



**2020 Advisory Conference**

October 27–29


Converging knowledge and behaviors to deepen client relationships

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**DIGITAL TRANSFORMATION AND INDUSTRY TRENDS IN FOOD AND BEVERAGE**

October 27, 2020

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## Speaker list



### Todd Burgers

Partner, Larson Gross

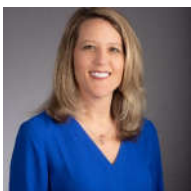
Todd is a partner and agribusiness leader at Larson Gross, helping ag producers and processors with tax planning, ownership transitions and strategic planning.



### Chris Jones

Principal, RSM

Chris is a principal and the consulting leader for the consumer products industry team. He spends most of his time working with food & beverage companies as an EAL in leading digital transformation.



### Karen Galivan

Partner, RSM

Karen is a tax partner and consumer products senior analyst who advises clients on conditions influencing food and beverage middle market leaders.



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## Agenda

Topic	Minutes
General Economic Trends	5 min
Growers' Perspective	15 min
Manufacturing and Distribution	10 min
Gay Lea Case Study	15 min
Opportunities and Questions	15 min



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## Objectives

By the end of this course, you will be able to:

- Understand recent industry trends
- Understand the opportunities in digital transformation



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# ECONOMIC OUTLOOK

## Pandemic economics



### US economy free-fall has ended

- Supply, demand and financial shocks
- Depression like shocks; no Depression
- Household consumption levelled off around end of June
- US economy is in recession that should last 3 quarters



### Policy response

- Robust fiscal and monetary policy response
- Main Street Lending Program
- Until there is a vaccine there will be no meaningful recovery



### Shape of recovery

- Nike™ shaped "Swoosh" recovery
- Elongated and frustrating in some industries
- Housing and auto manufacturing to lead
- Large firms pickup activity US Q3
- Mid-market picks up US Q4
- Real damage to household spending



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## Pandemic economics



### U.S. employment

- Mass unemployment: 59.2 million experienced some form of unemployment and loss of income, 10.2% unemployment, 16.5% under employment, ~10% is optimal outcome by end of 2020



### U.S. savings rate at 14.1%

- Upper income earners: pull back spending by 10.8%
- Low income earners: pull back spending by 1.9%



### Government transfers key to propping up economy

- Implies long period of fiscal aid will be necessary
- Fiscal cliff is here



### Inflation

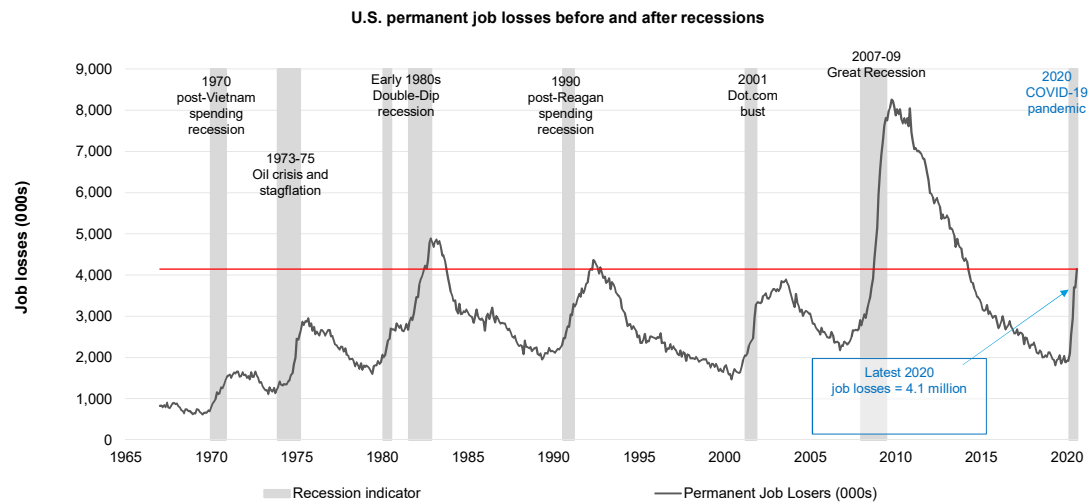
- Disinflation/deflation in the near to medium term
- Inflation longer term



