

WHITE PAPERS

STRATEGIC PLANNING



PREFACE

As food processors face stronger regulation and fierce competition, the need for a long-range strategic plan is more important than ever. A strategic plan provides a roadmap for growth by addressing operational, budgetary and visionary goals. Here, we discuss the attributes and process for developing a business plan, master plan, manufacturing plan and feasibility studies.

SIX WAYS YOUR FOOD PROCESSING FACILITY WILL BENEFIT FROM A STRATEGIC PLAN

There's a saying that failing to plan is planning to fail. As competition increases and belts tighten, many food-processing companies are realizing the importance of strategic plans. A strategic plan often includes developing a business plan and master plan, in addition to a manufacturing analysis and feasibility studies. Areas typically addressed include:

SAFETY INITIATIVES FOR BOTH FOOD AND PERSONNEL

- Ways to reduce the cost of goods sold including efficiencies in manufacturing and reduction of water and utility consumption
- Changes in manufacturing methods or packaging
- Supply chain revisions
- Growth plans, which may include expanding the business, introducing new products, locations, and market segments
- Asset consolidation/optimization
- Asset preservation / maintenance plans including capital expenditures for meeting current regulations and maintaining the future of existing assets
- Training such as computer and technology upgrades for tracking and traceability, communication, and other initiatives.

Without a strategic plan, companies lack the knowledge, tools and strategies to evolve and adjust to changing market and economic conditions, as well as customer demand.

HERE'S WHAT A STRATEGIC PLAN CAN PROVIDE YOUR BUSINESS

1. Clearly defined mission and vision – Developing a strategic plan requires that a company and its leaders examine, or in some cases, establish, a corporate mission and vision. Every operational aspect of the business will support this mission and vision.
2. Objective view – Embarking on the strategic planning process forces your organization and its leaders to take a clear, objective look at organizational structure, processes, and future growth plans. Many companies often get hung up dealing with day-to-day operational issues and fail to effectively take a step back and look at the big picture. The strategic planning process requires an in-depth dissection of the company to ensure that the current structure and processes are an effective approach to meeting the organization's goals.

3. Cost management — A strategic plan with clearly defined operational goals and procedures facilitates effective decision-making, especially where plant design and capital expenditures are involved. The plan should address future growth objectives, which will aid in space planning and maximizing the use of available square footage. All of these factors contribute to more effective cost management and budget planning.
4. Competitive advantages — A company with clearly defined goals and a production optimization plan will be more successful in meeting its business objectives and obtaining market share.
5. Adaptability — More stringent food safety requirements, new government regulations and changing consumer demands often require food processing facilities to adjust their business models. Food processors are adding product lines, incorporating more packaging options, adjusting ingredients, and expanding product mix, all of which affect people and processes. A strategic plan will account for operational changes and adjustments and determine appropriate courses of action.
6. Improved communication — A strategic plan that effectively conveys corporate goals can lead to improved communication and cohesiveness among employees. All personnel will have a clear understanding of the company's direction and their role, which can lead to a more motivated and stable workforce.

Food processing companies can create a strategic plan at any time. Whether you are embarking on a new greenfield project or planning a facility expansion, a strategic plan can be beneficial. Many food processing companies find it valuable to work with an outside consultant who can give a subjective view of the organization's goals and processes and provide in-depth market knowledge.

KEY ELEMENTS TO INCLUDE IN YOUR FOOD PROCESSING FACILITY'S BUSINESS PLAN

Most strategic plans begin with the development of a business plan, a methodical process where all aspects of the business are defined and analyzed against the company's business objectives. Food processing companies develop business plans at different stages of their life cycle, especially in preparation to launch a new product line, invest in a facility expansion or to identify new growth opportunities.

Larger companies often establish internal teams to develop a business plan, while smaller and mid-size companies may choose to outsource the process. Engaging an outside business planning consultant provides a critical, objective view of the organization that can be beneficial in uncovering new opportunities for business growth, as well as areas of inefficiencies.

