

The Starting Line

- Common chart of accounts

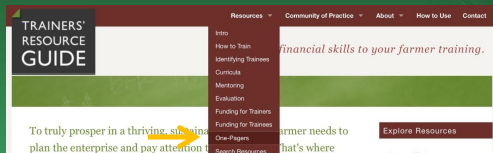
<http://ngfn.org/resources/ngfn-cluster-calls/finances-for-food-hubs-series>

Typical Income Statement

Sales	Sales
- Expenses	- Cost of Goods Sold
Profit	<u>Gross Margin</u>
	- Overhead Expenses
	<u>Profit</u>

One-Page Planning Resources

- www.farmbiztrainer.com



Apples to Apples

- Similar formats
- Common accounting
 - Is everything in the same place?
- Evaluate on a percent of sales

From the Bottom Up...

- What does the bottom line tell you?
- Work up by group
 - Overhead
 - Cost of Sales
 - Cost of Production/Cost of Goods Sold
 - Sales

What if...

- Overhead is high?
- Overhead is low?

What if...

- Gross Margin is high?
- Gross Margin is low?

What if...

- Cost of Sales is high?
- Cost of Sales is low?

What if...

- Cost of Goods/Production is high?
- Cost of Goods/Production is low?

Efficiency Management: Analyzing Your Labor Resources

- Why?
 - Highest or second highest expense
 - Manage cost and time compared to productivity standard
- Measure productivity based on time
 - Standard unit of time
 - Units produced per hour/day/week etc.

Benchmarking Labor

What are the actual costs?

WAGES

... and ?

Key Components

- Labor Costs: Fully Loaded
 - Wages
 - FICA & Medicare
 - Health Insurance
 - Workers Compensation
 - Unemployment Insurance
 - Retirement Plans
 - Housing
 - Other Miscellaneous Benefits

Standard Unit of Labor: Worker Equivalents (aka FTE)

- Used to calculate output efficiency
- Process to calculate a worker equivalent
 - Set a standard for average work week
 - Add up all hours worked and divide by standard

$$51 \text{ weeks a year} \times 40 \text{ hours a week} = 2,040 \text{ hours}$$

Measure Labor Efficiency

- Track changes in output over time
 - By day, week, year
 - By divisions
- Track changes in cost over time
 - Compare labor cost increase to gross sales increase

What gets measured gets managed.

Efficiency and Productivity Management

Our Sample Food Hub

- Labor Hours 13,364
- Labor Dollars \$421,824
- Sales \$2,653,642
- 40 hour workweek is typical

Calculate the following:

- Worker equivalents
- Labor expense per worker equivalent
- Labor cost as a percent of sales
- Sales per worker equivalent

Efficiency and Productivity Management

Our Sample Food Hub

- Labor Hours 13,364
- Labor Dollars \$421,824
- Sales \$2,653,642
- 40 hour workweek is typical

Calculate Worker Equivalents:

$$13,364 \text{ hours} \div 2,040 \text{ hours per year} = 6.55 \text{ worker equivalents}$$

Efficiency and Productivity Management

Our Sample Food Hub

- Labor Hours 13,364
- Labor Dollars \$421,824
- Sales \$2,653,642
- 40 hour workweek is typical

Calculate Labor Cost per Worker Equiv:

$$\frac{\$421,824 \text{ for labor}}{6.55 \text{ worker equivalents}} = \$64,400 \text{ cost per worker equivalent}$$

Efficiency and Productivity Management

Our Sample Food Hub

- Labor Hours 13,364
- Labor Dollars \$421,824
- Sales \$2,653,642
- 40 hour workweek is typical

Calculate Labor Cost as a Percent of Sales:

$$\frac{\$421,824 \text{ for labor}}{\$2,653,642 \text{ in sales}} = 15.89\% \text{ of sales}$$

Efficiency and Productivity Management

Our Sample Food Hub

- Labor Hours 13,364
- Labor Dollars \$421,824
- Sales \$2,653,642
- 40 hour workweek is typical

Calculate Sales per Worker Equivalent:

$$\frac{\$2,653,642 \text{ in sales}}{6.55 \text{ worker equivalents}} = \$405,136 \text{ sales per worker equivalent}$$

Efficiency and Productivity Management

Our Sample Food Hub

- Labor Hours 13,364
- Labor Dollars \$421,824
- Sales \$2,653,642
- 40 hour workweek is typical

Calculate the following:

- Worker equivalents 6.55
- Labor expense per worker equivalent \$64,400
- Labor cost as a percent of sales 15.89%
- Sales per worker equivalent \$405,136

What if we knew...

