The Supply Chain Network

European Union
European Regional Development Fund

FOOD & DRINK SECTOR GUIDELINES

Growing your Food Business

August 2021

Making opportunities visible, accessible and winnable!

NORTHERN POWERHOUSE HM Government

ENTERPRISE PARTNERSHIP York / North Yorkshire / East Riding Business Inspired Growth

HONEYCOMB CONSULTING

About the Supply Chain Network

The Supply Chain Network has been created to help share intelligence regarding developments and assist in making business opportunities visible.

It has 4 main activities:

- **business support/advice**
- **supplier directory**
- **opportunities map**
- **resource portal**

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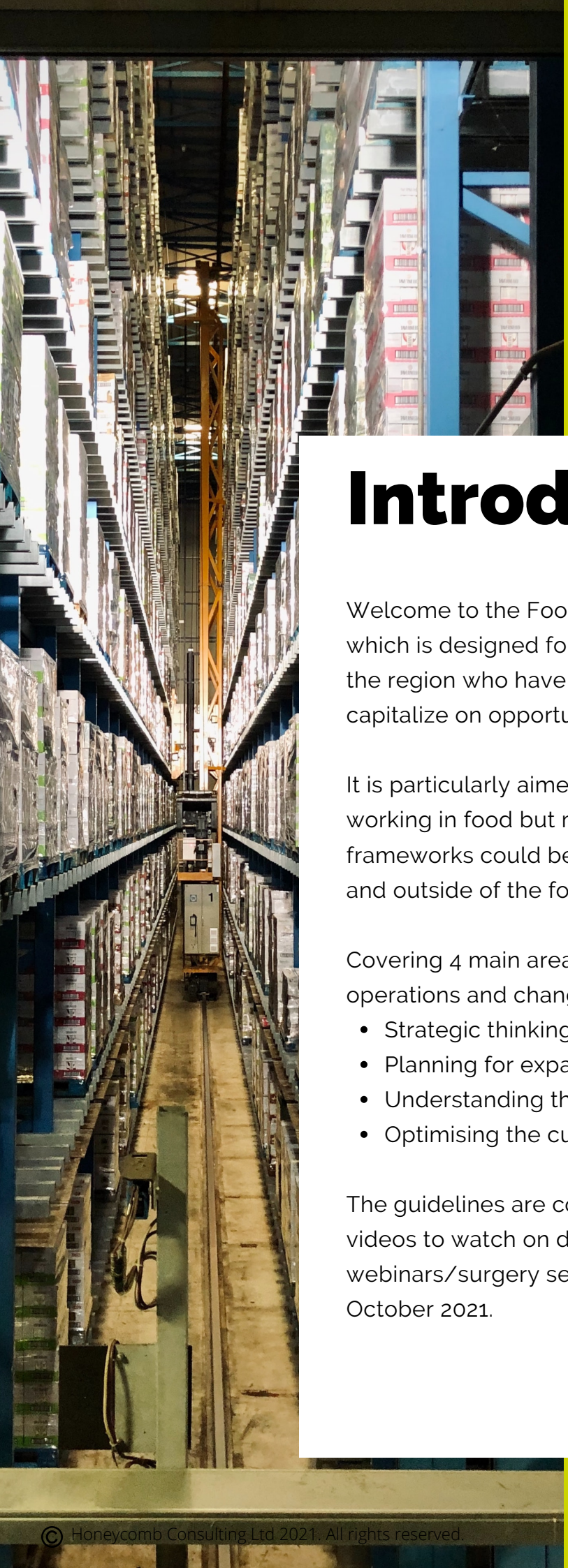


Introduction

Welcome to the Food and Drink sector guidelines which is designed for food and drink businesses in the region who have growth ambitions and want to capitalize on opportunities across the supply chain.

It is particularly aimed at smaller businesses working in food but many of the principles and frameworks could be used by larger businesses and outside of the food sector.

Covering 4 main areas of strategy development, operations and change management:

- Strategic thinking – considering expansion?
- Planning for expansion
- Understanding the current operation
- Optimising the current business

The guidelines are complimented by pre-recorded videos to watch on demand and live webinars/surgery sessions in September and October 2021.

The Supply Chain Network

CONTENT

Talk to us now about the support, funding and advice we can provide to help your business grow.
thesupplychainnetwork.co.uk growing the region's supply chain

Section 1 : Strategic Thinking

Introduction

Whether you are early on in your business journey or are more established the value of having a clear sense of direction, a plan, based on your goals for your business cannot be underestimated. The form that this plan takes can be varied but the real value comes in the thinking that sits behind it and then having clear routes to taking action so that you turn your goals into reality.

