GH&J FOOD DIGEST

A Food Industry Newsletter

Green Hasson & Janks LLP
Business Advisors and CPAs

June 2009

Don Snyder
Partner, CPA
djsnyder@ghjadvisors.com
310.873.1607

GREEN HASSON & JANKS LLP
10990 Wilshire Boulevard
Sixteenth Floor
Los Angeles, CA 90024
Main Tel: 310.873.1600
www.ghjadvisors.com

In this edition, we are turning the spotlight on four prominent food distribution executives to get their take on what they are currently seeing in their businesses with respect to cost cutting measures.

I have enlisted the expertise of Nadi Soltan (**NS**), CEO of Biscomerica, Scott Obel (**SO**), CFO of Certi-Fresh Foods Inc., Mara Chimenti (**MC**), co-owner of Chimenti's Baking Company, Inc., and Herman Chiu (**HC**), CFO of Santa Monica Seafood Company.

Q&A ROUNDTABLE: FOOD INDUSTRY EXECUTIVES

Q1. Many food distribution companies are worried about keeping their profit margins at the same level as the prior year. What are you seeing and what are you doing about it?

NS: It has been difficult to keep our gross profit at the same level as the prior year. Higher flour prices and fuel costs drove profit margins down. However, as of late, both commodity and fuel prices have dropped allowing for profit margins to rise again, and hopefully, continue in the future.

SO: Gross profit for 2009 has been higher than in 2008 due to us locking in raw material prices from suppliers. However, for non-contract business, gross profit for the year has been lower than in the past. On the sales side, there has been great pressure put on us by certain customers to provide them a 2% discount in exchange for quicker payments.

Q2. Cash is king now. What is your company doing about staying on top of its receivable?

MC: We are and have always been very diligent about collecting our receivables. We have changed our credit terms with loyal customers by offering extended terms, if needed. We have been offering 30 day terms for new customers in an effort to attract the business.

HC: On the practical side we created a "Collections Committee" which meets on a bi-weekly basis to review the aging. On the precautionary side, we secured A/R insurance. Lastly, I recommend that companies hire a good bankruptcy attorney. In the event of a customer bankruptcy every company should understand what their options are in the event of a bankruptcy.

Q3. What are the top two or three areas that you have focused on to improve your cash flows?

SO:
1. We watch our accounts receivable balances very closely.
2. We manage inventory levels by watching each and every line item. We challenge all excess inventory levels.
3. We push our vendors harder for better payment terms on a case by case basis.

MC:
1. We buy only what we need.
2. Our Management Team is more closely monitoring operations by maintaining a better physical presence.
3. We are not making capital improvements right now, unless it is an absolute necessity.

Q4. Some food distribution companies have reduced personnel costs by applying different strategies such as hiring temps, eliminating overtime, and layoffs. How is your company dealing with its personnel costs?

NS: We are keeping up with the industry with respect to payroll costs and we have performance based bonuses. So far, we have been able to avoid wage cuts for our employees.

SO: We have dealt with payroll in three ways: First, we eliminated bonuses for 2009. Second, although we have not had layoffs, we have not refilled open positions. Finally, we eliminated overtime for all employees, unless the work is specifically approved by the supervisor.

MC: In 2009, we have frozen wages across the board and on a select basis we have had to layoff employees. We are now working with a skeleton crew and we are finding that we are much more efficient with a smaller staff. Our workers are now becoming much more specialized than in past years.

HC: We've always been in an OT reduction mode and we recently went to a modified work week. We send out quarterly newsletters to update employees on happenings throughout the company, and we have "town hall" meetings to allow employees to discuss matters relevant to their needs. It is important for the company to demonstrate to its employees that it is taking every possible step to preserve their jobs.

Q5. Many people say that this is the absolute wrong time to cut down on marketing costs. What is the Company's opinion on this?

MC: In the past, our company never had to advertise. We relied on our customer base for growth. Now we have really kicked up our marketing efforts and believe that there are great opportunities to increase market share.

HC: How we decide to go down the marketing path is predicated on what we are going to market and ultimately how are we going to pay for it. For example, to mitigate costs we've opted for marketing programs that are sponsored in large part by the suppliers. On the other hand, if you are launching a new division or business segment, it is almost imperative you invest in a marketing campaign.

About Don Snyder

Don Snyder, CPA and Partner with Green Hasson & Janks, is a well known business consultant in the food distribution, food processing and manufacturing industries. He has written numerous articles geared towards improving internal controls and fraud prevention measures. Don has over twenty-five years experience in public accounting.

For more information on this article or for business advice, contact Don Snyder at djsnyder@ghjadvisors.com or 310.873.1607.

Green Hasson & Janks LLP
Business Advisors and CPAs

Green Hasson & Janks is a Los Angeles-based certified public accounting firm specializing in tax, auditing and business consulting.

We provide services to a variety of industries, including manufacturing and wholesale distribution, entertainment, real estate, environmental and nonprofit.

An Independent Member of HLB International

A world-wide organization of accounting firms and business advisers.