gains in customer service, on-time delivery and speed to market

- A customer's order is produced at the time the order is placed
- Products have a guaranteed shelf-life
- Before the generic case program, pre-print could be lost or never ordered
- The Fresherized Foods/Avomex motto: Customer first at all costs
 - Ship partially complete orders
 - Send out "Hot Shots" to find pre-print
 - Get boxes to Mexico, interrupt production schedule to finish order
- The completed order must now be delivered to the customer
- Significant costs are incurred
 - FedEx freight costs of \$1500 to \$3000 for each incident
 - Straight truckload costs are between \$2,500 and \$3,500
 - Missed appointment fees cost \$250 to \$500 each
 - Incomplete order fees range from \$150 to \$250 each
 - Hold shipment fees are \$500 each
 - Increased costs for late shipments
 - Loss of customer sales (based on actual customer selling price)



Eliminating the need to "do anything" impacts sustainability

Total annual savings from improved customer service \$24,000

Sustainable Practices

In a 1987 Brundtland Commission report, Sustainability was simply defined as “Meeting the needs of the present without compromising the ability of future generations to meet their own needs”

Conservation is the first step to Sustainability

- Require less resources
- Waste less resources
- Attack the bloat and the cost savings will follow
- This can be done without compromising the quality or marketplace impact

Sustainability improvements should impact

- Human - People
- Raw Materials - Planet
- Financial - Profit



Avomex sustainability savings

- Less fuel consumption - lower carbon footprint
- Lower inventory of raw materials - less waste

Corrugated inventory

- Was reduced by 13% of inventory value carried each month
- Average inventory carried was 427,500 units
- Was reduced by 55,575 units to date
- This resulted in a one time savings of \$26,000

Carrying costs

- Using a 6% annual fee, an additional \$1,334 in annual savings was realized



Avomex Summary

Innovation leads to Sustainability gains and cost savings

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 5</u>
Effective Purchasing	\$136,500	\$166,500	\$802,500
Eliminating Print Dies	\$33,500	\$81,500	\$215,500
Competitive Bidding	N/A	\$135,000	\$540,000
Obsolete Cartons	\$19,000	\$19,000	\$95,000
Efficiency Gains	\$17,600	\$17,600	\$88,000
Customer Service	\$24,000	\$24,000	\$120,000
Sustainable Practices	<u>\$27,334</u>	<u>\$1,334</u>	<u>\$31,336</u>
	\$257,934	\$396,934	\$1,892,336

“Purchasing an Iconotech Case Printer and moving to a generic carton inventory has allowed us to manage our company differently. We have cut costs and gained purchasing control, but through increased flexibility and speed-to-market, we have been able to grow our business not only with our existing customer base but with new customers as well”.

Jeff Morris - V.P. of Operations - Avomex / Fresherized Foods

Special thanks for their assistance
in helping us with this presentation



Jeff Morris
Vice President of Operations



Mauricio Peña Riojas
Expeditador de Materiales



José Mucio Ramírez
Gerente de Materiales