Food Hub Benchmarks

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Will Gray, Wallace Center Program Officer and Food Hub Data Nerd
Why Develop Food Hub Benchmarks?

- A companion to the MSU/Wallace Center Food Hub Survey
- Less interested in the WHAT – all about the HOW
- A managerial tool vs. an academic study
- Providing insight into Key Performance Indicators (KPIs)
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**
  View the recording of this webinar
  View the recording of the office hours for part 2

- **Part 3: Income Statement** (AKA Profit and Loss Statement)
  View the recording of this webinar
  View the recording of the office hours for part 3

- **Part 4: Cash Flow Statement**
  View the recording of this webinar
  View the recording of the office hours for part 4

- **Part 5: Putting it all together – Managing Your Business Using Finances**
  View the recording of this webinar
  View the recording of the office hours for part 5
The Hubs

- 50 participants (largest study of its kind)
- Coast to coast and border to border
- Sales of $50k to $8 million
- Employ an average of 4.3 FTEs (which is really 11.3 people)
- Profits range from 27% of sales to (22%)
- EBITDA from 21% to (20.1%) of total revenues
- “If you’ve seen one food hub, you’ve seen one food hub.”
Hub Leadership

Other:
- Management Team
- Shareholders
- Governmental
- Employees
Food Safety Requirements for Suppliers

- Completion of hub-provided food safety training
- Completion of external food safety training
- Completion of FSMA-specific food safety training (PSA Grower Training)
- USDA GAP/GHP certification
- Canada GAP certification
- Harmonized GAP certification
- GlobalGAP or other GFSI certification
- GroupGAP Audit Program membership
- Other (Please describe)
Food Safety Certifications for **Hubs**

Others:

- SQF Level II
- Retail / Wholesale License
- A form of GAP
- Health Department Certification
- Catering license
- Processing certification
- Basic Traceability
- AIB
Sales Channels

2013

- Your own retail: 38%
- Food retailers: 28%
- Restaurants and caterers: 15%
- Other distributors: 14%
- Institutions: 3%
- Processors: 2%
- Processors: <1%

2017

- Restaurants and caterers: 38%
- Food retailer: 25%
- Institutions: 16%
- Your own retail: 12%
- Other distributors: 9%
- Processors: <1%
Price and Volume Strategy
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.
- Used by 38% of study hubs
### Income Statement

<table>
<thead>
<tr>
<th></th>
<th>All Hubs</th>
<th>Model Hubs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenue</strong></td>
<td>1,759,824</td>
<td>2,221,959</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>1,781,593</td>
<td>2,202,073</td>
</tr>
<tr>
<td><strong>Net Activity</strong></td>
<td>(21,769)</td>
<td>19,887</td>
</tr>
<tr>
<td><strong>Net as % of Revenue</strong></td>
<td>(1.6%)</td>
<td>1.2%</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>(6,498)</td>
<td>48,000</td>
</tr>
<tr>
<td><strong>EBITDA as a % of Revenue</strong></td>
<td>(.37%)</td>
<td>2.1%</td>
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*So what happens if interest is > EBITDA?*
The Business of Food Hubs

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<tr>
<td>Variable Costs</td>
<td>92.9%</td>
<td>89.19%</td>
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<tr>
<td>Cost of Product</td>
<td>76.26%</td>
<td>73.50%</td>
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<td>Selling/Distribution</td>
<td>16.64%</td>
<td>15.68%</td>
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<tr>
<td>Gross Margin</td>
<td>7.11%</td>
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<tr>
<td>Overhead</td>
<td>17.74%</td>
<td>11.01%</td>
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<td>Profit</td>
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<td>12.48%</td>
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<td>Program Expenses</td>
<td>3.24%</td>
<td>4.54%</td>
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<td>(1.39%)</td>
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Fun with KPIs

Sales per Customer

- **Model Hubs**: $57,111
- **Benchmark**: $28,017
- **My Hub**: $26,208

$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$-
Fun with KPIs

Sales per Square Foot

Model Hub: $1,801
Benchmark: $1,151
My Hub: $986
Paid vs. Volunteer Labor

Benchmark Hubs: 94% Paid, 6% Unpaid
Model Hubs: 92% Paid, 8% Unpaid
Liquidity

Where's your Current Ratio?
Current Assets ÷ Current Liabilities

1.8:1
Does this forecast the capability to meet current obligations?
Liquidity

Working Capital

Current Assets – Current Liabilities

5% of sales
Will that be adequate in your busiest season?
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
## Efficiency and Productivity Management

