FMS Solutions Canada

Budgeting for Change

Today’s Agenda

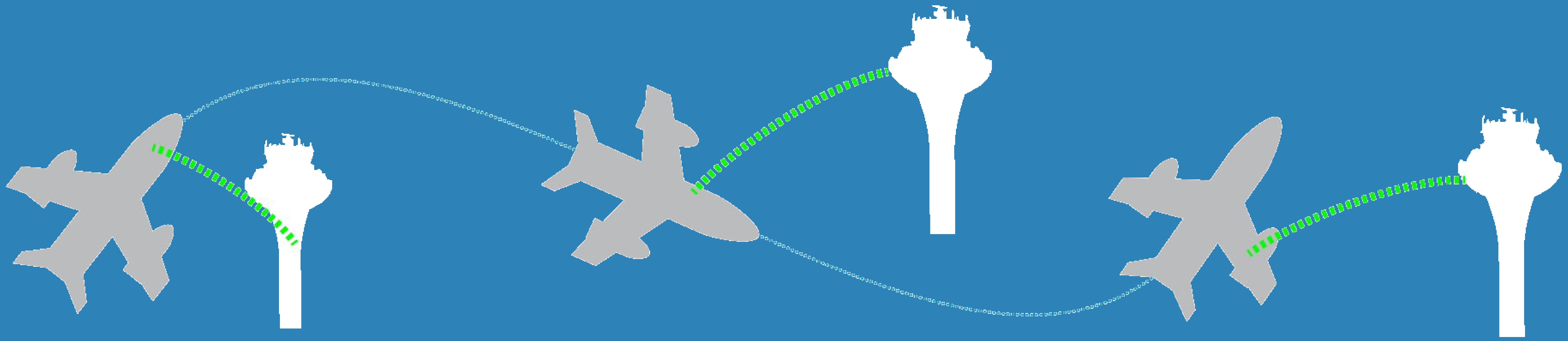
1. Budgeting
   - What is a budget? Why is it important?
   - Difference in budget vs. forecast and the value of both
   - Budgeting tactics – getting started / tips / thoughts / approach
2. Changes in minimum wage
   - How to measure impact
   - HR concerns
   - Mitigation of the costs
3. Demonstration
   - Quick budgeting best practice tutorial

What is a budget:

Estimate of income & expenses for an operating cycle (i.e. fiscal year)

- Detailed often to the line item
- Communication device to decision makers of what defines success
- Think of your budget as the "financial picture" of your future

Creates a flight path to our desired destination and lets us compare current activity against stated goals



Budget versus forecast

- Forecasts are generally done on an interim basis and reflects most contemporary trends
- Less granular
- Very useful tool during the year to project impact of changes since your budget was prepared
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  - Road Construction
  - competitive opening
  - Seasonal Issue (bad weather, Fires)

Why we budget?

Budgeting is an opportunity to sit down and analyze your business plan and create realistic financial goals

We reverse engineer these goals into our financial documents to give us real time feedback if we are on course or not

Budgets answer key questions like:

- What sales will be needed to achieve the desired profit?
- What will the equipment that is needed cost?
- Can you afford the marketing and advertising that you outlined in your plan?
- Many More

Why we budget?

Why Budgeting

If we do not define success how do we plan on achieving it

- It is a projected P&L of what success look like
- Strategy and planning go hand & hand and these budget dollar are required to fulfill strategic and organizational goals
- Ensures that you have the money for future activities (or survival)
- Borrowing Money: sharing your budget with your banker will help expedite the loan approval process
  - Budgets help communicate measurable priorities to management and key staff

How To budget

Incremental Approach - “last year plus a bit”

- Start looking at your operation from a bottom line perspective and see where we can become more efficient and more effective
  - Identifying opportunities for growth
  - Identify savings
- Outside considerations
  - new store opening
  - increased competition
  - Minimum wage increases
- To set goals that are achievable but take some risk
- Involve key staff so that they understand the plan and are invested in its success

