

Attacking Expenses Line by Line

Understanding your costs and implementing basic budget routines to monitor & take action

Fortify 2023
November 15, 2023



Wherever business takes you

[MNP.ca](https://www.mnp.ca)



KINCENTRIC
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CANADA 2019

These are not good times – an attack on multiple fronts

FP Winnipeg Free Press · 10d

Canadian wine regions in crisis

Briansprout.com Many B.C.-area vineyards are for sale after wildfires, smoke, landslides and a cold winter have hurt grape ...



InfoTel · 29d

Thompson, Okanagan tourism still lagging behind pre-pandemic numbers

Even with the vast majority of COVID restrictions now lifted, tourism in the Thompson and Okanagan ... up and Okanagan down compared to rest of BC real estate market Despite a slowdown in real ...

Hosted on MSN · 1mon

New guidelines encourage Canadians to drink less

New recommendations released by the Canadian Centre on Substance Use and Addiction say Canadians should consume a couple of glasses of liquor a week or less. Brittany Rosen has reaction.

Mississauga's Top 5 Fish · 41m

Taxes on beer set to climb by close to 5% in Canada

"Freezing or capping beer tax hikes in this era of sticky high inflation is a practical, sensible policy lever that should ...



bdc.ca · 22d

The Challenge of the Decade: How to Navigate Canada's Labour Shortages

The root causes of Canada's persistent labour shortage and how it's affecting business growth Case studies of Canadian businesses that are thinking beyond compensation to find the employees they need ...

TORONTO STAR · 7d

Bank of Canada holds key interest rate at 5%, cautions increased inflation risk

Are you flying blind?





You need to take a long, hard look in the mirror and not come away thinking, "Hey, there's something wrong with this mirror."

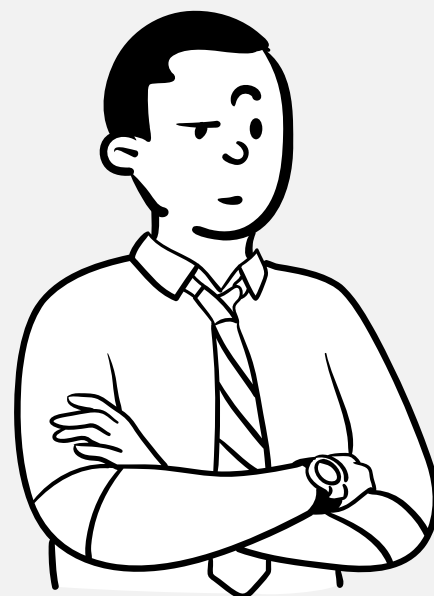
— *Jon Stewart* —

AZ QUOTES

1. Do you prepare regular budgets?
2. Do you meet to compare budget to actual on a regular basis?
3. Do you leverage the data you have to make informed decisions and take timely action? (POS, accounting, production software)

Trying to manage your business based on historical financial statements





Types of expenditures



PRODUCTION COSTS

- Direct materials
- Direct labour
- Production overhead



OPERATING COSTS

- TR wages
- Rent
- Insurance
- Interest
- etc.



CAPITAL COSTS (Capex)

- Production equipment
- Leasehold improvements
- Furnishings & fixtures
- Computer equipment

Production costs

Is the cost to produce one unit increasing or decreasing?
How much?

Costs to produce beverage product
(KPI – cost per unit)

Is slow moving product inventory hurting cashflow?

Inventory (asset)
(KPI – days sales in inventory)

How much do we need to sell to make a profit?

Cost of sales (matched against sales revenue)
(KPI – Gross margin per unit)

Is our pricing keeping pace with our production costs?