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## Real economy shock: unemployment



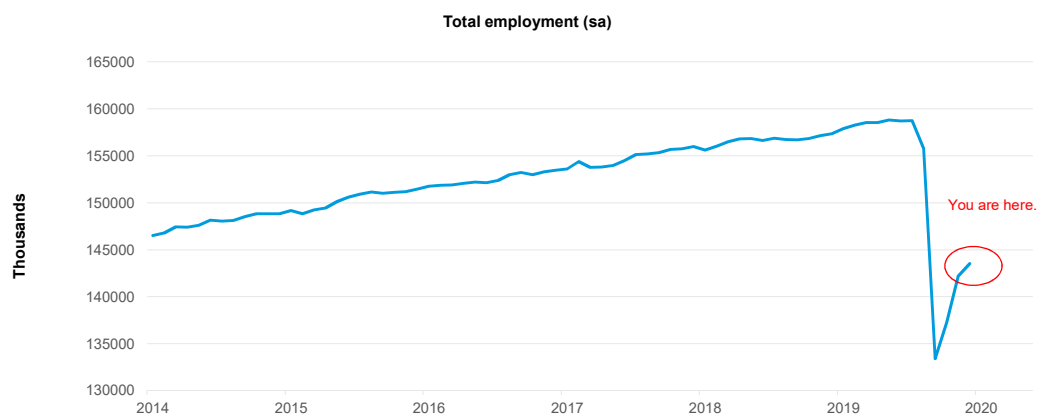
Source: BLS; NBER; RSM US



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## It's a long, long road



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# GROWERS PERSPECTIVE



**CFAP 1.0 DASHBOARD |**

**Program Payments By Category and Commodity**

Filter by State: ALL


Filter by Category: ALL

Data as of 10/4/2020 11:59 PM CST

**643,952**

Approved Applications

**PAYMENTS BY CATEGORY** | Hover for details.



**\$10,205,498,947**

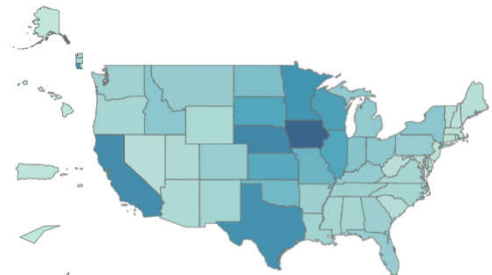
Payment Amount\*

■ Dairy  
■ Speciality Crops  
■ Non-Speciality Crops  
■ Livestock

**PAYMENTS BY COMMODITY** | Hover for details.

Cattle	\$4,303.36M
Corn	\$1,763.52M
Milk	\$1,755.52M
Hogs	\$598.58M
Soybeans	\$509.14M
Cotton-Upland	\$260.69M
Almonds	\$108.72M
Potatoes-Rus..	\$87.30M
Crustacean-C..	\$64.13M
Walnuts	\$63.39M
Apples	\$56.63M
Lambs-Lambs..	\$48.69M
Strawberries	\$42.07M


**PAYMENTS & APPROVED APPLICATIONS BY STATE** | Hover for details.



Payments: \$163,910 to \$968,720,585


- \$10.2 billion paid out in round 1
- \$14 billion available in round 2
- Helps offset several years in many industries of negative margins

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## Economic outlook: working capital continues to be tight

- Lender's becoming more hesitant to term-out losses, demanding faster repayment
- Ag land value continues to rise (Outside capital + L/T outlook) makes purchasing land more difficult for farmers
- Succession planning puts a strain on cash flow – a long history of multi-generational farms in U.S.