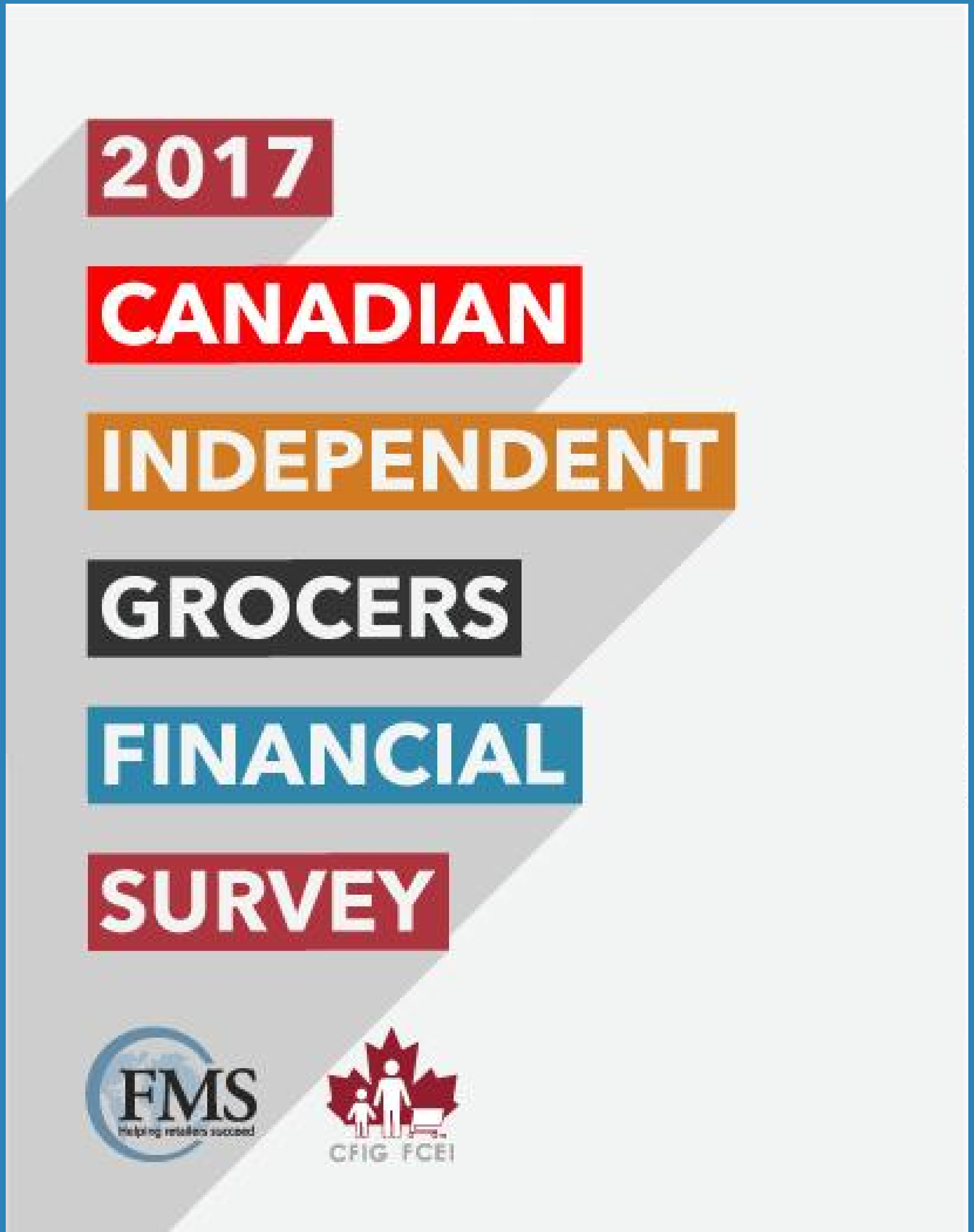
HOW 2

Useful Tools

- Benchmark Study

- Operational numbers derived from independents like you from across Canada and the US. This is a great tool to help you figure out where your strength and weaknesses compare to other independent grocery stores.

- We break out the numbers from the Profit leader (top 25% of all respondents) about ¾ through to give you real numbers and help you identify opportunities.



Monitoring our budget

- Incorporating it into your weekly reports and P&L's
- Using it to give clear targets to your managers and key staff
- Reviewing your progress vs your budget on a regular with your team
- Timely financials are key
- Give us an early warning that we will not make our budget and allows us to see what part of the business is falling behind expectations.

Monitoring our budget

- If you find out that you are not on track to achieve your goal you have one of two options.