Sometimes in the 'busyness' of running a business it can be natural to feel like you are stuck on a hamster's wheel and are so busy in working **IN** your business you can never find the time to work **ON** your business.

Hopefully by giving yourself some time to read this section or watch the video it gives you the impetus to break out of the cycle and seriously start planning for your future business.

In this section we will introduce some tools that can aid strategic thinking - perhaps ideas or thoughts that up until now have been part-formed, attempted or even totally new to you.

OUTCOME

By the end of this section you will understand :

- the process of strategic thinking,
- have a clear sense of direction for your business
- using the templates to develop a clear sense of growth opportunities in your business and what will need to be in place in order to capitalise on them.

Key Tools in this section

- Vision checklist
- Goal setting
- SWOT analysis

Strategic Thinking

Being clear about your vision is such an important touchstone for you and your staff – done well it can act as reference point to evaluate those opportunities and activities that emerge and whether they lead you towards achieving your vision

What is your vision?

Start with the end in mind!

The creative process of thinking about the future possibilities should feel inspiring and exciting not overwhelming so attempt to remove yourself as much as possible from the here and now of your business. Worrying about that email you need to respond to or that tricky customer or what has happened in the past could potentially stifle and/or restrict your thinking. Imagine yourself in 3 or 5 years having a conversation with someone about your business.

Work through the checklist below to help you become clearer.....

- How would you describe it?
- How big is it? How many staff, the turnover, the profit?
- What type and number of products does it offer?
- Where do you sell these products?
- Who are the main customers?
- Anything else you want to capture?

Consider what your role might be in your future business

If you are a visual person then using images in a Vision Board with a few words and figures might be more helpful for you.

What is your why?

As your business grows the clearer you are about your purpose – the reason your business does what it does, for the customers its serves, is vital.

Fundamental to this is understanding your intrinsic values – what are those non-negotiables for you? It could be about how you treat your staff, the way you make your products, where you source ingredients from, the actual ingredients you use, the customers you want to do business with. As your business grows these could be tested, and you are unlikely to be making all the day to day decisions so the more that your purpose and values can be made explicit to your team the better.

List out those values which are important to you & which you won't compromise on

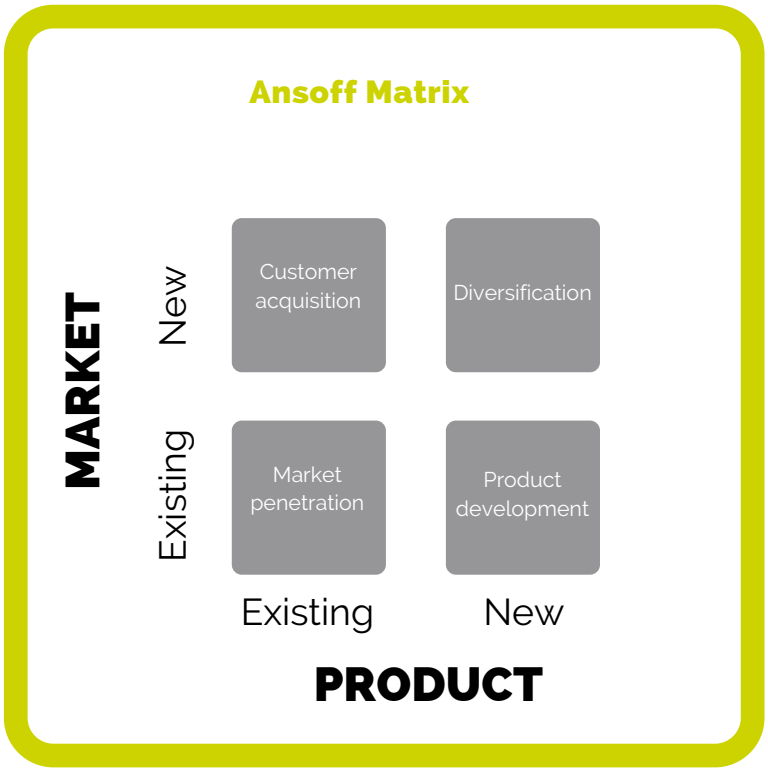
Appetite for Growth

Understanding your appetite for growth and/or risk in your business is important, particularly if you are working as business partners.

After doing the vision exercise you will have a sense of the scale of the business you want to grow to be in the next 3 years – break it down into year 1,2 and 3 – is it stretching or easily achievable?