- By Department:
 - Sales of **produce** compared to the cost of **produce**?
 - Sales of **salsa** compared to the cost of **salsa** ?
 - Sales of **pickled products** compared to the cost of **pickled products** ?

*This works universally!
purchased - produced - processed - brokered*

- Why?
 - Figure % gross margin
 - Is the product contributing to overhead and profit?
 - Is the product carrying its own weight?
 - Decide on future allocations

What should we do next?

	Sales	Less COGS (including production labor!)	Gross Margin
Produce (resale)	\$45,000	-\$27,000	\$18,000 (40%)
Produce (homegrown)	\$90,000	-\$23,000 -\$45,000	\$22,000 (24%)
Pumpkins	\$60,000	-\$23,000 -\$15,000	\$22,000 (37%)

Sales – COGS = Gross Margin Gross Margin / Sales = GM%

Beware of...

- Not enough detail
 - “Sales” as a category
- Mixed dimensions
 - Farmers’ Market Income (WHERE)
 - Wholesale (HOW)
 - Greens (WHAT)
- Offsets
 - Discounts - what was discounted?
 - Credits/Returns – what was returned?
 - Reimbursements – reduce your true cost (are not income)

What’s a healthy net worth?

$$\text{Net Worth \%} = \frac{\text{Equity}}{\text{Total Assets}} \times 100$$

– Kohls’ Traffic Lights

Scoring for next move:



Red = STOP

Yellow = CAUTION

Green = GO

Net Worth <40%

40% < Net Worth < 70%

Net Worth > 70%

Balance Sheet: What does it tell you?

- Liquidity

- *Current Ratio*

$\text{Current Assets} \div \text{Current Liabilities}$

- *Working Capital*

$\text{Current Assets} - \text{Current Liabilities}$

G & E's Food Hub

Balance Sheets - Fair Market Value
As of December 31, 2015 and December 31, 2016

	2016	2015		2016	2015
<i>Current Assets</i>			<i>Current Liabilities</i>		
Cash	58,742	31,000	Accounts Payable	8,758	15,000
Accounts Receivable	65,412	8,000	Accrued Expenses	10,000	0
Inventory	190,578	139,000	Operating Loan	100,000	140,000
Supplies	46,000	41,500	Current Portion of LT Loans	8,000	15,000
Prepaid Expenses	6,500	5,000	Current Portion of LT Loans	50,000	50,000
Other Current Assets	3,076	-			
TOTAL CURRENT ASSETS	370,308	224,500	TOTAL CURRENT LIABILITIES	176,758	220,000

Current Ratio: $\text{Current Assets} \div \text{Current Liabilities} : 1$
2015: 1.02:1 2016: 2.09:1

Working Capital: $\text{Current Assets} - \text{Current Liabilities}$
2015: 4,500 2016: 193,550

Adequate working capital depends on:

- Commodity
- How often income is received
- How often are payments made to vendors
- Stability of prices and COGS
- Ability for business to withstand price fluctuations
- Surprises
- Guideline: >25% of total expenses

This works

- For every kind of business
- Need to know:
 - Who you are comparing to
 - Basis for comparison
 - The common denominator (aka unit of measure)



Resources

- Financial Fundamentals for Food Hubs (ngfn.org)
- FarmBizTrainer.com
- Counting Values
- Leopold Center Report
- Food Hub Benchmarking 2018
- One-on-One



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- Succession Planning
- Transition Planning
- Expansion Planning