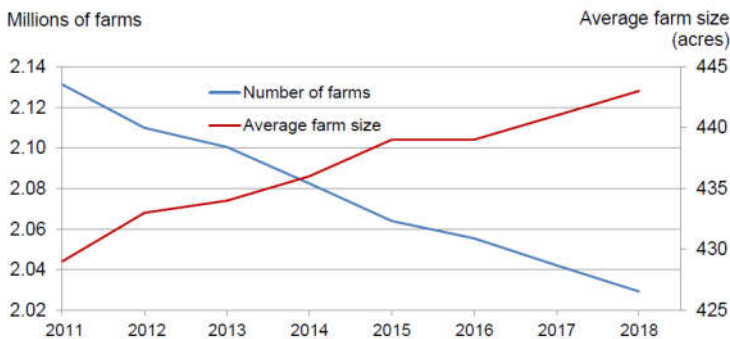
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## Consolidation

### Number of Farms and Average Farm Size – United States: 2011-2018



- Many farms feel pressure to grow to achieve economies of scale
- Outside investment more prevalent – private equity and corporate



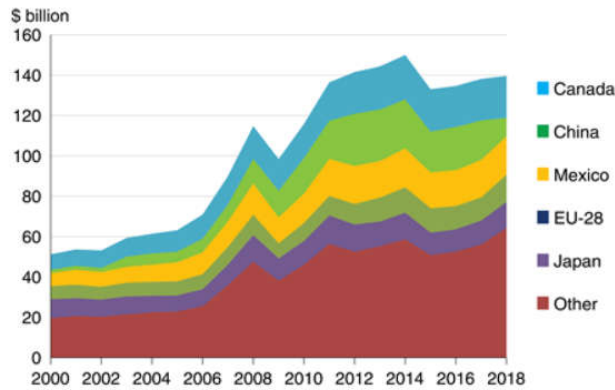
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## Trade issues

Top five markets for U.S. agricultural exports, 2000-18



Source: USDA, Economic Research Service using data from U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Database.

- Ag exports one of the country's largest
- Trade wars impact
  - Worldwide pressure as other places continue to produce cheaper commodities as labor costs in the U.S. continue to rise

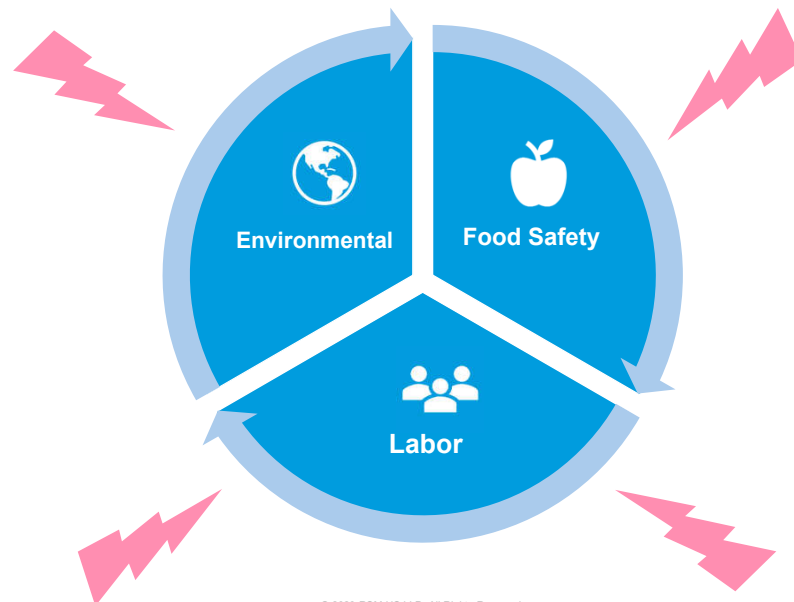


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## Increased regulatory pressure



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## Technology and mechanization: how it's helping growers



- Labor issues
  - Trouble finding labor, increased minimum wage in many places is making it hard to stay competitive
  - Allows hiring higher paid workers to run technology instead of performing physical labor
  - Highlights the need to really understand cost inputs

