

WEBINAR RECAP

4 Ways Small Businesses Can Turn Food Industry Challenges into Opportunities



ABOUT THE WEBINAR

TOPIC: 4 Ways Small Businesses Can Turn Food Industry Challenges into Opportunities

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SPEAKERS



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One thing small-business owners in the food industry know all too well is that to survive, you must adapt. As COVID-19 shut down restaurants and led to unprecedented challenges for manufacturers — whether due to an increase in demand or a sudden requirement to find new customers — the food industry pivoted as much as possible to keep its businesses afloat.

But with the height of the pandemic seemingly past us, the food industry finds itself amid another challenging moment. The early days of the pandemic sent a ripple effect, leading to production shortages, demand shifts and supply chain issues, which continue to permeate the industry and create new concerns with different dynamics. What's more, small-business owners are increasingly concerned about geopolitical issues impacting food prices and creating new business challenges.

As a small-business owner, it's easy to recognize concerns — but you also need solutions. When done right, those solutions can create opportunities and push your business ahead of your competitors, even while addressing the risks. In the food industry, where change is the norm, those that can adapt to the new reality will thrive. This first requires grasping important aspects of your organization's finances. Then, you can take a holistic approach to address the financial concerns by turning your biggest business challenges into profit drivers.

Continue reading to gain an understanding of what small-business food companies face in the current macroenvironment and, more importantly, how they can overcome these challenges and thrive.

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THE CHALLENGES YOU FACE

When it comes to food and costs, business owners must address many supply chain issues. Some of the biggest concerns directly impact the costs of production, the supply available and the demand that businesses can expect.

Other manufacturing challenges exist, of course. Cybersecurity, for instance, has become a growing problem for any business, especially one that draws resources from across the globe. Weather is another risk that can arise, and this can often complicate other issues. But the unique challenges we're seeing today often relate to the way organizations resource and manage costs, supply and demand.

Recently, PNC hosted a webinar where Delaney Howell, founder of Ag News Daily and chief marketing officer for the agricultural marketing company Trader PhD, outlined the prominent supply and demand concerns facing food manufacturers, suppliers and restaurants. By addressing these issues, Howell says businesses can directly ease the impact they have, while also turning any headwind into a competitive advantage.

1. WORLDWIDE PRODUCTION SHORTAGES

In reaction to the pandemic, many meat, dairy and other suppliers had to pull their products, cut staffing and limit production. Now, as the world moves back to a new sense of normal, many of those same suppliers are ramping up their production capabilities to catch up with current demand. This, along with heightened purchasing, has resulted in higher prices and product shortages.

The pandemic also prompted U.S. consumers to order more takeout from restaurants. As restaurant owners pivoted to service this growing consumer demand, which continues to show heightened levels compared to pre-COVID-19 numbers, it also fueled a huge production shift (see Figure 1).

This has resulted in shortages in many key food categories, which increases costs to manufacturers and restaurants — including the small-business owner.

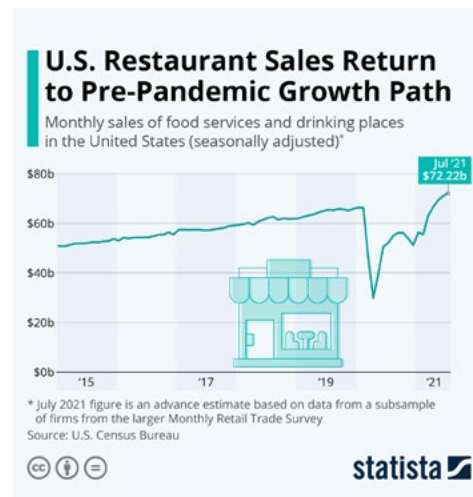


Figure 1. U.S. Restaurant Sales Return

2. DEMAND SHIFTS

In 1947, the average person consumed 47 gallons of milk per year. Now, that amount has fallen to 16 gallons per year, which has impacted the entire dairy industry — including milk, yogurts, cheeses and more. In recent years, a similar trend occurred in meats, where the rise of alternative plant-based protein products had begun to impact the rate of meat sales in the U.S.

According to Howell, this shifted again during COVID-19. As consumers began to cook more at home, they turned back to traditional items — like meat and dairy — to feed their families. This may have been the result of consumers stocking up on food at the beginning of the pandemic or needing items

that could feed a family while easily stored in freezers. Either way, this trend has stuck even as most locales have fully opened again.

