

## ADDING VALUE FOR GREATER PROFITABILITY IN MEAT PRODUCTS

### SAP BUSH HOLLOW FARM

History and current status

1. animal production
2. Family involvement
3. How we market

### I. RETAIL VS. COMMODITY PRODUCTION

-Why consider retail (some real life examples)

-Commodity production will always have a place in your business

-Why?

- a. need to monitor production costs to withstand economic volatility
- b. some products may not reach your production standards
- c. allows greater elasticity in market development

### II. HOW DO I ADD VALUE TO MY PRODUCT

Socially and Psychologically

- Discussion of production types (refer to "Food, Inc")
- Animal welfare issues
- Antibiotics and hormone use
- Understanding the public's concerns and addressing them with your products
- Educating your public why your products are better or eliminate their concern
- Grass-fed concept – health advantages (you must educate yourself, adequately and correctly)
- Environmental issues on livestock production and why we do it right
- Organic production

Physically

- offer new cuts, smaller packaging, cuts which cook faster, special cuts for different Seasons

### III. RELATIONSHIP MARKETING

- Putting a face on your food
- People need to trust the source of their food

### IV. PROCESSING ISSUES

- Quick overview of types of inspection, and what they permit
  - Custom, state, USDA (this discussion should be covered by state or fed official)
- Maintaining relationship with a Processor
  - a. processors issues
  - b. your issues
  - c. packaging types and concerns (paper, plastic cryo, size, labeling, and the quality of each of these items)
  - d. have processor do value added products ( sandwich steaks, sausages, smoking, slicing, holiday products)

### V. PRICING YOUR PRODUCTS

### VI. QUESTIONS AND HOPEFULLY, ANSWERS

## PRICING CONSIDERATIONS FOR GRASSFED BEEF (hanging carcass) 2011

### VARIABLE COSTS

FEEDER 700 lb @ \$1.25/ lb (vaccinated before trucking)	\$825
TRUCKING \$3.00 / LM (assume 4 steers on load, 50 miles = \$150 / 4	38
GRAZING CHARGE (depreciation, fencing, labor, pasture management, tax, insurance) 180 days May 1 – Oct.30 \$0.75/ day. Assume 1.75 lb average daily gain (300lb)	135
MINERALS \$0.07/DAY X 180	12
VETERINARIAN (average figure for large numbers of beef)	5
DEATH LOSS ( average per cent loss from feed lot beef) 3%	26

### PROCESSING COSTS

TRUCKING ( ASSUME 2/ LOAD AT 50 MILES @ \$3/LM) \$150/2	75
Pick up of processed meat from processor	27
PROCESSING CHARGES (Kill & render, Hang charge , cut freeze wrap ,	450

Costs we forget about: gas, car and time to supply companies for fencing materials, watering supplies, etc; field vehicles, maintenance & repair, waste disposal, educational programs and materials,

\$1593

### PRICING CALCULATIONS

Live weight 1000 lb

Hanging weight is 56% of live so 560 lb hanging. Divide \$1593 by 560 = **\$2.85 BREAK EVEN COST**

What return would you like?? (for labor, investment, risk)

**\$250 ?** divide \$1843 by 560 lb = \$3.29/lb. You would need to charge \$3.30/ lb HANGING WEIGHT

**\$500 ?** divide \$2093 by 560 lb = \$3.74/lb. You would need to charge \$3.75/ lb. HANGING WEIGHT

You have taken all the financial risk, this is a business for profit AND THIS IS GREAT BEEF!!!

## WHAT SHOULD I CHARGE FOR MY RETAIL CUTS??

At \$1593 total costs for 355lb of retail cuts (65% of hanging weight), you must charge an average of \$4.75 lb to pay *just for the meat*. If you would like to cover your additional costs *and earn a profit*, obviously a higher price per pound than this must be charged. **HOW DO I FIGURE THIS OUT??**

The first place to go is the grocery store. Check out the cuts and prices and then marvel at the **CHEAPNESS** and begin to understand how difficult it is going to be to ask for more, much more, than supermarket pricing for your beef cuts (I have begun to notice some price inflation in the stores).