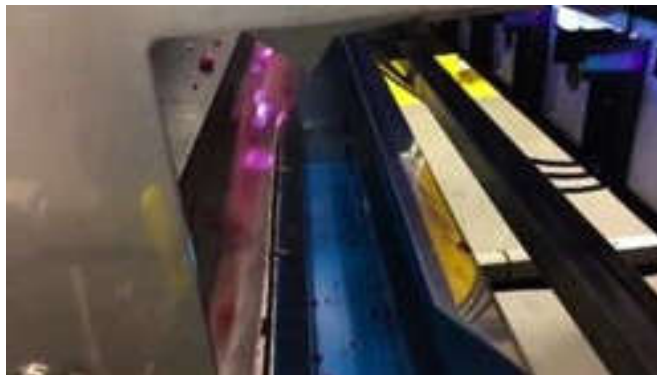


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## Technology and mechanization: how it's helping growers

- Machinery can rapidly improve efficiency
  - Example: [raspberry pickers \(GPS\) & color sorters](#)



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## Technology and mechanization: how it's helping growers

- Specific identification
  - Driven by consumer
    - Farmers can now connect directly to buyers in knowing what they want
    - Premium for quality is available
  - Traceability
    - Able to identify a product's location of origin all the way through the supply chain
  - Food safety
    - Can mitigate a larger scale shutdown
    - Without this, FDA could assume 100% of the product is infected



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## Technology and mechanization: how it's helping growers

- Vertical integration
  - Many farms see this as opportunity to stay in business
  - Wholesale markets fluctuate greatly, can control some of these swings if they can go straight to consumer
  - Building brand recognition and developing sales distribution channels is very difficult



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## Our opportunity as advisors

- More data is available now, and faster than ever before, but what does it all mean?
- Many farmers have been “manage by intuition” and are now having to shift into “manage my analysis”
- We try to serve as that bridge between data & decisions
- Examples are:
  - Cash flow projections
  - Accrual financial statements
  - Succession planning
  - Multi-year tax planning
  - Management facilitation
  - Debt restructuring and financing analysis



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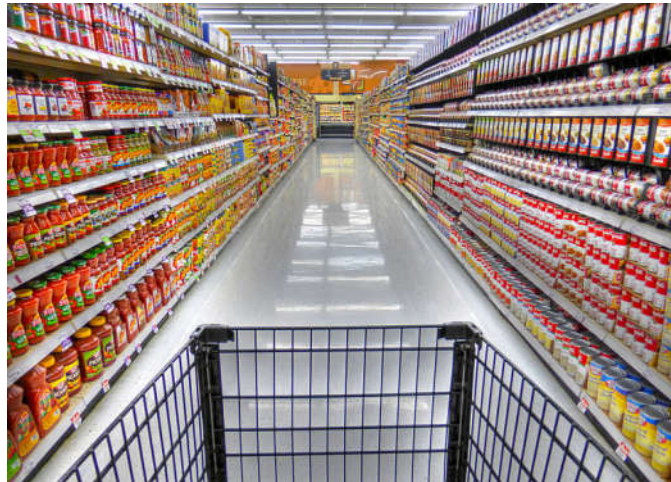


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# MANUFACTURING & DISTRIBUTION

## Changing consumer behavior



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## Digital acceleration



Supply/Demand Chain

- Disruption
- Finding new channels
- Safeguarding proprietary information



Workforce Dynamics

- Safety
- Employee morale
- Plant reconfiguration



Rising Costs

- Streamlining operations
- Product line rationalization



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# CASE STUDY

## Gay Lea Foods


### Digital transformation – why should I invest?

- Innovate to keep pace or gain an edge on the competition
- Adapt to new business models
- Create efficiency and reduce costs
- Mitigate risk
- Platform for growth