- Change your Strategy (chance to promote best practices)
  - Shrink is higher than expected then it's time to implement a shrink program
  - Labour is higher than expected that is it time to review with your managers

- Change your budget / forecast
  - Sometimes you have to adjust your budget because of external circumstances
  - realign your expectations for the year
-

Don’t just take our word. (from a 12 store customer in the USA)

“FMS urged me for years to do a budget but we always said we didn’t have time. Their VP offered to come to our office and facilitate the effort so we took him up on the offer. Best thing we ever did. Our managers now understand what is expected of them financially and how to react to negative financial situations. We have budgeted the past 5 years and it has made an extremely positive impact on our bottom line. We still have periods where cash is tight but now we anticipate those times and can plan for them. It gives us instant credibility with our bankers when we go to them for funding before we need it rather than in the middle of a cash crunch.”

Budgeting tactics:

- Expenses are paid with contribution margin ('CM') not sales.   So that is the DNA of our budget
  - CM equals: sales less cost of goods sold less supplies less department specific labor

Sales budgeting –

- Component based
- Conservatively aggressive

Period 1							
Store 1							
Sales	LY Actual	Economic Impact	Sales plan	Competition	Budgeted	Delta PY	Delta PY
Grocery	225,000	2%	10%	-5%	240,750	15,750	7%
Dairy	50,000	3%	10%	-5%	54,000	4,000	8%
Frozen	40,000	1%	10%	-5%	42,400	2,400	6%
Meat	125,000	-5%	0%	-5%	112,500	(12,500)	-10%
Produce	100,000	0%	10%	-5%	105,000	5,000	5%
Bakery	60,000	2%	10%	-5%	64,200	4,200	7%
Deli	50,000	2%	10%	-5%	53,500	3,500	7%
Liquor / Beer	100,000	2%	10%	-5%	107,000	7,000	7%
Total period sales	750,000				779,350	29,350	4%

Budgeting tactics:

- Margin – unless you are best in class challenge yourself to equal your better peers
  - Quantify your improvement initiatives
  - Quantify (plus or minus) your sales plan changes

Period 1									
Store 1									
Margin	LY Actual	Improvement initiatives	Sales plan	Competition	Budgeted	Delta PY	$	Improvement initiative notes	Peer benchmark
Grocery	21%	3%	-2%	-2%	20%	-1%	-2,408	SKU margin rationalization, DSD system to improve shrink	26%
Dairy	24%	0%	-2%	-2%	20%	-4%	-2,160		23%
Frozen	26%	0%	-2%	-2%	22%	-4%	-1,696		28%
Meat	28%	4%	4%	-2%	34%	6%	6,750	Track / improve known loss, prime beef initiative	29%
Produce	30%	1%	-2%	-2%	27%	-3%	-3,150	Shrink	32%
Bakery	50%	0%	-2%	-2%	46%	-4%	-2,568		48%
Deli	45%	0%	-2%	-2%	41%	-4%	-2,140		42%
Liquor / Beer	21%	0%	-2%	-2%	17%	-4%	-4,280		19%
							-11,652		

Budgeting tactics:

- Construct an analytic model which will roll your changes through to bottom line real time.

Sales	4000												
100	GROC	87,704	64,649	117,502	85,124	82,207	100,814	85,441	85,562	107,299	87,062	86,582	86,582	1,076,528
120	Dairy	33,999	34,860	30,108	28,103	26,974	32,816	26,991	28,056	33,583	29,066	28,799	28,799	362,152
130	Froz	14,605	14,951	16,201	14,559	13,898	16,210	13,816	14,546	16,304	14,768	14,209	14,209	178,276
140	Cig	8,179	7,548	10,182	7,187	7,024	9,725	8,282	8,141	9,412	7,128	6,596	6,596	95,999
150	Bev	17,957	18,732	24,436	18,933	18,241	24,422	20,860	19,515	24,528	17,826	18,174	18,174	241,797
160	Beer	7,641	7,234	9,679	8,470	8,548	12,272	9,982	8,670	12,031	8,734	8,212	8,212	109,684
Total		170,085	147,974	208,109	162,376	156,892	196,258	165,372	164,490	203,157	164,583	162,571	162,571	2,064,436
v													
Contribution Margin	6000-6050												
100	GROC	18,051	12,994	23,574	24,869	23,984	29,319	18,809	18,466	23,650	20,634	20,469	19,957	254,776
120	Dairy	8,124	8,418	7,043	7,214	6,902	8,126	7,398	7,708	9,215	7,581	7,348	7,165	92,241
130	Froz	3,475	3,533	3,694	3,454	3,383	3,743	5,272	5,662	6,364	4,231	4,018	3,917	50,746
140	Cig	114	105	142	1,941	1,897	2,627	841	827	956	890	824	803	11,967
150	Bev	3,653	3,811	4,971	2,798	2,696	3,610	4,194	3,923	4,931	3,286	3,350	3,267	44,490
160	Beer	1,228	1,163	1,556	2,610	2,634	3,782	684	594	824	1,558	1,465	1,428	19,526
Total		34,646	30,025	40,980	42,888	41,496	51,205	37,197	37,181	45,940	38,180	37,473	36,537	473,747