While many consumers returned to basics, it's important to remember that others became more niche within their dietary needs and preferences. This has continued to open the door for products that serve a very specific audience, such as gluten-free, paleo, vegetarian and vegan consumers. Those in the food industry who are adapting to these trends can create new business lines and drive more sales.

SIDE BUSINESS GOES NATIONAL

Every year, as the harvest came to an end, a large family farm in Delaware realized they would have pounds of unpurchased product that they would have to toss because their clients — grocery stores — would pass on the fruits and vegetables. Most of the time, the crops simply would not sell because of cosmetic reasons, and the farm wanted a way to utilize the full production. Out of this process, Frozen Farmer was formed in 2015.

Frozen Farmer took those unused fruits and vegetables, developing a new line of frozen sorbets and yogurts. In the pandemic, despite restraints on grocery stores, Walmart and Kroger began stocking the products nationally, resulting in a growth of locations that supplied the products from 73 to more than 8,000 retail stores in only 12 months.

3. GEOPOLITICAL TENSION

The terrible events unfolding in Ukraine have also resulted in significant food concerns across the world. Ukraine is the number one producer of sunflower seeds, as well as the sixth-largest producer of corn and barley, said Howell. While there's hope that farmers will still be able to sow their crops, it's not a guarantee, and it's difficult to determine how long these tragic events could continue to unfold (see Figure 2).

These tensions highlight the worldwide connection in food production, which also means that small-business food producers face an ever-present geopolitical risk. Planning for such risks can protect the company if tensions rise, while also allowing the organization to thrive no matter what happens in the larger food supply chain.

GLOBAL PRODUCTION

Ukraine is ranked ...



Figure 2. Ukraine Global Production

4. SUPPLY CHAIN SHORTAGES

Small businesses face a threefold impact when it comes to the supply chain and labor shortages. First, there's a global supply shortage, and food producers need to ensure they can continue to grow and ship their products. This includes making sure they are stocked on vital resources, like fertilizer and herbicides. For companies that provide end products, there has also been a slowdown in shipping containers, which has resulted in delays, customer satisfaction and lower profits. (see Figure 3).

Second, on the labor side, COVID-19 saw baby boomers shift into retirement at greater rates. This has left a dearth of talent in the workforce, requiring small businesses to hire more employees to address this labor shortage.

In addition, the third issue has come from the great resignation, where a significant percentage of the labor force either stepped

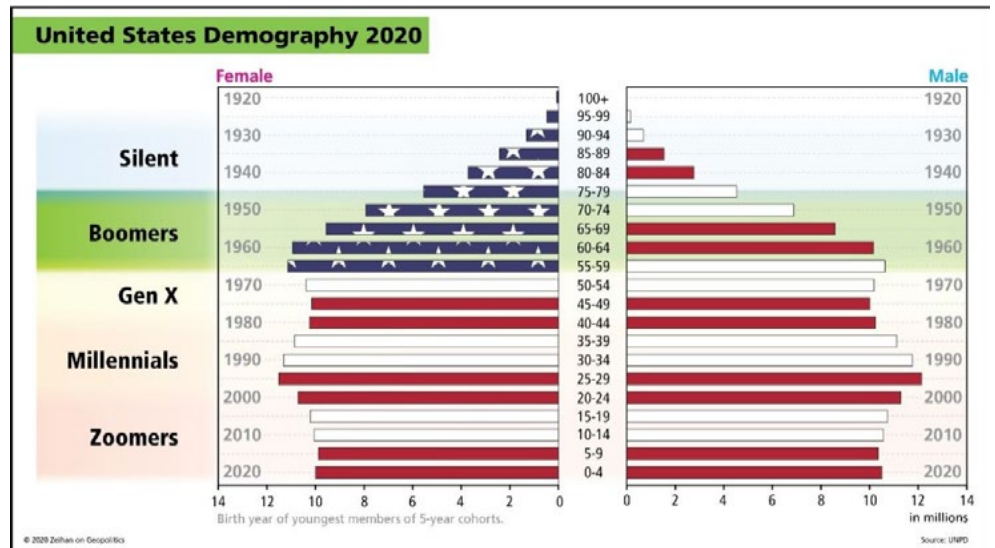


Figure 3. United States Demography 2020

away from their job for other opportunities or left the workforce altogether. Again, with less supply of talent, small businesses can face issues in finding strong replacements. Finding solutions to address this talent

shortage — such as automated services and AI — can sap critical resources meant to go to other parts of the organization. Addressing the labor shortage means business owners must carefully plan and strategize.