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## Gay Lea Foods

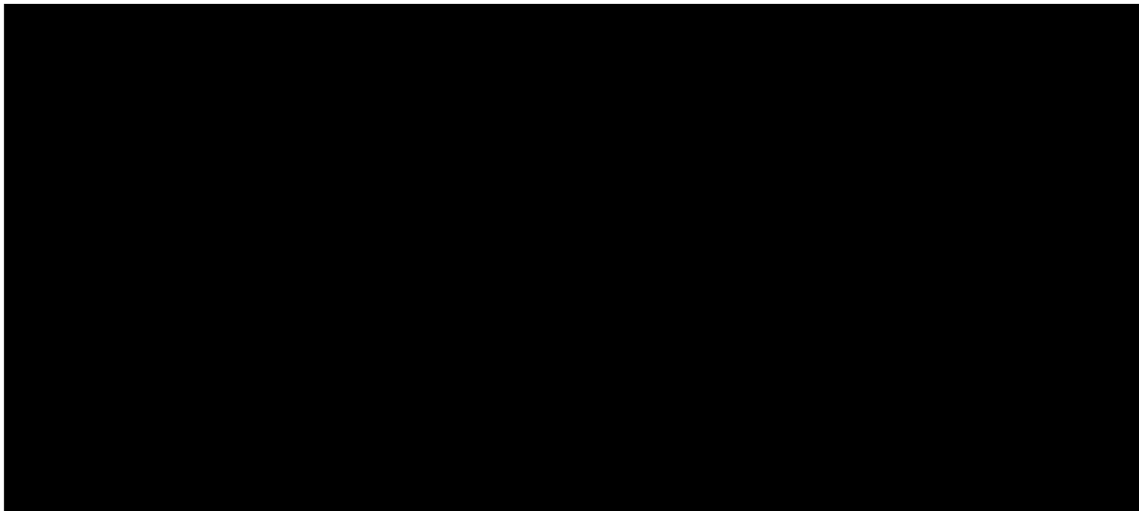
- Gay Lea Foods is a co-operative owned by over 1,400 farmers with 12 production facilities and distribution centers across Ontario and Quebec.
- Gay Lea Foods manufactures a range of dairy products including milk, dips, butter, sour cream, whipped cream, ice cream, cottage cheese and fine Italian cheeses
- Based in Toronto
- \$1B in revenue



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## Gay Lea Foods testimonial

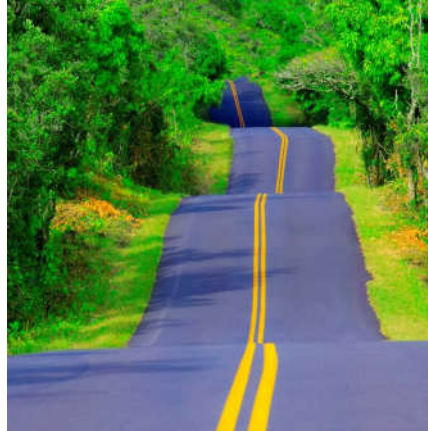


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## Gay Lea Food's digital transformation journey

- Gay Lea Food determined that in order to be relevant for their farmer owners, they needed to grow and outpace the competition
- They needed a platform for growth – organic and acquisitions
- If they were going to grow, they needed to win the talent war – modern technology and process was key

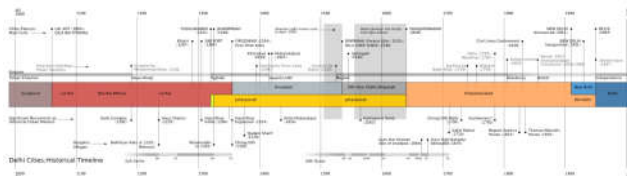


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## Gay Lea Food's digital transformation journey

- Started complete platform replacement in 2010
  - Microsoft Dynamics AX 2009
- Go-lives – April 2012 through February 2014
- Acquisitions
  - Salerno – 2014
  - Hewitts – 2014
  - Black River Cheese – 2016
  - Stirling Creamery – 2016
  - Mariposa – 2016
  - Alberta Cheese – 2017
- Upgrade to Microsoft Dynamics 365 Finance and Supply Chain - 2019



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## Gay Lea Food's scope of services

- Microsoft Dynamics AX and D365 – Complete ERP
  - Financials, dairy accounting, manufacturing, shop floor control, quality, planning, fixed assets, and forecasting
- Application Development
  - Mobile Sales Solution
  - Project Appropriation app
- Business Intelligence (BI)
  - PowerBI dashboards and reports
- Managed Application Services
  - Full lifecycle support of application portfolio



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