

2023

GLAD 2022 IS OVER?

2023 Might be Just as Challenging!

The start of a new year brings fresh hope for improvement and success in our personal and business lives. Like our personal New Year's resolution of going to the gym more often, our plans for our businesses might also fade a bit by the end of January as pressures of the new year reorganizes our priorities.

2022 was a challenging year for food industry to say the least. The story in the food industry in 2022 was how to manage with inflation and rising interest rates. In response to the supply shortages of 2020 and 2021 caused by Covid and other factors prices started to rise for almost all food products. Rising costs for products ranging from meats, vegetables, flour to packaging and trucking took a toll on many food companies. Labour shortages put extra pressure on food processors to attract and retain workers at higher wages.

Food inflation marched steadily up in 2022. In Canada food inflation in January was at 5.2%. By the end of 2022 it had increased to about 10% with some foods increasing by 10% to 15%. However, by late 2022 mid and lower income consumers found it increasingly difficult to balance higher costs of groceries with higher cost for gas for their cars and higher costs for those renewing mortgages.



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To counter the high inflation rates, central banks in Canada, the US and around the world started increasing interest rates sharply starting in March of 2022. The Bank of Canada's overnight lending rate in January 2022 was .25% and by the end of 2022 it had reached 4.25%, the highest since 2008. The Central Bank's policy goal is to bring down inflation and do so by raising interest rates to slow the economy. By year-end inflation rates had calmed somewhat but it will take some time for it to come down to the targetted 2% level. Inflation looks like it will be sticky in 2023 and beyond.

With higher food prices, consumers are trading down to less expensive food, eating less at restaurants and generally being more careful with their food dollars. The food industry and indeed the overall consumer market is also seeing a bifurcated market where higher income consumers have not changed their purchasing habits while mid and lower income consumers are forced to make difficult choices on how they spent their incomes.

Bring on 2023!

It appears the challenges for the food industry in 2023 will be managing through a possible engineered recession as well as persistent inflation. While it may take a few months to determine how severe an expected recession will be, high interest rates to battle inflation are starting to have a slowing affect on the economy. Whether a "soft landing" or a bumpy one we will see an intentional slowing of the economy that food industry managers need to pilot through.

While the food industry is generally a good sector to be in during a recession, not all food companies will fly through it unscathed. With the wisdom of experiencing the affect of previous recessions, a poorly managed company going into a recession will suffer more than others. A recession is much like the declining waterlevel in a lake. Like rocks just below the surface, pre-existing weaknesses in a company will become more visible as the economy slows.

Are you Recession Ready?

There are initiatives companies should take in any economy but particularly in a slowing and high inflationary economy. How ready are you?

1 Are you doing the basics well?

The basics include detailed product costing to monitor profit by product and overall company profitability. As inflation eats into your margins, you must identify ways to reduce input costs including possibly finding new suppliers domestically and abroad. Plant floor productivity is key to surviving ranging from efficient production flows, investing in new equipment to attracting new talent and improving the skill sets of employees. The basics also includes having an excellent sales and marketing team.

2 Are you continuing to invest in your new product development program?

Your plans to develop new products is key to protecting your future cash flow. Your commitment to research and development to develop new products and improve existing products is critical to maintaining your competitive advantage and provide on-going value to your customers. This also strengthens your product and your company brand.

3 Are you following key initiatives in your business plan?

The first requirement is to have a current and continually updated business plan that identifies key initiatives you need to take to grow and succeed. The push to maintain and grow sales is essential but do not take your eyes off the steps you committed to take to help move your company ahead. Perhaps you plan to acquire another company, enter into a joint venture with another food company or find a better distributor. While a recession and inflation may cause you to focus on the day-to-day challenges, you should not lose sight of your longer term goals.

2023 is going to be another challenging year. Take this opportunity to improve and move your company ahead. **WFP**

Douglas is president of Hart & Associates Management Consultants Ltd., a firm that provides business development services to the food processing industry across Canada. With offices in Vancouver and Toronto, Hart & Associates develops marketing and strategic plans, feasibility studies and profit improvement plans to help companies improve the performance of their company.