Cost Analysis: Are You Making Money?



NICHE MEAT PROCESSOR ASSISTANCE NETWORK



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www.nichemeatprocessing.org

Cost Analysis: Are You Making Money?

Knowing Why You Are or Are NOT Making Money and What to Do About It

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Outline

• Why the heck would this young guy have anything interesting to say?

Making Money, Measurement, & Goals

 Products & Pricing

 Investment decisions - equipment purchases and hiring.





Photo by Kate N.G. Sommers



Photos by Kate N.G. Sommers









Fine Meats Packed In The Cannon River Valley

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DIRECT MARKETERS



So, you want your processing business to make money?

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."

What Makes Money?

Doing things that are profitable

Stop doing things that are not profitable.

Real question: Which is which?

To get info on specific types of work, we have to find organized ways to collect information.

Collecting & Separating Information

- Big Picture Creating Departments in GAAP
 - e.g. Processing, Further Processing, Retail
- Production Goals & Daily Monitoring

Individual Products

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

Expenses	Very small	Small
Raw materials/		
ingredients/packaging	\$50,000	\$120,000
Labor (all inclusive)	\$110,000	\$300,000
Office-related		
overhead ^a	\$1,000	\$4,000
Processing-related		
overhead ^b	\$30,000	\$61,000
Other overhead ^c	\$20,000	\$32,000
Loan Interest	\$10,000	\$25,000
Depreciation	\$10,000	\$23,000
Total expenses	\$231,000	\$565,000
Daily Goals (+254)	\$910	\$2,225

Common Questions

- I don't know my overhead?
 - Ask accountant to allocate to work areas based on laborhours, sq.ft. or cost of Property & Equipment
- My employees work all over the place?
 - Allocate wages to work areas on a % basis
- I can't cut that much in a day?
 - Raise prices, add more people, production incentives
- Conflict of interest for people to cut faster?
 - Minimum hour guarantee, production incentives

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 - 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

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

-Example

What about Sausages?

- Same info, different angle
 - What you need to know:
 - Cost of Goods = Labor + packaging (+ spices, etc.)
 - Amount of overhead allocated to area
 - Batch weight and time to get it done (relative to goals)

Weight x Price = COG + Overhead Solve for price

Sausage Example

Cost		Price	Amount Used	Batch Cost
Ingredients	Pork trim	\$1.25/lb	100 lbs	\$125
	Seasoning Mix (w/ salt)	\$5/lb.	2.5 lbs.	\$12.50
	Cheese	\$5/lb.	5 lbs.	\$25
	Casings	\$25/ hank	1 hank	\$25
Labor	Real-time wages, encumbered	\$30		\$30
Packaging	Plastic and labels	\$0.05/lb.	102 lbs.	\$5.10
Supplies	Avg. Department	5% of COGS (no	meat)	\$4.88
Overhead				\$30
			Total	\$257.48
	Yield 95%	102.6 lbs.	Per LB.	\$2.52
			No Meat	\$1.30

Using Daily Goals to Evaluate Decisions

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Questions & Discussion