Budgeting tactics:

Below the line.

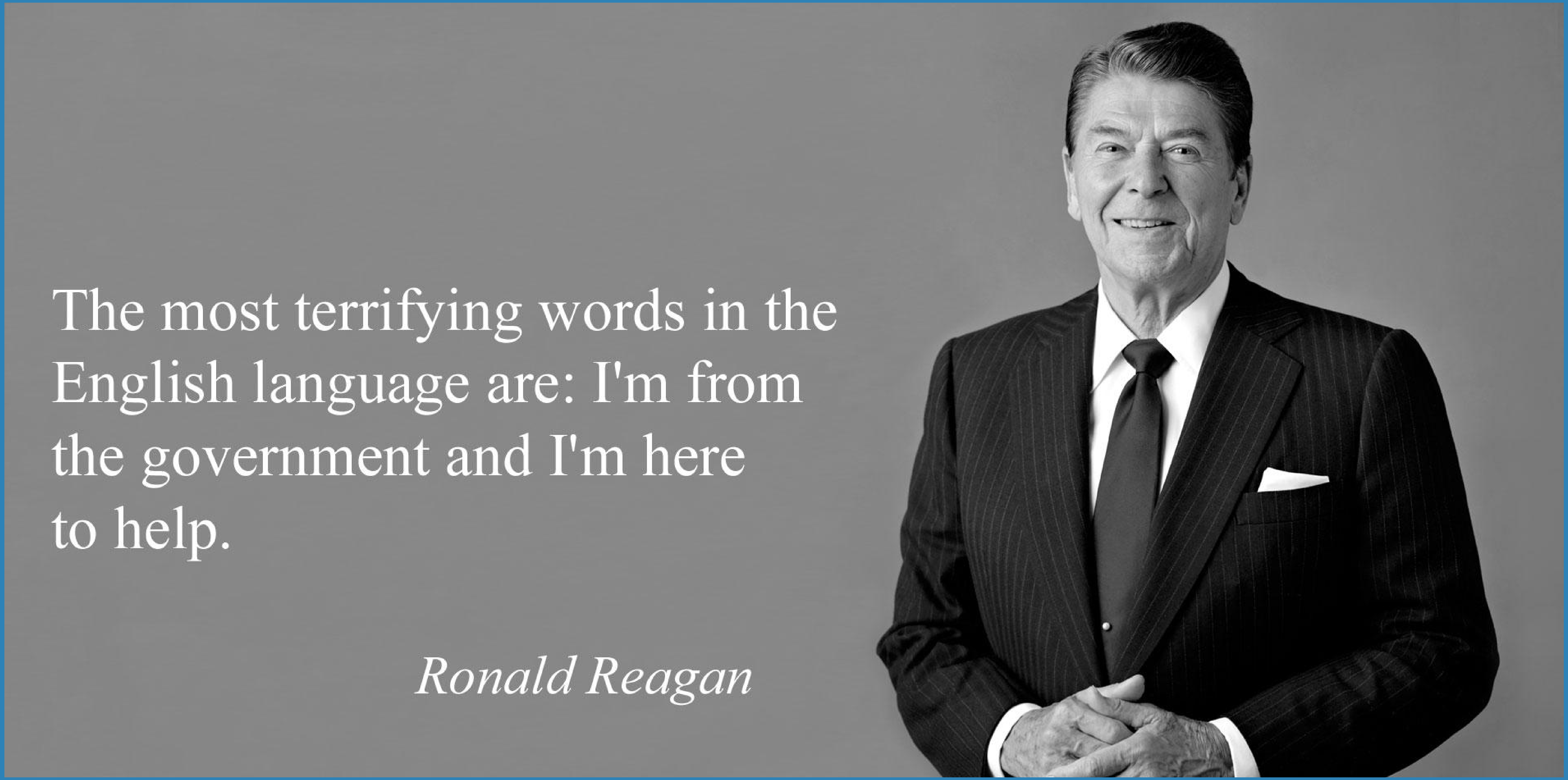
- Budget by department, assign responsibility for budgeting to department managers
- Bottom up budget – don’t presume you cannot improve upon historical performance
- Challenge the notion of fixed expenses – some are truly fixed in the short term – but many are semi variable
  - For example labor. Often we presume we have fixed managerial labor but in periods of declining sales can we cut variable labor and salaried labor perform additional tasks?

