

# Book Smart

*Using  
Benchmarking  
and Performance  
Indicators  
for Better  
Bottom-Line Management*

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**THE FARM CREDIT COUNCIL**

# Real Life, Too



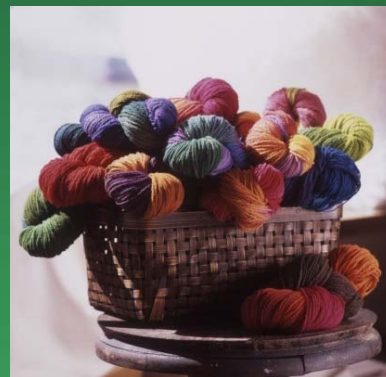


# Real Life, Too



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# The Starting Line

- You understand your financials!
- They're in good shape:
  - Accounts reconcile
  - Accurate balance sheet
  - Accrual accounting (or adjustments)
- You want to work ON your business (not just in it)



# The Starting Line

- Common chart of accounts

Go to: [Foodhub.info](http://Foodhub.info) -> click “Finances”



# Financial Fundamentals

Go to “foodhub.info”  
Click “Finances”

- **Part 1: Introduction and the Common Chart of Accounts**

[View the recording of this webinar](#)

- **Part 2: Balance Sheet**

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[View the recording of the office hours for part 2](#)

- **Part 3: Income Statement** (AKA Profit and Loss Statement)

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[View the recording of the office hours for part 3](#)

- **Part 4: Cash Flow Statement**

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[View the recording of the office hours for part 4](#)

- **Part 5: Putting it all together** – Managing Your Business Using Finances

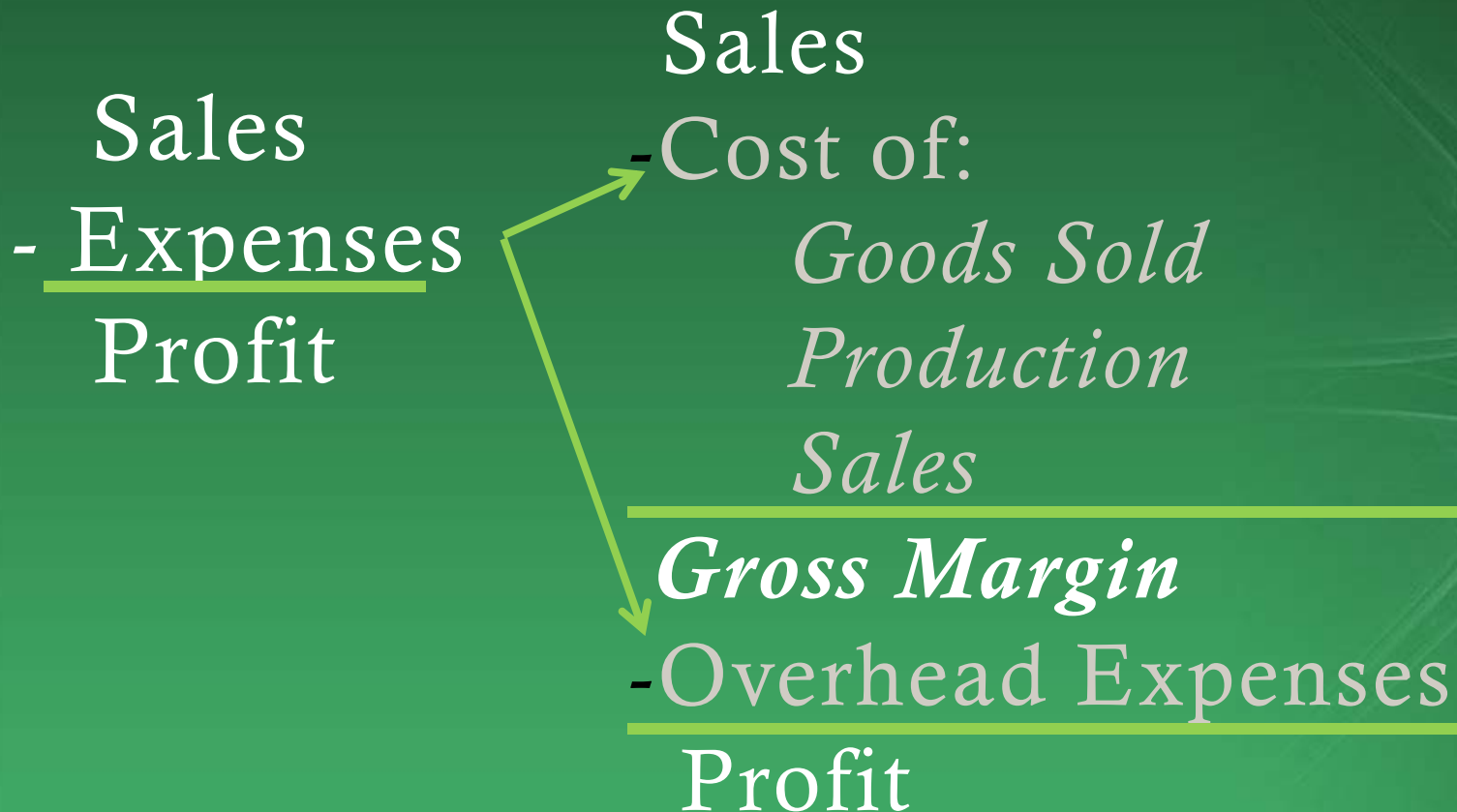
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[View the recording of the office hours for part 5](#)





