Contract Manufacturing and Compliance Challenges

Food Safety Summit

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AGENDA

Growth forecast for Contract Manufacturing Opportunities and controls
Supplier approval & internal auditing
Role of Third Party Training & Certification
Contract Manufacturing Global Market is expected to grow more than 50% until 2026. The main driver of this trend is connected to cost optimization.

Pharmaceutical companies are expected to grow significantly (new drugs, new demands for vaccines and packaging for drugs especially).

Food Industry co-packing is also expected to grow further, achieving second largest share of growth.
Global Growth

Largest share of growth is expected in North America, followed by European Market.

However, the biggest co-packing market remains in Asia.

According to Sofeast (2018)
Asia Pacific Market

- Co Manufacturing in **China** have skilled workers. Majority of companies have vast experience in co-packing.
- **India** is also taking advantage of growth of the market, encouraging diverse industries to setup their locations in the country.
- **Japan** is still immature but presented growth of 30% - mainly pharmaceutical companies.
- **Australia**: extensive governmental reforms are bringing up challenges but proximity to Asia is advantage.

Europe Market

- European Co-Packers Association is raising awareness of co packing and co manufacturing. [https://www.ecpacopacking.com/](https://www.ecpacopacking.com/)
- Opportunity to each organization to invest in new technologies and introduce sustainability into their operations.

North America Market

- Contract manufacturers are growing in both presence and revenue.
- Companies are spreading throughout all U.S. states and Canada.
- Food industry should have the biggest spike of growth.
Top 5 reasons Co-Manufacturing is used?

1. **Costs**
   - Reduction of operational costs as much as 7% to 9% (mainly assets & Personnel management)

2. **Business Flexibility**
   - Productivity could increase and the amount saved could be invested in marketing for product visibility

3. **Environmental & Sustainability Concerns**
   - Consumer awareness impels company’s to adopt local alternatives to packaging and manufacturing reducing carbon footprint

4. **Regulations**
   - Co-Packing facilitates meeting regulation standards, especially in F&B products

5. **New Products**
   - Supports ability of NPD where internal capabilities are not present
Sustainable performance is not only about what you do. You are also judged on the actions of your suppliers/co packers. Consumers increasingly consider environmental and ethical performance when making their choice of brand, looking for products with a responsible trail.
Challenges seen from Certification Body Perspective

**Risks**
- Brand reputation from incidents
- Geography – Emerging or unstable countries
- Countries with known issues
- Lack of commitment from co-packer due to annual tender processes
- Lack of full transparency in supply chain

**Typical Controls**
- Supplier approval and monitoring process
- Assessments – Snap shot of compliance, examples: annual GMP or 3 years SMETA assessment
- Internal Audits – inexperienced auditors
- Documentation Audits
- Policies on key topics:
  - Human rights
  - Animal welfare
  - Environmental impacts
  - Health & Safety

**Opportunities**
- Long term partnership commitment drives investment
- Digital solutions to support transparency and traceability
- Real time systems to monitor quality and food safety
- Invest in survey tools for gaining worker insights into culture
- Consumer confidence

WE LIVE NOW IN A MORE COMPLEX POST COVID RISK REALITY
Demands a structured approach

- **Food safety**
  - GFSI benchmarked standards

- **DE&I**
  - ISO 30415

- **Cyber security**
  - ISO 27001

- **...and more**
  - ISO 9001
  - ISO 14001
  - ISO 45001
  - ISO 37001
Aided by deeper predictive insight

- **Audit data**
  - 70,000 companies
  - 3 million+ findings
  - ca 300,000 added annually

- **Root cause analysis**
  - Corrective action logs
  - Ca 50,000 audits
  - root cause and corrections

- **Surveys**
  - 4 ViewPoints
  - 6 Espressos (risks & management systems)

- **Research**
  - Publicly available resources & databases
  - DNV’s R&D research reports

Source: DNV audits 2022
Perceived main food safety risks

Post-pandemic food fraud and food safety culture is rising on the agenda.

Operational risks: 77%
Lack of food safety culture: 31%
Statutory/regulatory compliance: 25%
Lack of proper supply chain management: 21%

Source: ViewPoint: Food safety: What’s next to assure its future
Cyber and information security risks

**Information security**
- Having appropriate personnel to manage information security within the organization: 65%
- Having an information security policy approved by top management: 58%
- Providing information security training to staff: 57%

**Information privacy**
- Human error: 45%
- Lack of awareness among employees or poor organizational culture: 28%
- Lack of legal competence/interpretation of legal requirements: 26%

Sources: Viewpoint & Espresso surveys (DNV)
Most common findings information security

- Shift from technical infrastructure to employee behavior and training

Source: Lumina (DNV)
Diversity, equity & inclusion risks

Risk of doing nothing

- Falling behind in attracting/retaining talents: 51%
- Not keeping up with society & its expectations: 47%
- External reputation: 44%
- Non-compliance to legal requirements: 41%

Source: ViewPoint

Taking a systematic approach

ISO 30415:2021
Human resource management — Diversity and inclusion
Do you *know the* hidden risks?
Summary
The Risk Reality with using Co-Manufacturing is more complex post covid and the issues are real.

What do best-performers do?

- Spend adequate time during supplier approval phase to ensure technical capabilities and technical competency
- Develop robust communication channels and frequency
- Work very closely with Food Safety & Quality to develop sound expectations
- Collect data to measure and track
- Require GFSI Benchmarked standards
- Require ISO certifications
Bibliography


Thank you for Joining!

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