Determine fixed vs variable vs semi variable

- Layer into your budgeting tool
- Let’s take a peek at an actual budget spreadsheet…..

Minimum Wage Changes

Transitioning entry level positions to living wage jobs



Transitioning entry level positions to living wage jobs

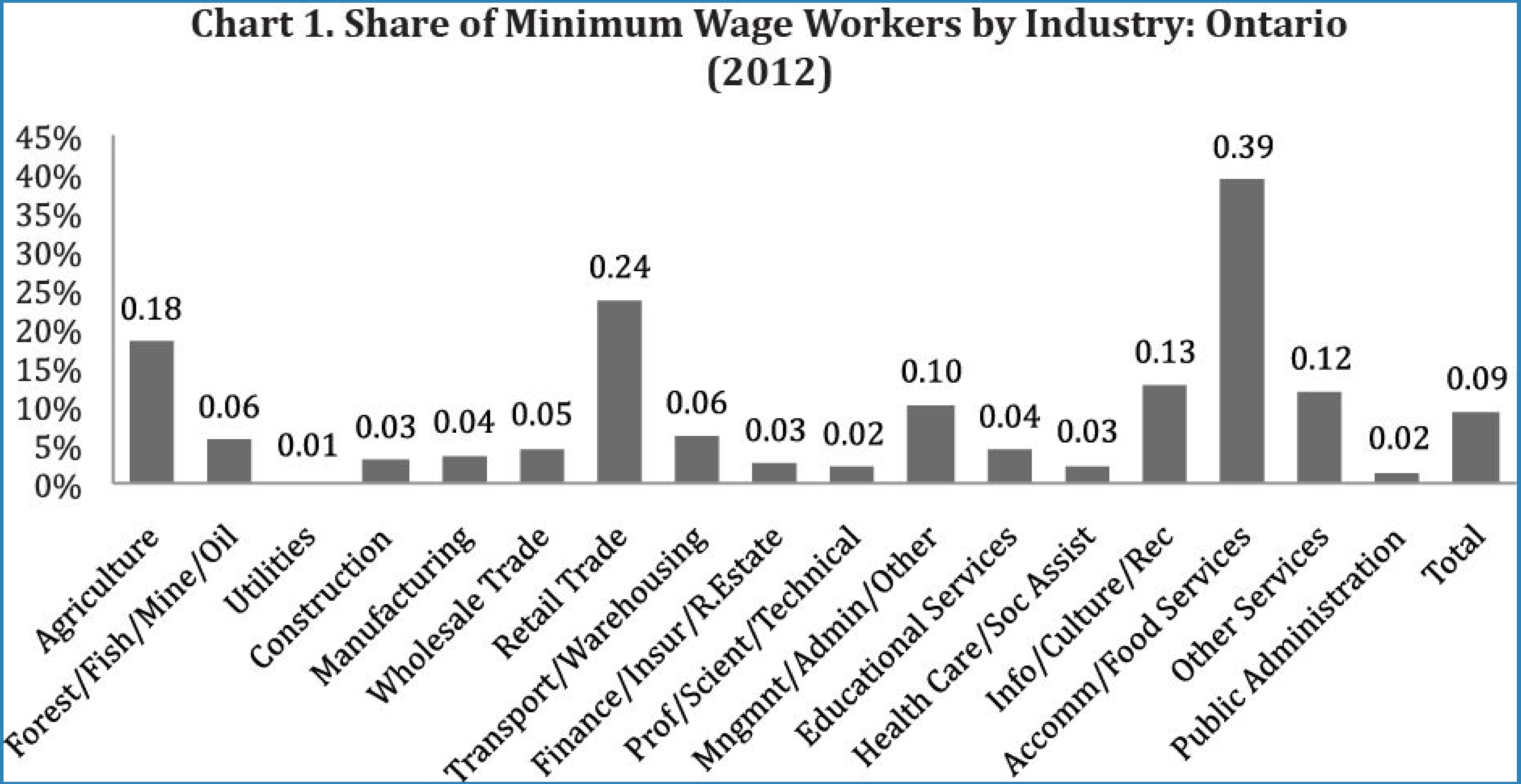
Alberta

Date	October 1, 2016	October 1, 2017	October 1, 2018
Minimum Wage / Hour	$12.20	$13.60	$15