FINDING OPPORTUNITY WITH SOLUTIONS

The problems small businesses face in the food industry are large-scale issues that shift on the whims of entire economies.

While small-business owners have little control over these industry challenges, they can prepare for and react to these trends — and turn challenging situations into new opportunities for business growth. This requires foresight, awareness and the right strategy on hand.

Here's how to address these large challenges, reduce their complexity, and make it easier for an organization to thrive in the new normal they create.

1. TAKE A HOLISTIC APPROACH

It's easy to look at large issues like supply chain delays and seek quick fixes. But taking this approach can leave an organization in worse shape than before. For example, imagine you decide to shift suppliers because of a slowdown in the shipping time for one product. By doing so, it could increase costs on all other supplies you have shipped with the former company — or it could result in higher prices for future shipments within the new company.

Instead, you must address the issue by first understanding how the entire organization is impacted by the current trend. By evaluating your proposed solution at a holistic level, you can ensure that solution will ultimately aid in the company's growth moving forward. Not only does this allow your business to be resilient amid these impacts, but it also opens new possibilities for profit. But the nimbleness required to make this work, which small

businesses thrive on, first needs a holistic mindset. That way you remain nimble but not in constant motion.

"Our clients have been impacted by many of these issues," said Jennifer Skeeles, senior vice president and business market lending advisor manager at PNC. "We are taking a comprehensive approach to make sure we're helping our customers, not only to manage risk, but to be able to grow their businesses during this unprecedented time," she added.

2. CREATE A CLEAR PICTURE OF YOUR CASH FLOW

During COVID-19, one issue many companies have faced is gaining a clear picture of their cash flow and working capital. For those with limited resources, such a tumultuous time has left business owners feeling cash-strapped, which also results in late payments to suppliers and creditors. For those that have seen an influx of sales, this has led to an inability to properly leverage the moment to extract the most profits. A small business should not ignore either scenario.

Instead, gaining a clear picture of how the organization's money moves in and out can offer clarity on how to approach the complexities these current food issues present. If you know your supplies will take longer to reach you, it may require a longer working capital time frame. How does that impact other areas of the business? Are there tactics to address these concerns? Or are there ways

that the organization can utilize other resources to provide a new solution that can drive the business forward?

The answers to these questions require a clear understanding of when cash will move in and out of the business. By answering that, you can either jump on opportunities or provide measures to reduce the risks that these challenges present.

3. UNDERSTAND YOUR FINANCING SOLUTIONS

Often, the solution to the issues small-business food companies face right now will require investment. Take the supply chain challenges: Because many companies are viewing this as an issue that will linger for the foreseeable future, they have been buying or building factories closer to their organization. This allows for faster and more cost-effective production. For the labor shortage issue, many organizations have invested in automated solutions such as automating checkout or adding robots to the factory floor.

Whatever the issue, investing in cost-effective solutions can drive positive change for a business. But it also requires having the right banking partner, especially as interest rates are expected to rise. As inflation becomes a growing concern, these rising rates may also continue to increase for the foreseeable future, and expanding or investing further in your business will require a sound banking relationship to ensure you're obtaining an affordable effective loan.

4. HAVE THE RIGHT HELP

When it comes to running a small business, it's vital to have the right people by your side. Not all business owners have traditional financial backgrounds, and it's important to find the talent within your team — or outside of it — in a way that you can trust.

OMG It's Gluten Free, Inc. is a business that started 12 years ago as a café serving gluten-free baked goods. The CEO and founder, Julie Couzins, started it because she and one of her children had celiac disease, and she couldn't find quality products to fit this dietary restriction. Fast forward

to today, and the company has shifted to manufacturing its own gluten-free products and stocking them on grocery shelves across the country. To achieve this, she relies on a key group of close allies, who have been working with her for years. "Everyone on my team specializes in something," said Couzins. "We all come together to act as [the] board or run decisions by."

It's important to hire the right help to accomplish your business goals or to seek out a trusted financial expert who can help provide the financial acumen to let you do what you do best: getting food onto your customers' plates.

NEXT STEPS FOR THE FOOD INDUSTRY

When it comes to running a small business in the food industry, the landscape is constantly changing — but it doesn't mean you should fear those shifts. Instead, with the right approach, you can use such shifts to your advantage. PNC has a long history of aiding and [guiding food companies](#) through these specific concerns and helping them thrive.

With PNC by your side, you can find key solutions within your books, giving you the financial acumen you need to push your business forward.

To learn more about the current state of the food economy, listen to [PNC's webinar](#) on how to turn these food industry challenges into sound business opportunities.

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