

Tidewater Group, Inc.

How is your company doing?

We are often asked how an owner can determine if his/her company is doing as well as it should. This is a difficult question because there is no one answer. The “bottom line” is that there are many factors that can be used as benchmarks and firms usually consider one or more. The following criteria are important indicators of success for food manufacturers.

- ◆ **Sales:** Average growth in the food industry is measured by population growth (1.5%) and inflation (3.5%)--about 5%. Superior growth is considered to be 12%-15%. Generally, there is little premium paid for growth that is higher than 15% because it is believed, not to be sustainable. A company that has been growing from 10% to 15% for three or more years is considered to be growing rapidly.
- ◆ **Gross Profits:** Gross margins should be calculated after deducting raw materials, packaging, labor, freight-in, and plant overhead from net sales. All other costs should be below the gross profit line in sales, general or administrative expenses. With the above costs, in cost-of-goods, gross profits should be in the 35% to 55% range. If a substantial amount of sales are through distributors, gross margin is probably at the lower end of the range. If most sales are direct, gross margin should be at the higher end. If your gross margin is below the above range, try to gradually adjust pricing, reduce costs, discontinue low margin items, and increase sales of higher margin items to improve profitability.
- ◆ **Operating Expenses:** (Sales, general & administrative expenses, excluding interest). Should be in the range of 20% to 35%. Expense control is crucial to achieving a sustainable operating profit that will fund future growth.
- ◆ **Asset Management:**
 - ◆ **Inventory:** Inventory should turn-over between 6 and 10 times per year. Obviously the faster the inventory turns, the less working capital is required.
 - ◆ **Accounts Receivables:** (Days sales outstanding: $A/R \div \text{Sales} \times 365 = \text{DSO}$) Should be less than 45 days. Accounts receivable and accounts payable should be linked. A/P should not be paid sooner than A/R are collected. If this presents a problem with suppliers, you need to collect receivables faster---or change suppliers.
- ◆ **Operating Profit/EBITDA:** (Earnings before interest & taxes). Strive to achieve a 15% operating profit margin. A company with an 8% percent margin is good but not great. If the owner's compensation and "perks" are more than a manager's, then---the extra compensation is added back into profits before calculating the operating profit margin.
- ◆ **SKU's:** Less is better than more. A company should consider dropping the bottom selling 5% when new products are added. More SKU's mean more carrying costs, so each SKU should produce sales and profits at a level that enables the company to achieve its objectives.
- ◆ **Industry knowledge:** The Tidewater Group specializes in the food industry. We are knowledgeable about mergers and acquisitions, financial structure, strategic planning, financing and other issues important to owners in the food industry. If we can be of service, please give us a call.

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4019 Bishop Court
Wilmington, N. C. 28412

Phone: 910-793-9224
Fax: 910-793-9366

E-Mail: bill@thetidewatergroup.com