

GROWERTALKS

Growers Talk Business

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Headwinds Ahead?

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I certainly don't want to come off as pessimistic, as my natural tendency is to be an optimist. However, looking at the year behind us and looking forward I believe it's prudent to consider headwinds facing the industry. In the past year, we've continued to see increasing costs. Although this has been moderate in some areas, labor costs certainly continue to rise at an exceptional pace.

In addition to this, consumer price sensitivity is at an all-time high as families struggle with the new cost of food and other consumer goods. On top of this, interest rates have increased considerably, putting a significant dent in consumers' disposable spending.

My father used to use the term, "Batten down the hatches," which I feel is very applicable to today's business environment. The definition of my father's term is, "To prepare for a difficult or dangerous situation." With this thought in mind, I'd like to consider how we as operators and business owners can prudently plan and navigate the challenges ahead.

Be cash strong: There's no doubt we've all seen the impact of rising interest costs, which have taken a significant bite out of our financial returns this past year as debt servicing costs tripled. This has translated into less bottom line available to invest in our businesses. We may also have been surprised at other areas of increased costs, such as labor, resulting in lower bottom lines this past operating year. Most of us are measured by lenders on two major ratios: Debt/Net worth and Debt Service Ratio. It's critical that we're within (or better) than the agreed covenants with our lenders. This assures liquidity while retaining financing at competitive pricing. But just as important is cash on hand and line of credit availability. Such things are critical in paying current expenses, such as suppliers, monthly payroll and monthly debt servicing. To remain cash strong, we must evaluate and plan to mitigate the impact of things like waste, ineffective product lines, labor and lack of automation, all of which can have a negative impact on our businesses and burn cash.

Waste reduction: Waste comes in many forms. It's important to take the time with your team to review what items are causing significant waste in your company. In this point, we want to look at waste in the context of excess production or crop shrinkage. This can have a significant impact on cash burn, as you may not realize the selling price you hope to achieve or realize no sale at all. It's better to reduce your production so what you do grow can be sold at full price.

Product detail refinement: In simpler terms, review your mixes. At Rainbow, we've found by reviewing our 4-in.

vegetable category we were able to reduce the number of varieties produced by almost 30%. That translates to higher efficiencies, better sell-through and simplicity in production and labor. Take note of items that suffer from poor consumer or customer uptake. We've asked ourselves if these items will be missed in our product assortment. In our business model, we often discuss 20% effort, 80% impact. We're not trying to be everything to everybody. Product refinement can help you simplify your business and improve your bottom line!

Labor efficiency: One way you can improve efficiency is by doing labor studies that focus on a specific task. Evaluate the time and effort to do the task and make some adjustments to improve productivity. Encourage creativity within your team leaders to explore faster and better ways of completing tasks. Encourage them to look for obvious inefficiencies. They should, simply by watching a process, often find some easy fix for reducing waste in the process quickly. Working together with your team leaders and celebrating the successes you achieve will propagate even more successes for the future. These ideas will also help you in your process to automate repetitive tasks.

Automation: Look around as we find automation taking shape in many ways to deal with the shortage of and the cost of labor. One of the most obvious labor-saving techniques is visible in the retail market space today, whether at McDonald's on their automated ordering system or at the grocery store with automated checkouts.

Our goal should be to look at every repetitive task and consider ways to automate the process. Automation doesn't always have to come in the form of expensive equipment—it can be as simple as changing the process and reducing movements. Again, watching any production process, you'll often find wasteful or inefficient steps that can easily be corrected without spending any money.

There are also many ways through technology and equipment to increase productivity. In our company, we continue to evaluate what we automate through the following pay-back lens: We feel three years is a no-brainer. Five years is a good payback. And anything longer should be given a more thorough review, especially considering potential headwinds. **GT**

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