Capital costs

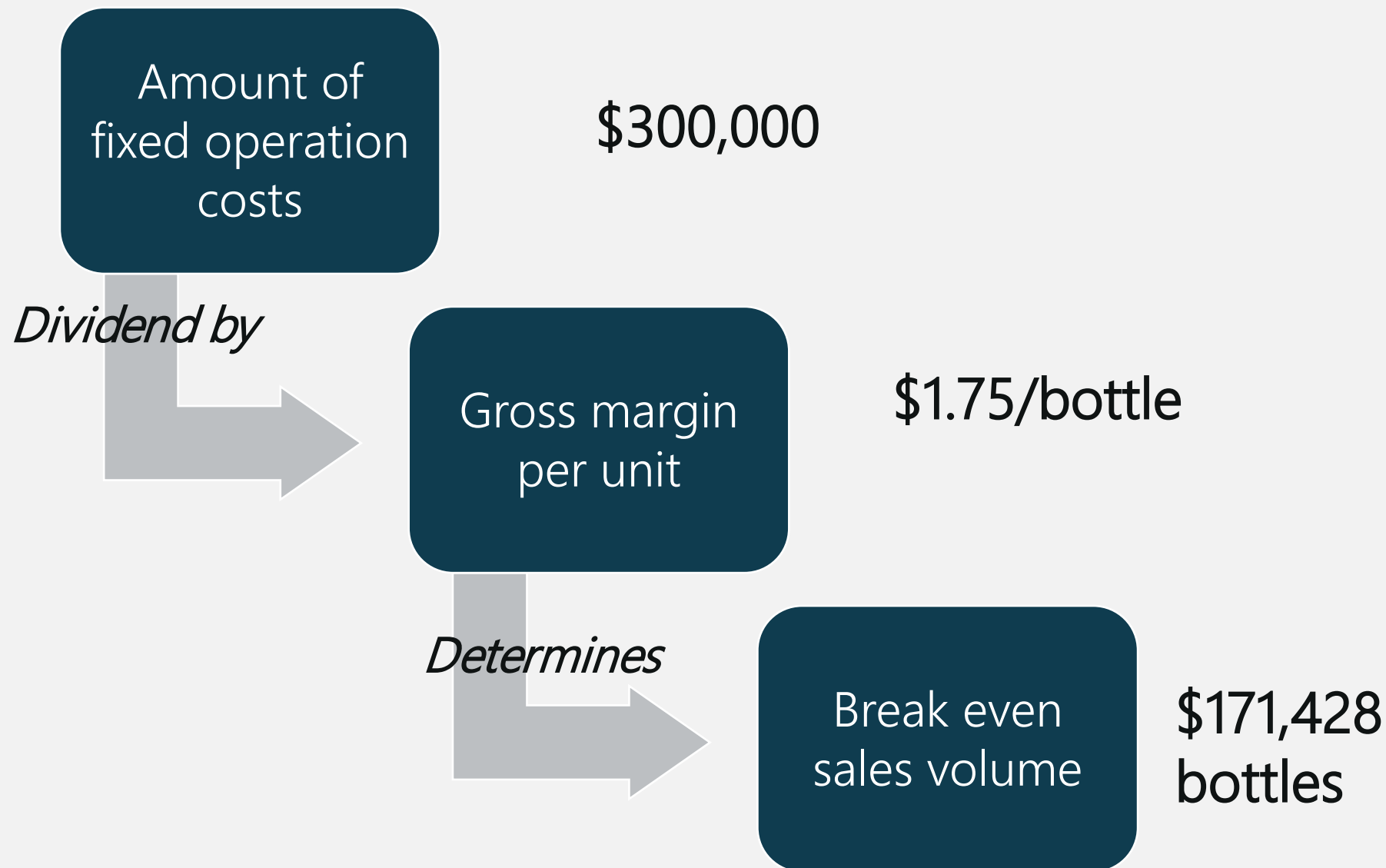


- Expenditures that have a future benefit beyond one period
- Ex. Leasehold improvements expected to last for 10-year lease term
- Cost incurred up front but charged to income over expected period of benefit (amortization)
- Usually tied to strategic plans – ex. Expansion
- How will the capex be funded? Bank debt? Operating profits? Shareholders?

Need to budget for these large expenditures

Operating costs (aka period costs, overhead, etc.)

- Can be **fixed** (don't change with level or production or activity)
- Or **variable** (change with level or production or activity)
- Changes in fixed operating costs will directly impact cashflow & net income
- Ex. Rent, interest, insurance, salaries
- Ex. TR wages, TR supplies, commissions
- Ex. Interest rate increase on term debt



3 Basic budgets you need...



SALES & PRODUCTION BUDGET

- How much do we plan to sell?
- How much do we need to make? When?
- What inputs will we need?