Ways to grow your business

Now that you have a sense of the vision you have for your business and what is important to you there are 2 tools that can be really helpful in understanding potential opportunities and ways to think about increasing sales.



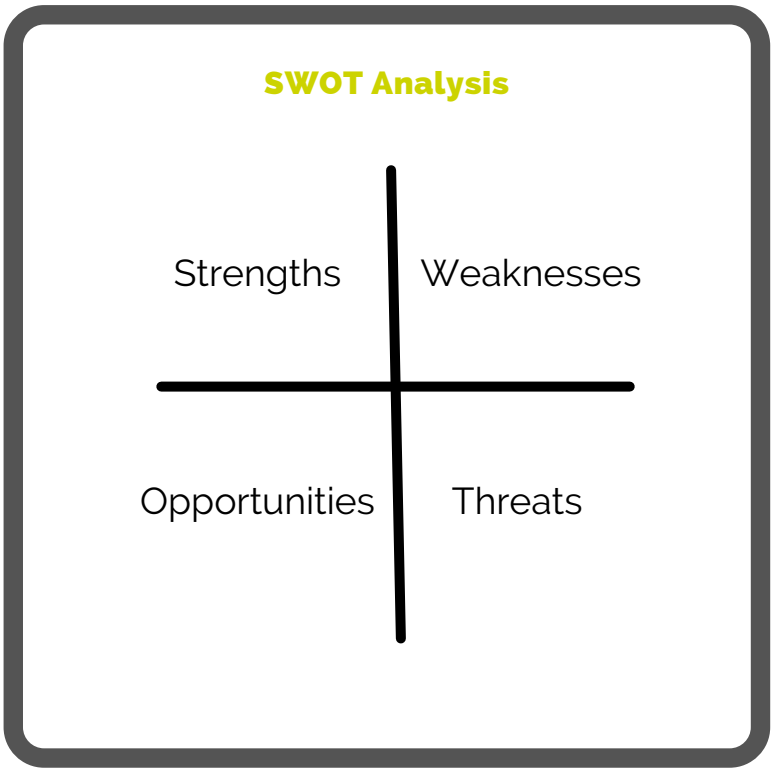
In this matrix the idea is you can generate extra sales in 1 of 4 ways:

- selling more of the same products to the same customers (market penetration)
- selling more of the same products to new customers (customer acquisition)
- selling new products to existing customers (product development)
- selling new products into new markets (diversification)

We will go through examples in the video

Using a SWOT analysis to identify where your business (& your teams) is currently.

- what are you good at/enjoy doing/receive great feedback for?
- what could you do more of to make the most of those strengths?
- what are the areas you struggle with, have gaps in ?
- what is going on in the world around you, your competitors?



Strategic Thinking in Summary

Be clear about your **VISION**

Use the vision questions on page 6

What is your **PURPOSE & VALUES?**

Options for increasing customers & sales

Try the Ansoff Matrix on page 8

Do a SWOT analysis on page 8 taking into account the competition

CONTEXT Identify opportunities

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Section 2 : Planning for Expansion

Introduction

Now that you have identified the opportunities and potential areas to investigate its important that you have a sense of how you will meet this demand in a planned and scaleable way. This section explains different ways to look at this to avoid the situation of you being unable to meet the expected demand and potentially disappoint customers.

As you grow the ability to know your current capacity (how much you can realistically make) and the levers to use to increase your future capacity are vital.

Key Themes

- sales forecasts
- capacity
- staff scheduling
- production phasing

OUTCOME

By the end of this section you will understand the concept of capacity planning, sales forecasting & approaches for managing your capacity to meet the demand.

As you grow from a small food business to one that is larger serving multiple customers, its essential you have a view of future sales – this is usually in the form of a sales forecast. The reason that it is important is to ensure you will have the ability to meet this expected demand. Usually this isn't something that you can 'turn on like a tap' overnight. You might need to recruit and train new staff, order and increase stocks of ingredients and packaging, or look at different distribution.

Building a sales forecast can be a bit tricky and it's never going to be 100% accurate but providing it 'is good enough' and the time taken in creating it does not outweigh the benefit its something worth doing sooner rather than later. The sales forecast should link back to your budget – the only difference being it's the more detailed look at what makes up the sales figures and ideally you want to consider the next couple of years ahead rather than the current financial year.

Simple steps to building a sales forecast

Outlined below are some simple steps you could use to build your sales forecast:

Using an excel spreadsheet is probably one of the easiest ways if you don't have any special software.

