



WHITEPAPER

Using Fresh ERP to Track Your Cost and Production

Introduction

With control over fresh produce pricing still mainly in **the hands of retailers**, growers need to do everything they can to maximize value where possible.

As we touched on in our **guide to fresh produce pricing strategies**, having an accurate impression of what costs go into each item you produce is ideal.

However, many businesses don't know their cost of production. To someone outside the fresh produce industry, this may seem like a simple estimation to make, but the nature of growing makes it anything but.

In some cases, growers aren't aware of all the different cost areas that go towards their finished product, but more often they simply lack the accurate information or the ability to interpret it meaningfully. Here, we explain what exactly counts towards cost of production, why it's such a useful figure to have and, crucially, how integrated ERP technology can help you achieve greater accuracy in cost tracking.



What is cost of production?

In essence, a grower's production costs are simple - it's every penny that they spend on their produce. This may just cover growing and harvesting, but it can extend to washing, packing, storing and transportation to name a few. The word "production" covers a lot of bases.

While getting a clear picture of overall expenditure is simple enough when calculating a business's bottom line, the real value comes from knowing the complete costs of individual lines of produce. And that's where problems appear. Every expense that goes into fresh produce items can be allocated as a direct or indirect cost.

Direct cost is the money which can easily be allocated to a single line of produce. These costs are generally scalable to the amount grown. For instance:

- Seeds and fertilizer
- Treatment of the crops
- Taxes and other regulatory costs

Indirect costs are those incurred by the business in a more general sense. This money contributes to the final product, but it is more difficult to allocate an accurate amount to each line of produce. These include:

- Machinery and technology costs (including upkeep and depreciation)
- Labor
- Property costs and maintenance

Why is it important to know your cost of production?

As you can imagine, some of these costs, especially indirect ones, can be very difficult to accurately estimate for each line of produce.

For example, the closest you might get to nailing down labor costs for a unit of potatoes may be just to segment the overall cost to the business in proportion with the volume of potatoes produced relative to other types of produce. But this ignores often crucial variations in the labor time needed for different lines, not to mention other factors like how intensive the farming methods for each are.

Knowing what your products cost you is invaluable for making informed business decisions in any industry, but especially in fresh produce:

Identify produce lines with the best and worst returns on investment.

Altering what you grow and in what proportions is all well and good but without accurate data it's just a stab in the dark.

All growers know what they receive per unit of each product they grow but unless they know its cost of production, they have no idea whether persisting with that line of produce is an efficient use of time and resources. Getting hold of this information can lead the way towards prioritizing growing the most profitable produce.

Identify inefficiencies. This isn't to say less profitable items should always be disregarded. If growers can ascertain their production costs and identify produce that isn't providing adequate returns, it gives a focus for improvement.

For instance, a line of produce that you have the capacity to grow in large quantities but that has a poor profit margin still represents an opportunity. Highlighting just a few of these items shows growers where to focus resources on improving efficiency, quality or yield.

Make smarter buying and selling decisions.

Accurate data of individual cost breakdowns can inform actions. Some types of produce may become less profitable through no fault of the grower's, so knowing this and isolating the reason why is important.

If one particular commodity or service becomes inflated in price, being able to spot this quickly and switch production focus to items with lower raw material costs can make a significant difference.

Figure 1: The importance of knowing your cost of production

Allocate costs more accurately with fresh ERP

As we've highlighted, access to accurate data and the ability to interpret it is the key to determining cost of production, but for many businesses this is simply not possible. Specialist fresh produce **Enterprise Resource Planning** (ERP) software can make all the difference here.

An ERP package comprises integrated technologies designed to provide a single point of truth in an organization. Among other benefits, it:

- Combines all databases, eliminating information silos
- Brings all systems together under a single, user-friendly interface
- Allows for more comprehensive data collection and interpretation
- Tracks activity from every part of a business

All of these points are crucial for tracking cost of production. As discussed at length in **our article on the use of data in fresh produce**, businesses can often fail to take advantage of the information that they do have access to.

Buying records become lost in invoices and financial documentation, yield data might be written down or left in a spreadsheet but not utilized beyond this. Inputting this information into a single system means growers can make better use of it - interpreting it in relation to other data and segmenting it by product type.

Bespoke fresh ERP makes the task of recording this data more straightforward too. Allied to powerful software is practical hardware (i.e. robust touch screen terminals) that incorporates data entry into 'on-the-job' processes, rather than leaving it as an afterthought. This also makes it easier to track and allocate indirect costs. Fresh ERP allows all workers to accurately log the time and resources used for each line of produce. It eliminates the need for guesswork in retrospectively allocating time and resources, instead providing real-time data streams.

Bringing all these more accurate and more accurately allocated costs under one system allows us a more nuanced understanding of production costs. Intuitive reporting and data modelling tools give growers even more power - not only to know their true cost per item but to identify areas where efficiency can be improved.

Our next article will explore how LINKFRESH's industry specific **ERP packages** help fresh produce businesses of all kinds to track and trace produce with unrivalled insight and accuracy. In particular, we'll examine the role of the consignment engine in recording, interpreting and presenting this data.

Solving all these challenges

Enterprise Resource Planning (ERP) empowers fresh produce businesses to transform their capabilities - from accurately calculating production costs to achieving full traceability. ERP breaks down information barriers and allows for more controlled management of an entire business, enabling you to take a more integrated approach. Sounds good? **Make an inquiry**.



LINKFRESH is part of the Aptean family of mission-critical, industry-specific software solutions. Aptean's purpose-built ERP and supply chain management solutions help address the unique challenges facing process and discrete manufacturers, distributors, and other focused organizations. Aptean's compliance solutions are built for companies serving specific markets such as finance, healthcare, biotech and pharmaceuticals. Over 4,500 organizations in more than 20 industries across 54 countries trust Aptean's solutions at their core to assist with running their operations. To learn more about Aptean and the markets we serve, visit www.aptean.com.