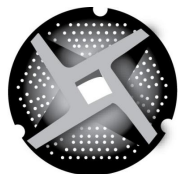


Product Costing/Pricing for Meat Processors and Marketers

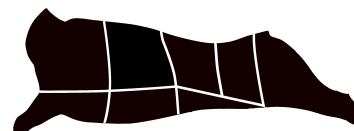


**NICHE MEAT PROCESSOR
ASSISTANCE NETWORK**

October 21st, 2010 Webinar



www.nichemeatprocessing.org



Making Money as a Processor

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IOWA STATE UNIVERSITY
University Extension

&



**NICHE MEAT PROCESSOR
ASSISTANCE NETWORK**

Outline

- Pricing vs. Costing
- Seasonality of Meat Processing
- Measuring Performance

How do you know how you're doing

- "I check my bank account balance every week."
- "I ask my accountant."
- "We're in the black at the end of the year."
- "Work like hell to get to get as much done as possible."

How do you make \$\$?

Make Money:

$$\text{Weight} \times \text{Price} \geq \text{COG} + \text{Overhead}$$

Lose Money:

$$\text{Weight} \times \text{Price} \leq \text{COG} + \text{Overhead}$$

- *Cost of Goods* = (Labor) + packaging (+ spices, etc.)
- *Overhead*: indirect expense allocated to process area

Common Questions

- *I don't know my overhead?*
 - Ask accountant to allocate to work areas based on labor-hours, or sq.ft. or cost of Property & Equipment, or make up based on volume
- *My employees work all over the place?*
 - Allocate wages to work areas on a % basis

4 Ways to Change the Equation

1 & 2) Decrease Cost of Goods or Overhead

$$\text{Weight} \times \text{Price} \geq \text{COG} + \text{Overhead}$$

3 & 4) Increase Price or Weight (throughput)

$$\text{Weight} \times \text{Price} \geq \text{COG} + \text{Overhead}$$

Common Decisions:

- Conventional Wisdom: **Reduce Operating Expense – it's the easiest to control.**

	Current	After Cut
Sales	100	100
Raw Mat'l	-10	-10
Throughput	90	90
Direct Labor	-40	-30
Overhead	-40	-40
Net Profit	10	20
Percent Increase		100%

Source: Mike Willet, Iowa State University - CIRAS

Common Decisions:

- System wisdom: **Increase Throughput**

	Current	After Increase
Sales	100	125
Raw Mat'l	-10	-12.5
Throughput	90	112.5
Direct Labor	-40	-40
Overhead	-40	-40
Net Profit	10	32.5
Percent Increase		225%

Source: Mike Willet, Iowa State University - CIRAS

Raising Price vs. Throughput: Understanding your Market

- "If you're too busy, you're too cheap."
 - Seasonal variation in demand – seasonal variation in price
- Can't or Don't Want to change Price:
 - Weight X Price = COG + Overhead
 - Solve for weight
 - Set Production Goals

Setting Production Goals

- What you need to know:
 - Cost of Goods = (Labor) + packaging (+ spices, etc.)
 - Amount of overhead allocated to area
 - Price of product

Weight X Price = COG + Overhead
Solve for weight

Common Questions

- *I can't process that much in a day?*
 - Raise prices, add more people, production incentives
- *I don't have room for that much meat?*
 - Analyze system for bottlenecks (common: carcass cooler and smokehouse – discussed later)
- *Conflict of interest for people to work faster?*
 - Minimum hour guarantee, production incentives
- *Some times of the Year are SLOW*
 - Seasonal scheduling strategy (discussed later)

Production Goals

Tuesday, March 16th 27 Beef, 14 People

- 9 AM – 8 Beef Done
- 11 AM – 15 Beef Done
- 1:30 PM – 23 Beef Done
- 3:10 PM – Done

Production Goals

Monday, April 5th 23 Beef A & 10 Beef B, 10 Cutters

- 9 AM – 10 Beef A Done
- 11 AM – 15 Beef A Done
- Noon – All 23 Beef A Done
- 1:30 PM – 5 Beef B Done
- 3 PM – Done

Production Goals - Very Small Plant

Saturday, April 10th 4 Custom Beef, 5 people

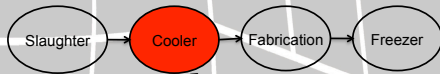
- 9 AM – 1 Beef
- 11 AM – 2 Beef
- 2 PM – 3 Beef
- 4 PM – Done

Beef Seasonality Strategies

- Price difference
 - Fall vs. Spring
 - Surcharge if you don't bring animals in Spring
- Coordination
 - Take a slot in the Spring get a Fall guarantee
 - Annual producer meeting
 - Book month 6 months out, book week 2 months out

Finding Your Bottleneck

- Slaughter: 7 beef per day \times 1 person = 7 capacity/day
- Cooler: 20 beef \div 1 week aging = **4 capacity/day**
- Fab.: 5 people \times 8 hours \div 8 man-hours/beef = 5 capacity/day



Only the cooler if improved will increase the capacity of the system as a whole. Can it be improved without adding more space? What provides the highest throughput per expense ratio?

Add one cull/day. Cut more hogs. Wet aging. Alter cooler railing.

Questions & Discussion