- Look at your previous years sales by month and by product – take this as the baseline in your spreadsheet
- Look at this year's budget – how does that compare each month?
- Take your vision for the business and your yearly growth targets and think about when some of this growth is going to occur i.e in 3 or 6 months time. You might want to keep it simple and want to increase sales by 25% next year for example.
- Alternatively you might be able to add in more detail based on your earlier thinking – some suggestions:
  - extra listings with existing customers
  - listings with new customers
  - new product launches or products you plan to stop
  - increased advertising/social media
- Start adding in the extra volume by month - the main caveat being make it realistic - too extreme one way or another will mean that you are gearing your capacity on the wrong basis.

The goal is to finish up with an understanding of your anticipated monthly sales by product ideally for the next couple of years based on previous sales history and future growth ambitions.

CONSIDER

Does the sales forecast match your budget to the year end?

Now that you've built it – continue to add to it each month & put the actual sales figures in for the month as it happens. That way you have a living document but also a sense of how accurate your forecasting is.

Do it by product or product grouping depending on what you make, the time to make different products might vary significantly - this is important as we come to look at your capacity.

There will always be something unexpected that crops up – don't be disheartened if you didn't achieve your forecast one month

What is your Capacity?

Do you know how much you can make each day, week, month? Knowing how much you can make – your capacity, is vital as you plan for growth.
It can be difficult to estimate this if you are a small producer making a lot by hand – much easier if you making your products on a machine as you'll know how much you can produce in an hour.

Either way it's a good discipline to time how long its taking you to make your products over a day or over a batch. This can be considered in one of 2 ways depending on the type of production you have :

- overall **PROCESS** time i.e. the time it takes based on the various stages of the process including any time when your products are being cooked or cooled.
- overall **'PEOPLE input'** time i.e. the time it takes for an human intervention to make the product and excludes when your products are being processed by equipment.

If you are a very labour intensive business then the 2nd route will be more useful for you as the capacity that is important is in how much your staff can make. I

f you are more automated then the capacity that's more important is how much you can make each day from starting the process to the end.

Do you have enough capacity each month to meet expected demand?

Understanding the amount of 'people input' in your product, often referred to as labour hours is a key building block to accurately cost your products.
For example, if it takes 30mins to make 10 products and staff cost is £10 per hour, then each product takes 3 mins to make and costs 50p per product.

Capacity planning vs sales forecast

Now that you have a sales forecast and you understand your capacity – its time to compare the two. Do you have enough capacity each month to meet the expected sales ? Its important to consider the capacity by month, taking into account any holidays, shutdown periods etc.

Initially its likely that there will be an odd month where it looks like there won't be enough capacity and this will start to become each month as the sales increase. This is the indication that it's the time to look at staffing levels and/or working hours for your production (whichever is your limiting factor based on if you are more labour intensive or automated).

However before you get take on extra staff which can be time consuming, costly and difficult in the current climate there are several different ways that you could look to manage your capacity to meet the initial peaks in demand.

REMEMBER!

Increasing capacity doesn't tend to follow a smooth line.
It tends to increase stepwise so as you increase it, you will have times that you have more than you need. Sales increase and fill this capacity and the cycle repeats

Different ways to increase capacity without increasing staff numbers permanently :

- **Can your production be phased ?** If you make ambient or frozen products you can build stocks during quieter months (providing you have storage) to get you through the peaks in demand.

- **Annualised hours?** Similar to above - could you look at staff contracts so that extra hours are worked at busier times and less hours are worked at quieter times. Staff still receive same salary each month but it helps to manage some of the peaks and troughs in demand

- **Can any products be outsourced?** Are there any products that you could get another manufacturer to make.

- **What can you do to improve throughputs with existing staffing?** We'll look at this in more detail in the next section

- **Can you change existing staff hours?** Obviously overtime but have you thought about spreading out the day so that nobody is waiting for equipment and everyone has space to work ?

- **Consider use of seasonal staff?** Recruiting less skilled seasonal staff for short term peaks can be a cost effect 'boost', freeing up more experienced staff to focus on the more skilled jobs.

- **Can part-timers flex their hours?** This can be a temporary fix for a short term peak in demand

- **Can most staff do most jobs?** With training, the more staff can be multi-skilled and do most jobs the better.

Obviously these are short term/temporary ways of increasing capacity through seasonal peaks in demand. As you grow then you will need to recruit staff but try some of the above initially to give you more flexibility.

Section 3 : Understanding your current operation

Introduction

We will now start to drill down into how you actually work out your capacity, your product costs and how they link to overall profitability.

