

Cost Saving Ideas for Food Companies in the Current Economic Environment

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If you produce products for the retail or wholesale food industry, maintaining your profitability the past year has been challenging. The commodity markets have been vacillating severely, making it difficult to maintain price levels that yield a consistent profit margin. Several areas that need to be managed closely are:

- **Procurement and Input Costs**—A huge opportunity area for improving profitability. Alignment of procurement commitment and production is critical. Tracking the markets and getting out in front of commodity price increases are also extremely important to maintain your price without impacting your profitability. If you're reacting to, rather than foreseeing price change then in all likelihood your margins are taking a hit.
- **Pricing and Marketing Programs**—Here, again, alignment is key. If price increases are introduced and proper controls are not in place to monitor trade spend and marketing programs to minimize sales give backs, then price increases are likely to be given back to the customer. The sale person, in many instances, is the customer's friend not the company's.
- **Factory Rationalization/Harmonization**—Companies with multiple factory locations are often slow to recognize the importance of establishing and getting the most out of best practices. Documenting procedures of your best factory and pushing them down to your under-performing operations are a good start. Even when differences in equipment and layout are considered, it often comes down to attitude as the reason one plant performs better than the others. Getting to the underlying reason for the attitude difference can lead to inexpensive ways to improve performance.
- **Distribution/Supply Chain Dynamics**—Implementation of best practices in this area can offer huge opportunities in cost containment/reduction. The closer you get to the customer, the easier it is to say "money is no object". We'll do anything to get the product to our customer faster! However, the fastest does not have to be the most expensive. Discipline is a significant aspect of delivery systems, and often times, it is lacking or overlooked. Procedures need to be documented and followed. Minimizing costs is the objective, but keep in mind you are not going to cost reduce yourself to a sustainable, growth oriented business. Cost reduction can only contribute so much profitability.

- SKU Proliferation—An area often overlooked in an attempt to keep the customer “happy” that can result in costs that far outweigh the benefits. A fresh look at the product portfolio from time to time is a necessity. Representatives of marketing, manufacturing and finance should be involved in the process in order to get a clear view of the costs and rewards of maintaining a product.
- Strategy and Earnings Consistency—Earnings consistency is sustained by controlling the opportunity areas above together with a good strategic plan. You always need to have a vision where your market is going and be moving with or slightly ahead of your competition or you will end up with excess inventories and significant costs associated with catching up.

Running a successful business means you take the time to learn about every detail surrounding the operation of your business. Although successfully managing the areas of opportunity detailed in this article is critical in a tight economy, you should not overlook the benefit of establishing a methodology and routine that brings continual consistency to the operation of your business. Once you have this in place, you move from the reactionary mode to the planned mode and you become the competition that everyone is chasing.

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