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<td>Labor Hours</td>
<td>8,723</td>
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<td>Sales</td>
<td>$1,564,572</td>
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<td>40 hour workweek is typical</td>
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Calculate **Worker Equivalents**: 8,723 hours ÷ 2,040 hours per year = 4.28 worker equivalents
Efficiency and Productivity Management

Our Benchmark Food Hub

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Calculate **Labor Cost per WE**: \( \frac{\$165,899 \text{ for labor}}{4.28 \text{ worker equivalents}} = \$38,761 \text{ cost per worker equivalent} \)
### Our Benchmark Food Hub

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40 hour workweek is typical 2,040

**Calculate Labor Cost as % of Sales:**

\[
\frac{165,899}{1,564,572} \times 100\% = 10.6\% \text{ of sales}
\]
Calculate **Sales per Worker Equivalent**: $1,564,572 in sales = 4.28 worker equivalents = $365,554 sales/WE
## Efficiency and Productivity Management

### Our Benchmark Food Hub

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### Worker Equivalents

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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
## Markups

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<tr>
<th>Department</th>
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<tbody>
<tr>
<td>Bakery</td>
<td>1.58</td>
</tr>
<tr>
<td>Dairy</td>
<td>1.22</td>
</tr>
<tr>
<td>Prepared Foods</td>
<td>1.51</td>
</tr>
<tr>
<td>Value-Added/Grocery</td>
<td>1.96</td>
</tr>
<tr>
<td>Proteins (Meat and Poultry)</td>
<td>1.25</td>
</tr>
<tr>
<td>Produce</td>
<td>1.52</td>
</tr>
<tr>
<td>Other Food</td>
<td>1.30</td>
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What does this mean in real life?

- **Produce Sales are $892,857**
- **Produce Costs are $703,037**
- **Contribution to overhead and profit: $187,820 (20%)**

  Yippee! Is this good?

  > the average hub needs to cover

    overhead of 18% of sales and

    programs of 4% of sales and...?
But what are we forgetting?

- Produce Sales are $892,857
- Produce Costs are $703,037
- Contribution to overhead and profit: $187,820 (20%)

How do you get it where it needs to go?

Distribution costs are about 16% of sales!

(the danger of not considering ALL variable costs when looking at margins)
Typical Income Statement

Sales - Expenses = Profit

Sales - Cost of:
  - Goods Sold
  - Production
  - Sales

Gross Margin - Overhead Expenses = Profit
What do we do next?

- Produce Sales are $892,857
- Produce Costs are $703,037
- Contribution to overhead and profit: $187,820

1) Calculate markup: $892,857 ÷ $703,037 = 1.27

2) Compare to benchmark performance: 1.52

3) What if it was at benchmark performance?
   - $703,037 x 1.52 = potential sales of $1,068,616
   - That’s a $175,759 difference! ($1,068,616 - $892,857)
Beware of...

- Not enough detail
  - “Sales” as a category
  - “Cost of Goods” as a category
Beware of...

• Mixed dimensions
  – Wholesale (HOW)
  – Taxable (FOR SOMEONE ELSE)
  – Farmers’ Market Income (WHERE)
  – **Greens** (WHAT)
Beware of...

- **Offsets**
  - Discounts - what was discounted?
  - Credits/Returns – what was returned?
  - Reimbursements – reduce your true cost (are not income)
Accurate vs. Precise

• P/L accounts with less than 1% of sales equivalent
• Who are these records truly for?
• What is truly going to make you more sustainable?
  – Saving 10% on occupancy
    • Which is 3% of sales, so .3% = $5,256 for the average hub
  – Adding 10% to your produce markup (1.27 to 1.4)
    • $703,037 \times .13 = \$91,395
Next Steps for Food Hub Benchmarking

• Full report will be published later this year
  – Make sure to sign up for the Wallace newsletter and Food Hub Listserv

• All participating hubs will receive individualized KPI reports
  – ... Thanks again for participating!
What one thing will you do now to make your financial future more sustainable?