When you make any product or provide a service, these can all be broken down into a series of 'steps' or activities – they all come together in a process. These are often represented as a '**process map**'. Process maps are a simple way of showing how your product is made and the various steps. They are often used for HACCP analysis and you could adapt what you already have from doing that.

They are a really useful way to understand and then calculate the time taken for each step of the process. This is important as it helps you to determine the overall time it takes to make a batch of product which is essential in working out your capacity.

It is also useful later on when we start thinking about how we could make parts of the process efficient.

OUTCOME

By the end of this section you will be able to calculate your:

- true capacity,
- product costings

and evaluate your product mix & range profitability

Calculating capacity

Construct a process map

Record the time taken for each step

Total to give the overall time for the batch

How to construct a process map

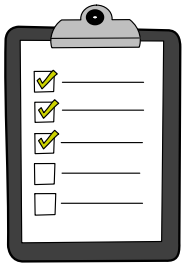
A simple process - making a cup of tea

In simple terms think about when you make a cup of tea, the different steps might be:

- Turn on the cold water tap
- Fill the kettle
- Switch the kettle on
- While it is boiling, get a cup out of the cupboard
- Warm the teapot
- Choose the tea bag, put it in the warmed teapot
- When the water is boiled, pour it in to teapot
- Leave the tea to brew
- Take spoon out of the drawer
- Pour the tea into the cup
- Take milk out of the fridge
- Pour milk into the cup & stir
- Enjoy your cup of tea

We are using this illustration to demonstrate some significant points:

- In any process they are many more steps than you probably realise
- In order for an activity to happen you need to have the materials to hand (tea bag, cup, water)
- This will involve moving materials and possibly the person doing the activity
- There are sometimes delays in the process (waiting for kettle to boil, waiting for tea to brew)



Try mapping out the process for 1 of your products.

An easy way to do this is get some post it notes, write each activity of your process on a separate post it note and then organise into the correct flow.
By doing this you can rearrange and/or add to post its if you realise the steps are not in the correct order or you've missed something out. Ideally do the exercise with someone in your team.

This gives you total time taken per batch, knowing the number of items in 1 batch then work out time per item.

Product costings :

Do you know how much each product costs to really make? Product costings should be composed of the following:

- **Ingredients (take into account the yield)**
- **Packaging (bag/box/label/tray)**
- **Labour to make the product (you have calculated this whilst doing the process maps)**

These together are the true costs of goods (often referred to as COGS). Usually the product costing would be calculated on a typical batch size and then pro rata it down for the cost of 1 item.

Make sure your cost of ingredients takes into account any wastage due to mix being left in bowls/pipes etc or unable to be used – this is usually expressed as a percentage loss ie. 5%loss which is equivalent to a 95% yield.

If you are an online business then the true cost of product needs to take into account any outer packaging and the labour amount for this packing time.

You can use software pages to calculate your product costings (there may be some included with finance or development software you already have) but otherwise a simple excel spreadsheet is fine. The important fact to remember is to regularly review your costings if anything changes and also make sure you have them available for each product.

By having a clear view of actual product costings (and hence margin) and how long products actually take to make, compared to the price you charge for them you can start to build a picture of your profitability by product and by ranges.

Considering Profitability :

Having accurate product costings is really essential to determine your 'product mix' going forward. Making significant amounts of a product group that is very time consuming but only makes you the same cash margin as another product group can raise the question about how best to use the time you have available.

Maybe a particular range is important for a particular customer but if its time consuming and/or not as profitable as other ranges maybe it should be minimised, not sold to other customers or could it be made in a more efficient way to reduce the cost price (if it's not possible to increase the selling price) ?

The considerations to take into account when you look at your product mix are **TIME vs VOLUME vs MARGIN (OR VALUE).** Sometimes it can be easy just to focus on the volumes you are selling or making but if these products are very time consuming to make and/or don't actual make that good a margin then you could be focusing your efforts in the wrong area.

Next steps in becoming more profitable

There are many ways to make your business more profitable and one fundamental way is to make it as efficient as possible. Efficiencies don't just need to be about your manufacturing process – it can relate to any processes used in your business. A good starting point to improve your efficiencies and hence profitability is to consider where waste occurs in your process. The definition of waste being anything that doesn't add value for your customer rather than the typical view of waste which might be something you throw away.

Just think about the example of making a cup of tea - there are several times were there is a delay/ waiting taking place. Some are necessary steps in order to complete the process but what do you do while you are waiting? Think about equivalent delays/waiting in your processes and what happens.

Section 4: Optimising current operation

Introduction

In this section we will look at how you can optimise your current business so that any growth is built on firm foundations and that you are in the best shape possible to make the most of future opportunities that you have started to identify.