Ontario

Date	October 1, 2016	January 1, 2017	January 1, 2018
Minimum Wage / Hour	$11.40	$14	$15

Transitioning entry level positions to living wage jobs



Transitioning entry level positions to living wage jobs

Transitioning entry level positions to living wage jobs

Human Resources view Do you?

1. Increase only employees beneath minimum threshold
   a. Can you justify the narrowing of pay currently in place with higher performers?
   b. Will the negative effect cost you key employees or productivity?

2. Increase all / some hourly associates beneath a certain point by an equal amount?
   a. Exponential impact on wage mandate if you do, does moral improvement make it worthwhile?
   b. Can we squeeze more productivity out of senior employees at higher wage to help minimize hours overall.

Transitioning entry level positions to living wage jobs

Operational view

- The wage increase is likely disproportionately weighted toward your newest, least efficient, most transient workers
- Depending upon your HR strategy you may have a disenfranchised group of experienced, core crucial employees
- How good is your scheduling system (process) – management of labor now more important than ever. How do you measure increase cost of labor vs. most productive associates and how does that play into labor scheduling
- Cost of EE turnover now more costly than ever given higher cost for newest employees

Transitioning entry level positions to living wage jobs

Operational view

- pay scale

Transitioning entry level positions to living wage jobs

Where can we increase efficiency while reducing Labour

Alternative strategies

- Technology / Automation
  - Self checkout
  - Ordering kiosks for deli / bakery
- Reduce service counters and on demand work
  - Pre sliced deli meats
  - No service Meat & Fish
  - Reduce hours of high labour activities to busiest times of day 80/20 rule
- Equipment investment : Floor cleaning

Outsourcing Labour

- Bakery production
  - Local Bakery or Just Commerical Bread
- Meat Cutting
- Back office
- Outsource HMR
- Shopping and Delivery
- 3rd Party Services
  - Uber for delivery
  - Taskrabbit for Shopping
  - Seniors Shopping for Seniors

EE mix change – change the traditional paradigm

- Fewer, more productive but higher paid associates
  - Less TO
  - Comes to a point of diminishing capacity as EE ages

Transitioning entry level positions to living wage jobs

Overall strategy

1. Top Line: Do we increase prices? Will competition allow?

   *Remember contribution margin pays the bills (sales less COGS less supplies less dept. labor)

   •Product stratification (A,B, C items)?

2. Do I leave prices alone but take actions to decrease below the line?
3. Do we implement a combination of 1 + 2?

Fast-Food Prices Before and After a $15/Hour Wage Hike

		Price Before Wage Hike	Price After Wage Hike
	10-piece Chicken McNuggets	$4.49	**$6.20**
	Grande Mocha Frappuccino	$4.56	**$6.29**
SUBWAY	6-inch turkey sub	$4.25	**$5.87**
BURGER KING	Whopper Meal	$6.49	**$8.96**
TACO BELL	Crunchwrap Supreme, Crunchy Taco, and large drink	$5.99	**$8.27**
Wendy's	Son of Baconator Combo	$6.69	**$9.23**
	Chicken Sandwich Combo	$5.95	**$8.21**
Pizza Hut	Medium Hand-Tossed Cheese Pizza	$11.95	**$16.55**

Transitioning entry level positions to living wage jobs

How do I measure and model the changes?

- Identify strategies
- Quantify number of hours and rate changes
- Value of price increases on contribution margin
- Plug into your budget model and tinker with the impacts of various strategies

Demonstration

Let’s take a quick peek at the numbers

“I figured out how we can double our quarterly sales.
From now on, each quarter will last six months.”

FMS Solutions Canada

Make decisions for tomorrow with information from today

THANK YOU! Mike Sharpe / Jon Cline

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