Ideally, functional leaders within all key areas will participate in the business planning process to provide input and establish a holistic view of the organization before planning begins to include manufacturing, marketing, sales, finance, logistics and the executive team.

THE KEY AREAS THAT A BUSINESS PLAN SHOULD INCLUDE ARE

- **Company description** – What is the nature of your business and how will your product serve the market's needs? Who are your target customers? What sets your company apart from other food processing companies in the marketplace offering similar products?
- **Industry analysis** – In this section, your business plan should address both the specific market segment you'll serve and customer wants/needs. Is the market climbing the bell curve or well saturated? Who are the current market leaders and what is their brand strategy? What profit margins are typical in the industry? Are there seasonal or geographic limitations or opportunities? In the plan, you'll want to explore market share, growth potential and profit margins in depth with your finance team.
- **Product mix** – This section will detail each product your company will manufacture and its contribution to meeting sales goals. Each individual SKU will fill a unique customer desire and have its own price and profit margin, in addition to competitive advantages, such as ingredients, packaging or price. What similar products are on the market and what share of the market do they own? Are there product lines the company may add in the future? It's important that the plan address any future growth plans.
- **Marketing & sales** – This section of your business plan will lay out your sales goals and determine your marketing strategy to meet those goals. Is this a new market you're hoping to penetrate or are there existing product lines in the market? Could your product target an entirely new demographic and if so, how will you reach them? How will you meet your sales goals – through organic growth, a business acquisition or a vertical growth strategy? What channels of distribution will you use to meet these sales goals?

Regardless of how your company develops a business plan, internally or using an outside consultant, it's important to invest the time in getting this step right as it drives every other process in the strategic plan.

THREE STEPS IN DEVELOPING A FOOD PROCESSING MANUFACTURING PLAN

Developing a manufacturing plan is generally the second phase in the strategic planning process. After creating a business plan and specifying your food processing plant's sales and growth projections, a manufacturing plan will identify and assess the processes that are used to manufacture the product to meet those sales goals.

Developing a manufacturing plan requires an in-depth analysis of the physical facility, materials, equipment, personnel, storage, logistics, and other processes related to manufacturing. The goal is to ensure the appropriate technology is in place and optimize current production practices to meet sales goals. The process of developing the plan will help identify where constraints exist and highlight areas to improve production efficiency.

THE PURPOSE OF THE MANUFACTURING PLAN IS TO

- Review the current state manufacturing equipment utilization and bottlenecks
- Forecast the effect of projected growth on the utilization of existing equipment and systems
- Develop courses of action to effectively support the projected growth.

THE THREE STEPS IN DEVELOPING A MANUFACTURING PLAN ARE

1. **Situation analysis**— This involves a detailed review of the facility's physical space and plant layout. Your manufacturing plan team should analyze workflow among both process equipment and personnel. For example, how do functional employees move throughout the facility and at what rate? How long does it take raw materials to reach the processing line?
2. **Goals and objectives**— Every aspect of production should be viewed independently with individual goals established for each process. In most cases, quantifiable goals can be developed for each area including operations, process, product, logistics and the overall facility. For example, how many lines will need to run concurrently in order to meet production goals? How much time does it take for a product to move from packaging to the warehouse or storage facility? Set realistic and quantifiable goals based on your sales objectives in order to design for optimal production efficiency.
3. **Function and scope**— This step will determine manufacturing concepts and requirements necessary to meet sales goals, including an efficient plant layout for optimal workflow, production process lines and layout, and efficient material handling and distribution. The recommendations set forth in this step will help drive your plant's master plan based on physical production requirements.

Plant owners often enlist the help of outside consultants when developing a manufacturing plan in order to get an objective perspective on the plant's current processes. Outside consultants have the added benefit of being able to share knowledge and case studies from their experience with other food processing plants.

THE THREE STAGES OF MASTER PLANNING FOR FOOD PROCESSING FACILITIES

What will your food processing facility look like in the future based on your growth projections? Will you expand your current facility, buy and develop adjacent property or will it be necessary to embark on a greenfield project? A master plan can help answer these questions by developing a comprehensive three to five year long-range plan that will determine your facility's physical and site requirements based on growth projections.