In particular we will consider the different forms of waste in your business, show you how to conduct a 'waste analysis' and what to do with it.

OUTCOME

By the end of this section you will :

- Gained some thoughts on how to improve current business
- Learnt how to do a waste analysis
- Identified potential ways to reduce/eliminate waste
- Become familiar with the '5 Whys'.

What is waste?

The definition of waste in lean thinking is anything that the customer does not value.

The fundamental idea of lean was originally pioneered by Taiichi Ohno for Toyota in the 1950's and developed into lean manufacturing principles in the 1990's. At it's core is the idea that any activity should maximize value to your customer and minimise waste.

Whilst we are not going to go into detail about lean methodologies there are a couple of concepts that are very pertinent to food manufacturing and easy to apply in practice.

The first is to consider the wastes associated anything that stops a product or service getting to your customer i.e. affects the flow through your processes – sometimes known as the 7 wastes.

Conducting a waste walk :

By conducting a waste walk (also known as a waste analysis) you can start to see where some of these wastes might be occurring, identifying the causes and then do something about them. Ideally have a team walk through the processes together - someone not familiar with that part of the operation is really useful as a fresh pair of eyes and note down any wastes according to the following headings:

- **T**ransport of materials, product etc
- **I**nventory – excess stocks of ingredients, packaging or finished products
- **M**otion – of people backwards & forwards
- **W**aiting – delays in the process
- **O**verproduction – making too much
- **O**verprocessing – adding extra steps in the process
- **D**efects – can cause rework or pure waste

Sometimes known as TIM WOOD. We will explain each of these definitions with examples in the accompanying video.

The infographic below is a good illustration (copyright Nigel Slack, Stuart Chambers and Robert Johnston, 2004) of the different wastes. A further waste of SKILLS - under-utilised skills & talent of staff has been a further development on the lean theories.

How to identify what is causing the wastes

It is really important to understand why you have the waste you have – it sounds simple but make sure you get to the **root cause** of the issue and solve that rather than the **symptom** you are seeing. A good discipline to use is the idea of the **5 why's** – continually asking yourself the question why (like a child) to get to the core of the issue.

As an example, you might have identified that you have a waste due to delays in waiting for equipment (the symptom).

So ask **Why** ?
Statement :The machine is running more slowly than it used to.
So ask **Why** ?
Statement : It hasn't been checked or had a service in a long time
So ask **Why** ?
Statement : Because nobody thought to contact the company that manufactured the machine
So ask **Why** ?
Statement : Because everybody thought someone else would do it
So ask **Why** ?
Statement: Because it isn't clear in anybody's job description who is responsible for equipment maintenance

Whilst this is a simplistic example, by continuing to ask the question you reveal a different root cause of the problem and potentially one that is impacting in other areas.

So far we have focused on manufacturing but the principles regarding lean can equally apply to other parts of your business. A classic area to review and probably make improvements to, is **sales ordering and processing**. This is likely to involve several departments, potentially delays and opportunities for time saving and streamlining

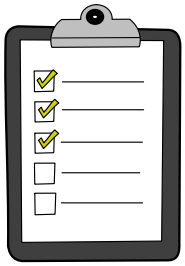
How to reduce or eliminate the wastes you have identified :

There are many different ways of improving your efficiencies and reducing waste and they will all fall into these 4 main categories :

- **Streamlining the flow – reducing/eliminating any stops/delays**
- **Matching supply and demand wherever possible**
- **Making the processes as flexible as possible so that you can react to customer demand**
- **Reduce variability in the process (ingredients, methods, conditions)**

Thinking about your processes these are some suggestions of areas to consider :

- Review the process design for each of the 'problem' stages – look to see where product is building up
- Reduce or remove bottlenecks
- Flexibility on machines – balance between larger batches and some smaller equipment to provide flexibility
- Look at set up times and processes – do you need spares of certain equipment such as bowls for mixers to maximise the usage on key equipment?
- Buy the necessary equipment to minimise delays and reduce motion/transportation
- Look for opportunities for smoothing out production



Take all your ideas for action and make sure to prioritise them based on the impact vs the level of return using the matrix in the Appendix

Appendix of useful templates & checklists

What is your vision ?

Work through the checklist below to help you become clearer about the vision and future direction for your business....

How would you describe it?

How big is it?

How many staff, the turnover, the profit?

What type and number of products does it offer?