# Typical Income Statement



# Apples to Apples

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





# A word about profits

- Doesn't matter what your business structure is. If you want to be a resilient mission-driven organization, then you need to generate profit.
- Not for profit is a tax status, not a business model.



# 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?

Food Hub Benchmark: 16.28%





# What if...

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

Food Hub Benchmark: 14.49%



# What if...

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

Food Hub Benchmark: 13.56%



# What if...

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

Food Hub Benchmark: 71.95%





# 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 weeks a year x 40 hours a week =

*2,040 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:

$$\begin{aligned} \$421,824 \text{ for labor} \div 6.55 \text{ worker equivalents} &= \\ & \$64,400 \text{ cost per worker equivalent} \end{aligned}$$





# 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:

$$\begin{aligned} \$2,653,642 \text{ in sales} &\div 6.55 \text{ worker equivalents} = \\ &\$405,136 \text{ sales per worker equivalent} \end{aligned}$$





# 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)



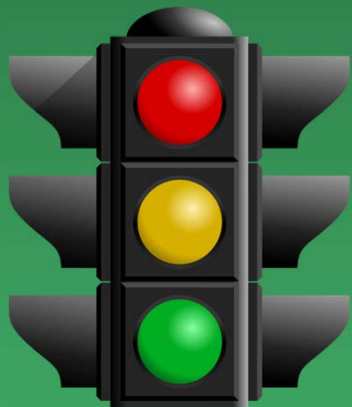


# What's a healthy net worth?

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

## - Kohls' Traffic Lights

Scoring for next move:



Red = STOP

Net Worth < 40%

Yellow = CAUTION

40% < Net Worth < 70%

Green = GO

Net Worth > 70%

# Balance Sheet: What does it tell you?

- Liquidity

- *Current Ratio*

- Current Assets ÷ Current Liabilities

- *Working Capital*

- Current Assets - Current Liabilities

Food Hub Benchmark: 2.39:1



# G & E's Food Hub

Balance Sheets - Fair Market Value  
As of December 31, 2017 and December 31, 2016

	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>
<i>Current Assets</i>			<i>Current Liabilities</i>		
Cash		31,000	Accounts Payable		15,000
Accounts Receivable		8,000	Accrued Expenses		0
Inventory		139,000	Operating Loan		140,000
Supplies		41,500	Current Portion of IT Loans		15,000
Prepaid Expenses		5,000	Current Portion of LT Loans		50,000
Other Current Assets		-			
<b>TOTAL CURRENT ASSETS</b>		<b>224,500</b>	<b>TOTAL CURRENT LIABILITIES</b>		<b>220,000</b>

*Current Ratio:* Current Assets ÷ Current Liabilities :1  
**2016: 1.02:1**

*Working Capital:* Current Assets – Current Liabilities  
**2016: 4,500**

# G & E's Food Hub

Balance Sheets - Fair Market Value

As of December 31, 2017 and December 31, 2016

	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>
<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 IT 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	-			
<b>TOTAL CURRENT ASSETS</b>	<b>370,308</b>	<b>224,500</b>	<b>TOTAL CURRENT LIABILITIES</b>	<b>176,758</b>	<b>220,000</b>

*Current Ratio:* Current Assets ÷ Current Liabilities :1  
 2016: 1.02:1      2017: 2.09:1

*Working Capital:* Current Assets – Current Liabilities  
 2016: 4,500      2017: 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)



# Cash Flow and Profit are not the same thing

- Forecasting cash flow
- - know A/R and A/P days
- When you're broke, the stakes are low
- When you're growing fast, you have momentum, you need the cash



# Resources

- Financial Fundamentals for Food Hubs
- Counting Values
- Food Hub Manager's Guide to Finances

**Food Hub Benchmarking 2018!!**

[farmcrediteast.com/foodhubs](http://farmcrediteast.com/foodhubs)





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- Strategic Business Planning
- Succession Planning
- Transition Planning
- Expansion Planning