Having a master plan allows plant owners to make good engineering decisions and manage capital expenditures more efficiently by planning for future growth requirements. The foundation for a good master plan relies on determined business and manufacturing criteria. Information gathered in your business plan and manufacturing plan will drive the components of your master plan, beginning with an analysis of your plant's current site.

THE THREE STAGES OF THE MASTER PLANNING PROCESS ARE

Stage 1: Situation analysis— The first phase of master planning entails gathering data about your plant's current physical location and structure, prior to beginning any design. Your team will review the existing site and document all aspects of the land and facility including:

- **Planning and zoning** – local regulations, parking requirements, set-backs, easements, and height restrictions
- **Traffic** – auto and truck parking and traffic flows current and future availability and rates
- **Utility capacity** – current and future availability and rates

- Process equipment layout and flows
- Sanitation and wastewater requirements
- Material handling systems, storage, and delivery of raw materials
- Finished product storage and distribution

Stage 2: Development of goals and objectives – During this stage, your team will use the information obtained in the situation analysis and in the business plan to guide the development of the master plan. Goals and objectives as they relate to the existing and future requirements will be defined for the following areas:

- **Operations** – space needs, adjacencies, organization, security and employee requirements
- **Process** – changes and additions to equipment, manning, functions, schedules or other minor adaptations
- **Product** – product quality, mix and movement both within and outside of the facility for distribution
- **Facility** – modifications or renovations to the current operating environments, including storage requirements
- **Utility** – identify inefficiencies of source, delivery or utility utilization
- **Sanitation** – environmental considerations for improved quality control.

Stage 3: Courses of action – This final stage is the synthesis, the design and implementation of the master plan. Based on the goals and objectives set forth for your facility's functional areas, this stage will determine logical and feasible steps the company should consider in its site development. The conclusions in this stage generally include:

- Establishing concepts for both site and building expansion
- Identifying the best use of the existing land
- Minimizing infrastructure and utility distribution costs
- Evaluating strategies to determine plan viability
- Determining a specific list of needs and/or program requirements for each master plan component
- Developing a plan to address site issues including transportation needs, site security, vehicular traffic, storm water management, wastewater treatment, and utility systems
- Recommending a comprehensive plan and sequence for implementation.

WHEN TO CONDUCT A FEASIBILITY STUDY FOR MAJOR PLANT DECISIONS

In this day and age of fierce competition and tighter budgets, food manufacturers are often faced with making critical—and expensive—business decisions as part of their strategic plan. Should you refurbish existing equipment or buy new equipment to meet your manufacturing needs? Should you add product lines to increase market share and what impact would that have on current operations?

Recognizing the importance and potential financial impact of these decisions, food processors often hire outside consultants to conduct a feasibility study of the options and provide recommendations. A feasibility study is an in-depth evaluation and analysis of the problem or opportunity with a thorough review of the operational and financial impacts of the proposed solutions.

Outside consultants often bring a level of objectivity and specialized expertise to a feasibility study that internal employees can not provide. This includes the experience to conduct a full plant capacity analysis; optimal layout and process flows; utility consumption/availability studies; and engineering, safety and ergonomic studies. All of this

information will assist plant owners in making more informed decisions.

FEASIBILITY STUDIES CAN HELP FOOD PROCESSORS MAKE THE FOLLOWING DECISIONS

- Expanding versus renovating a plant to increase production and improve operational efficiencies
- Ingredient and/or recipe changes that may affect existing operations
- The effect of adding new product lines on existing processing operations
- Moving lines both intra-plant and inter-plant
- Using a conventional warehouse versus an automated storage and retrieval system (ASRS)
- Facility optimization
- Achieving LEED certification
- Manufacturing methodology and cost-effective use of existing assets.

Along with feasibility studies, food manufacturers are focusing on asset optimization to maximize the income-generating potential and productivity of existing assets. By analyzing depreciation value, maintenance schedules, sanitary design and operational history (including downtime) of each piece of equipment, a plant can make the necessary process changes to increase production to meet strategic plan goals.

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