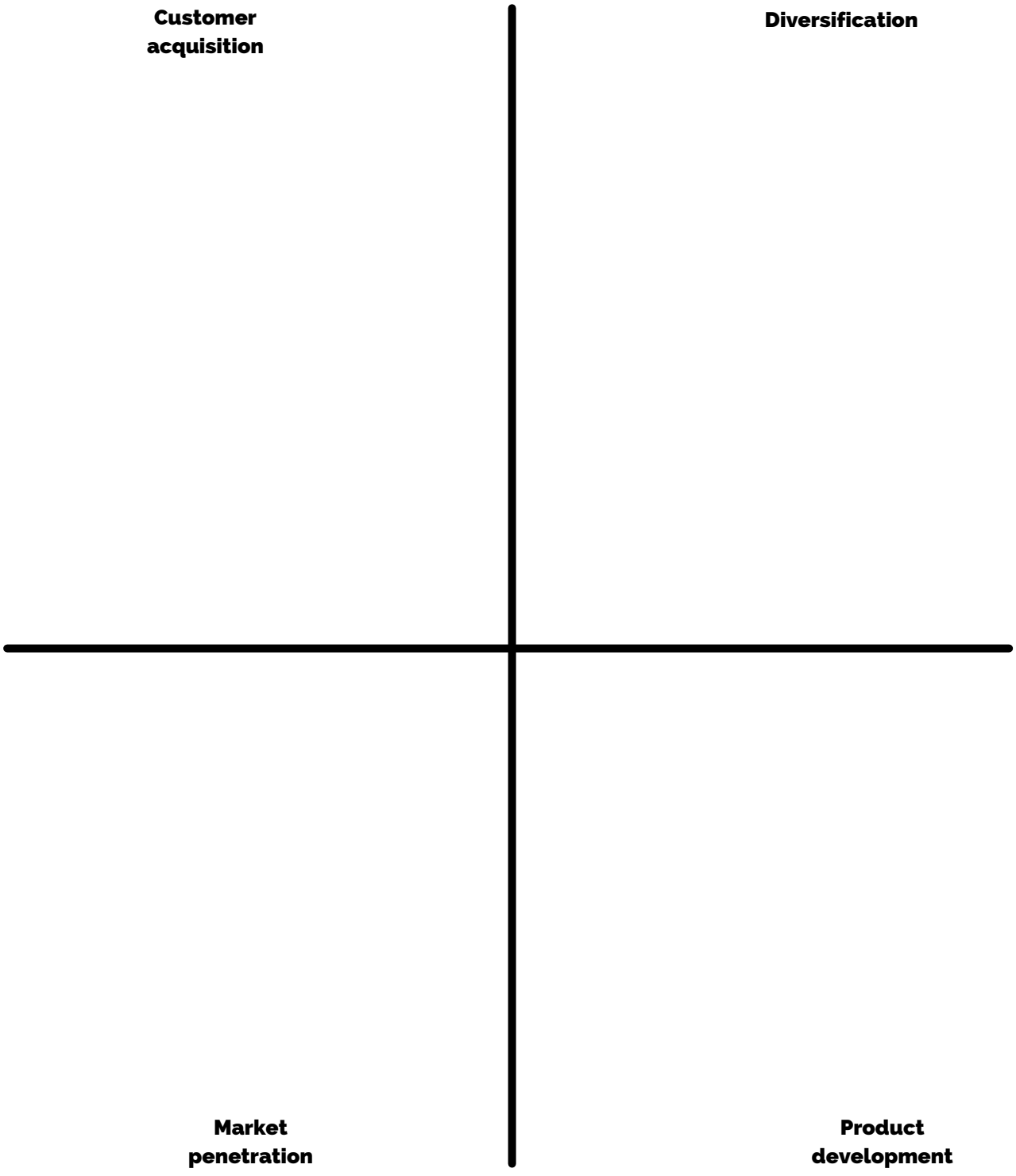
Where do you sell these products?

Who are the main customers?

Anything else you want to capture?

