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Best Practices for F&B Companies -- Part II



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My last article discussed many good practices for emerging F&B companies, from setup to operating agreements. There are many other best practices for profitable, mature F&B companies as well.

Banking - Companies should treat their bankers as partners, since the bank sometimes has as much capital in the company as the owners. It is not an adversarial relationship, and banks can often give excellent advice based upon the many companies they finance. The last thing you want to do is surprise them with negative results without notification. They can help if you work with them. Banks also have many products and services such as factoring, asset-based lending, foreign currency transactions, credit checking, treasury, investing, and many more. Most F&B companies have a revolving line of credit that is collateralized by receivables and inventory as well as all assets of the company, and may also include personal guarantees of the owners. Companies should only be using this line of credit for working capital needs and not long-term financing of equipment, facilities, or acquisitions. A term loan line of credit can be utilized for these needs. Be careful of loan covenants as they may be negotiated, since many banks are going “covenant lite” in these competitive times.

Receivables - How good are your credit checking processes? Do you have credit insurance to protect against accounts that cannot pay? Credit insurance is well worth the cost. Factoring is another way of alleviating the cost of a credit department and insuring against credit risk. Evaluate the aging of your receivables and act quickly on accounts that are past due. Watch concentration and the build-up that can occur with major customers. Change credit

terms promptly for abusive customers. Offer rebates or incentives. Do you have a key control to ensure that what you shipped was billed?

Inventory - Inventory costing is one of the more difficult issues in any company. Proper costing requires diligent study and up-to-date technology and standards. A bill of materials should be required for each SKU and should address all aspects of producing/buying goods. Consideration should be given to waste or yield factors, labor rates and usage, and overhead (which can be misleading because of fixed costs). A perpetual inventory system and cycle counting is critical to every company, as there are many flaws in taking only annual physical inventories. Assessments of stale, outdated, slow-moving, or unusable inventory should be a routine effort. A good inventory costing system will pay for itself.

Property, Plant and Equipment - Do you have an asset ledger documenting every asset, date of purchase, full cost, depreciation method, and depreciation taken to date? This is an area where you can have your cake and eat it, too. You can claim accelerated depreciation or a complete write-off for tax purposes while maintaining a different, less aggressive method for financial reporting. There are also cost segregation studies for buildings that are owned and used by the operating companies. This study accelerates depreciation for tax purposes from almost 40 years to 5, 10, and 15 years and is relatively inexpensive to perform.

Payables - Do you have alternative vendors for each major product or component? Do you have contracts or utilize purchase orders to insure proper payment terms and conditions? Have you investigated aged-out payables? Have you taken advantage of all discounts, especially for paying earlier than when payment is due? Have you negotiated purchase rebates?

All of the above practices focus on your balance sheet, and a strong balance sheet is necessary for further growth. In the next article on best practices, we will focus on other operational areas, potential tax saving ideas, and personnel issues.



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I am the national leader of Marcum's Food and Beverage Services group. I've been an entrepreneurial leader in accounting for over 40 years, and am a frequent lecturer and published author on various financial and business topics. My expert advice has appeared in both nationa...