Making Money as a Processor

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University Extension

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:
Weight X Price $\geq$ COG + Overhead

Lose Money:
Weight X Price $\leq$ COG + Overhead

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

4 Ways to Change the Equation
1 & 2) Decrease Cost of Goods or Overhead
Weight X Price $\geq$ COG + Overhead

3 & 4) Increase Price or Weight (throughput)
Weight X Price $\geq$ COG + Overhead

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 employee work all over the place?
  - Allocate wages to work areas on a % basis

Common Decisions:

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

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<tr>
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<th>Current</th>
<th>After Cut</th>
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<tr>
<td>Sales</td>
<td>100</td>
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<td>Raw Mat'l</td>
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<tr>
<td>Throughput</td>
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<tr>
<td>Direct Labor</td>
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<tr>
<td>Overhead</td>
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<tr>
<td>Net Profit</td>
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<td>20</td>
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<tr>
<td>Percent Increase</td>
<td>100%</td>
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</tbody>
</table>

Source: Mike Willet, Iowa State University - CIRAS
Common Decisions:
- System wisdom: **Increase Throughput**

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<tr>
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<th>Increase</th>
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<tbody>
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Percent Increase: 22.5%

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 × 1 person = 7 capacity/day
- Cooler: 20 beef ÷ 1 week aging = 4 capacity/day
- Fab.: 5 people × 8 hours ÷ 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.