The best place to search for prices is other farms listed on the internet (eatwild.com lists many grassfed enterprises websites). Travel to nearby farm markets and check out prices there. These farmers have proven ability to sell at these prices. YOU must be able to educate the customer in a positive manner as to why they are paying more for your product than the subsidized products in the store. This exercise should help you do this.

### ADDITIONAL COSTS TO CONSIDER WHEN PRICING FOR RETAIL

**Management costs** – office supplies, product liability insurance, state license fees

**Marketing costs** – advertise, newsletters, stamps, internet web page, telephone.

**Refrigeration/ storage costs.** Electricity, depreciation of freezers, labor to stock and labor to pack for market.

**Retail space costs.** Equipment, coolers, freezers, structure, labor, sales supplies, signs, cleaning, display cases

**Farm Market costs** - \$0.54/mi each way, \$700.00 supplies (tent, tables, cash box, signs, cash books, Pens, pencils, markers, tape, aprons, table cloths, farm logo shirts, cleaning supplies, ice packs, coolers, Business cards, display bins), weekly market fee \$10 – 25, market liability insurance, product spoilage (can be significant if not very careful), bad weather low sales and the big one ... labor, be it yourself or an employee.

When you get to the end of the market day with \$200 - \$2000 in sales - remember *all* the above costs have been incurred as a percentage of each cut of meat so you are not bringing home much in profit, but you **ARE** moving product. Profit at farm markets can be questionable, but they are fun...most of the time.

All the above information can be used for pricing lamb, beef & pork although you must be aware of some additional cost factors for feed, fencing and housing with lamb and pork. Also if you raise 100% grassfed lamb your average carcass weight may be lower than for grain fed lambs.

Keep your pencil and pad close at hand, record all expenses and sales **ACCURATELY**, and after one cycle you should have quite a good idea of all these costs and how to spread them over the various products. The more product you sell, of course, the better the numbers will look. Many of the costs are one time purchases but they should be depreciated for eventual replacement.

## PRICING CONSIDERATIONS FOR PASTURED POULTRY 2011

RETURN TO MANAGEMENT/LABOR		\$10,000
<b>VARIABLE COSTS</b>		
CHICKS        1500 Chicks @ .85/		1275
FEED - 1275 finished @ \$3/bird (\$400/Tn. Feed or \$.20/lb @ 15 lb/bird)		3825
*MORTALITY – 225 (15% due to delivery, illness, weather, predator losses @\$ .60/bird)		135
BROODER HEAT		600
PROCESSING -1275 @ \$3.50/ includes labor, handling and transportation		4462
REFRIGERATION @\$0.05/PROCESSED BIRD		64
SUPPLIES @ \$0.10/ BIRD (shavings, electrolytes, vitamins)		128
		\$ 10,489
<b>FIXED COSTS</b>		
Brooders, storage building		100
FIELD EQUIP (quad, fence, feeders, water supplies)		350
INSURANCE (liability \$125 Workers comp \$200)		325
		\$ 775
<b>MARKETING COSTS</b>		
NEWSLETTER & POSTAGE		218
SALES DAY EXTRA LABOR (\$75/ day)		900
		\$ 1,118
<b>GRAND TOTAL</b>		<b>\$22,382</b>

Divide grand total by 1275 broilers. That tells us we need to average \$17.55/ broiler.  
Divide \$17.55 by 4.5 lb (average broiler weight). We need to charge  
**\$3.90/ lb for the broilers.**

\* By reducing mortality rate, you will increase your income.

We calculate 400 hours for labor on the chickens. If we hire this labor done at \$10/ hr (incl. fringe) we would do ourselves for at least 300 hrs to perhaps perform more profitable tasks and still leave us \$6,000.  
Another way to look at this:

Do the work ourselves and get paid \$25/hr (pretty good pay) or  
Hire someone for \$10/ hr and basically pay ourselves \$60/hr to manage them.

*(All numbers are conservative, so as to attempt to cover all unplanned for negative events and to assure a profit.)*