CAPITAL BUDGET

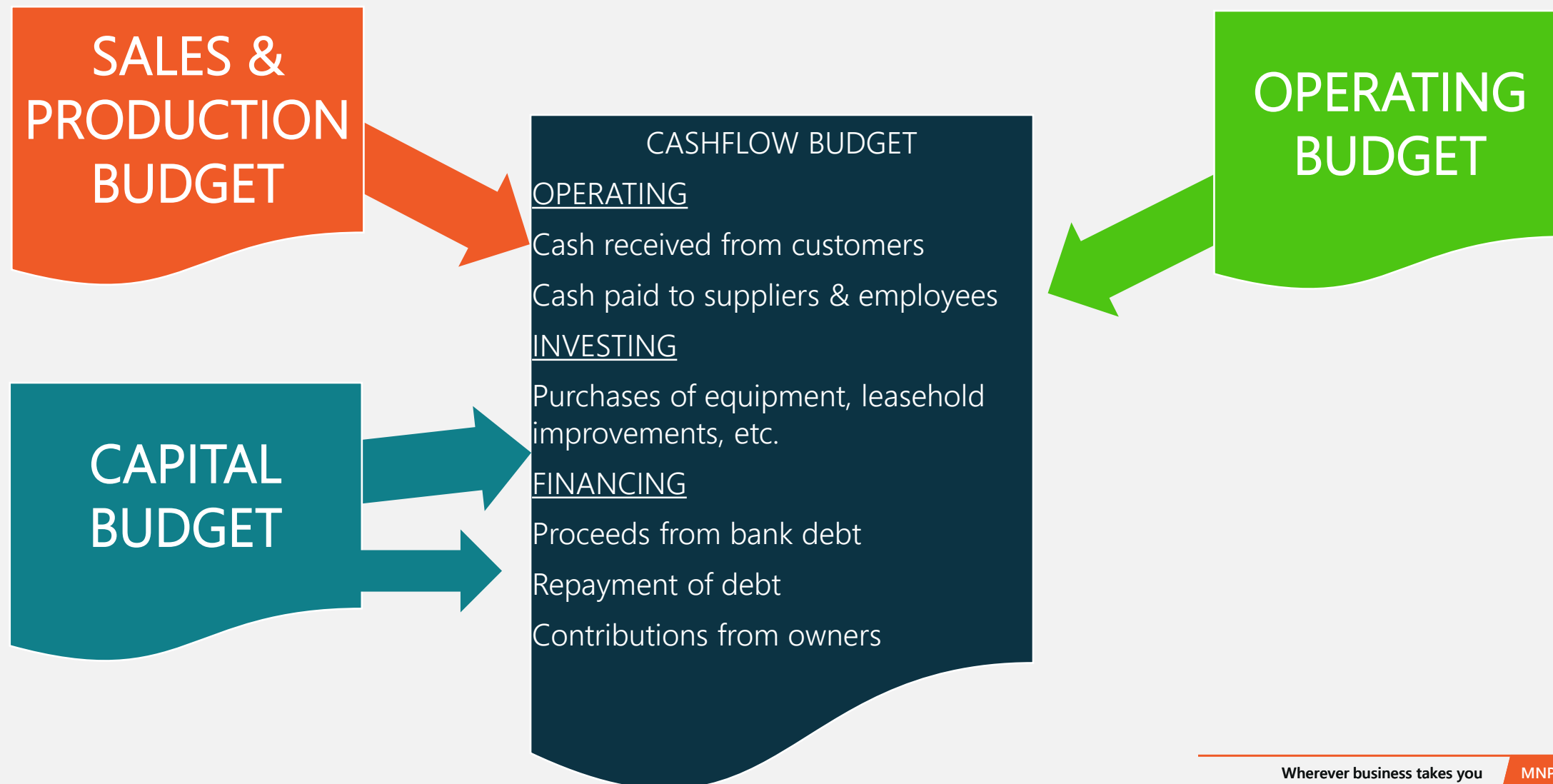
- What do we need to spend to execute our PRODUCTION BUDGET and business plan?
- When?
- How will we pay for it?



OPERATING BUDGET

- How much will it cost us to operate for the period to:
- Pay our team
 - Keep the lights on
 - Earn the desired return on investment

Provide info for a 4th budget - Cashflow



A Budget routine

- Management team reviews monthly
- Take action on negative variances
- Understand what went wrong/right
- Prep budget for following year month (12 month rolling)

XYZ Craft Brewery Ltd. Actual vs Budget Month ended October 31, 2023					
	ACTUAL	BUDGET	VARIANCE	%	COMMENTS
REVENUE					
Beer sales - tap room	87,845	92,000	(4,155)	-4.73%	poor weather at end of the month
Beer sales - licensees	45,265	41,500	3,765	8.32%	
Non-beer sales	12,122	10,500	1,622	13.38%	
Merchandise	2,356	2,500	(144)	-6.11%	
	147,588	146,500	1,088	0.74%	
PRODUCTION COSTS					
Ingredients	7,650	7,500	150	1.96%	
Supplies	1,285	950	335	26.07%	check inventory of supplies on hand at month end
Direct labour	5,240	5,000	240	4.58%	
Packaging	6,230	5,500	730	11.72%	FJ to follow up on price change - cans
	20,405	18,950	1,455	0	
Kegs produced	124	150	(26)	-20.97%	
OPERATING EXPENSES					
Rent	12,000	12,000	0	0.00%	
Admin salaries	7,500	7,450	50	0.67%	
TR wages	23,563	20,000	3,563	15.12%	
etc.					

Where should we focus?

Larger expense items will have a bigger impact

Ex. Salaries & wages, production input costs, packaging

Can hourly wage costs be managed to better match demand?

Can packaging costs & ingredient costs be reduced without sacrificing quality & timeliness?
(Procurement management)

Lease vs. buy equipment

Can bank debt be re-negotiated?

Interest rates

Defer payments

Extend amortization of term debt

Don't pay what you don't have to

Service charges

Promotion & freebies

Penalties (CRA's interest rates have increased too!)

Three ways MNP can help

BC Lean for Food & Beverage Processors

- Up \$7,000 in gov't funding to train your Team in Lean Manufacturing concepts

Canadian Digital Adoption Program (CDAP)

- Up to \$15,000 in gov't funding to assess technology needs & develop a roadmap to enhance operations

Outsourced accounting services – MNP ease

- We can tailor an accounting & bookkeeping solution to meet your needs & your budget
- Timely, accurate information for business decisions
- Enhanced cost control

B.C. Lean for Food Processors Program

Improve production capacity, labour productivity, and strengthen your business

Canada Digital Adoption Program (CDAP)

Embrace digital transformation for your business with government funding

MNP
DIGITAL



For more details, visit our Tradeshow booth