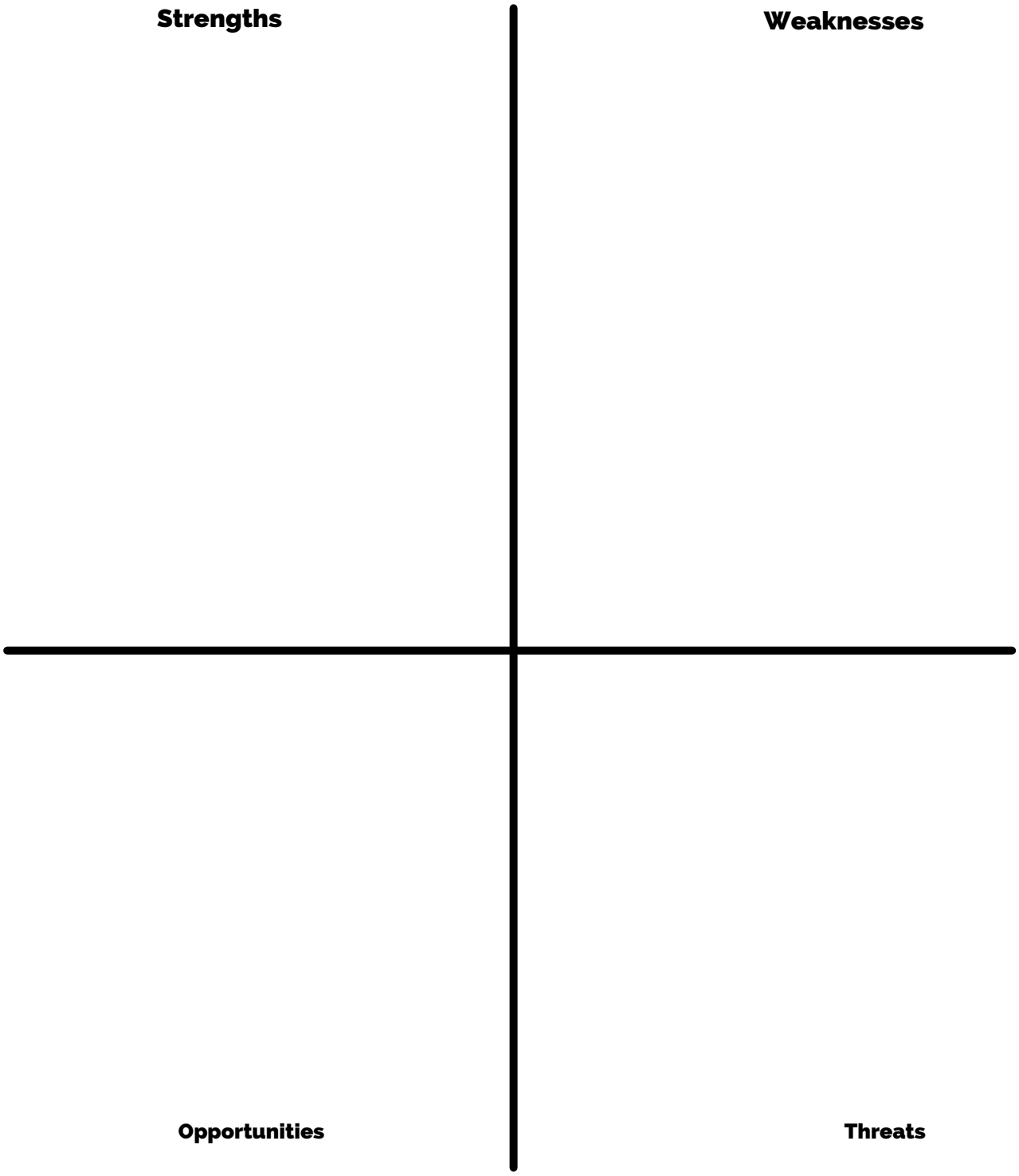
Routes for expansion

Try the **Ansoff Matrix** below :



Routes for expansion

Try the **SWOT analysis** below :



Product costings

This is a prompt of what to include in product costings - use an excel spreadsheet if you don't have software

Ingredients

List out each ingredient, the amount per batch, cost per kg and then calculate cost per batch

Take into account any losses to work out the actual number of items per batch

Labour

If you have a very labour intensive process, calculate the actual staff time to make a batch by using the process map.

Calculate the labour costs by multiplying by the actual staff costs per hour i.e. including NI contributions.

Packaging

Include all items however low cost they seem, so labels, stickers etc

Total cost

Total each of the sections to get a cost per batch, then divide this by the number of items per batch to get the **cost per item**

Efficiency Checklist

STREAMLINING FLOW :

- [ ] Where are the delays?
- [ ] Reduce or eliminate any delays
- [ ] Shortening overall production time?

MATCHING SUPPLY & DEMAND :

- [ ] Smoothing out production if possible?
- [ ] Regular and up to date forecasting

FLEXIBILITY :

- [ ] What would give you greater flexibility?
- [ ] Do you need any different equipment?
- [ ] Do you need to change staff hours?

REDUCING VARIABILITY :

- [ ] People?
- [ ] Product?
- [ ] Process?