

Making Money in Meat

BY ROBERT DUNCAN

Most of us in the meat industry have heard the saying, “Anybody can cut meat, but making money cutting meat is the hard part.” Nevertheless, operating a profitable meat department can be achieved with appropriate management routines in place. Determining your Cost of Goods Sold (COGS), tracking purchases and sales, and attending to the spending habits of your customers are the fundamentals of every successful meat department. Knowing the COGS will help co-op meat department margins improve immediately.

Co-op meat managers must have a solid understanding of net cost of product derived from the cut test. Unless the product is received from your vendor pre-cut, pre-packed, and pre-priced, co-op managers will have to conduct cut tests to determine net cost of product after waste to identify the true cost basis for pricing.

Cut tests

The cut test *allocates* the total purchase cost of the raw product to the sellable portion. Whether it be one whole salmon or each box of primal beef, cut tests reveal that invoice cost must be increased by a few cents to a few dollars to account for trim and waste.

Cut tests are best performed whenever:

- new meat cutters are hired;
- the meat department is acquiring new product lines;
- distributor product specifications change; or
- your department has gone without cut tests for any extended period of time (quarterly or yearly).

Schedules of cut testing should be a part of every meat department game plan. The cut tests over time give a clear picture of your net cost of product, enabling you to price your product accordingly.

Keys to successful cut tests

1. **Log the gross weight** of pre-processed product and the amount you paid for the total piece or portion.
2. **Log the net weight** after processing.
3. **Record your waste** by subtracting the net weight from the gross weight.
4. **Divide net weight into the total cost** you paid for the untrimmed product.

Wild King Salmon

Date	Type	Cost	Start Weight	End Weight	Waste Weight	Loss	Net Cost/lb
8/30/2006	Salmon	\$8.99	24.40	17.79	6.61	27.09%	\$12.33
9/1/2006	Salmon	\$8.99	12.50	8.75	3.75	30.00%	\$12.84
9/2/2006	Salmon	\$8.99	9.00	6.00	3.00	33.33%	\$13.49
9/3/2006	Salmon	\$8.99	20.09	14.13	5.96	29.67%	\$12.78
9/7/2006	Salmon	\$8.99	19.50	13.80	5.70	29.23%	\$12.70
9/8/2006	Salmon	\$8.99	19.40	14.10	5.30	27.32%	\$12.37
9/8/2006	Salmon	\$8.99	26.80	18.50	8.30	30.97%	\$13.02
9/8/2006	Salmon	\$8.99	18.30	12.75	5.55	30.33%	\$12.90
9/14/2006	Salmon	\$8.99	16.00	11.00	5.00	31.25%	\$13.08
9/20/2006	Salmon	\$8.99	13.00	8.50	4.50	34.62%	\$13.75
9/23/2006	Salmon	\$8.99	11.00	6.00	5.00	45.45%	\$16.48
9/25/2006	Salmon	\$8.99	32.00	21.00	11.00	34.38%	\$13.70
Averages		\$8.99	18.50	12.69	5.81	31.38%	\$13.10

Beef Inside Round

Net cost of beef inside round determined by cut test = \$ 3.52/lb

Net yield = 14.30 lbs x \$3.52 = total cost of product (\$50.34)

Products Produced	Yield	x	Price	=	Retail Value
London Broil	5.25 lbs	x	5.99		\$31.45
Cube Steak	1.21 lbs	x	6.49		\$ 7.85
Round Steak	2.00 lbs	x	6.49		\$12.98
Stir Fry	0.95 lbs	x	6.99		\$ 6.64
Extra Lean Stew Meat	2.02 lbs	x	6.49		\$13.11
Ground Burger	2.29 lbs	x	4.99		\$11.43
Total for Muscle Group	14.30 lbs				\$83.46

Gross margin realized on total product cost = \$33.12 or 39.65%

Upon completing step 4, your net wholesale cost is revealed and serves as the basis of your pricing. With the use of spreadsheets, you can determine and track your waste factor for every primary product you produce.

The spreadsheet above shows the results of multiple cut tests of king salmon. This type of spreadsheet template generates averages when you have multiple cutters and saves time with future price changes by changing net cost

automatically.

The spreadsheet shows the initial cost of a whole salmon at 8.99/lb to have a true sellable product cost of \$13.10/lb. This variance of \$4.11 can wreak havoc in a fish department if not factored into your pricing equation. Whether you are cutting fish, fowl, and meat or preparing food in a deli kitchen, co-op managers must think first in terms of net cost of product in order to achieve profitable operating margins.

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Lump sum or weighted average pricing

Lump sum or weighted average pricing involves pricing a mixture of cuts at varying margins. The cut test lays the groundwork for pricing of more complicated cuts of meat found in boxed beef. Whole muscle meats offer a wide array of cuts that command different prices. The net cost (determined by the cut test) is the same for each retail product, but the meat manager must price these various cuts according to demand and what the customer is willing to pay for them.

Take, for example, a beef inside round. This muscle group generates London broils, round steaks, cube steaks, stir fry, and extra lean stew meat. Any excess trim is then ground into burger. Although each of these final retail products will share the same unit net cost, they will have to be priced according to supply and demand, and your gross margin will be viewed as the combined lump sum of the primal group. The table shows how products from a beef inside round could be priced.

Conclusion

Meat managers will do well to have an algebraic model set up on a spreadsheet for each type of primal group. With this model the manager can instantly see the net impact on the anticipated gross margin for the primal group when changes are made in the processing quantity of each cut or the selling price of each cut.

Unlike other departments in your store, the cut test and lump sum or weighted average pricing are two critical tools that the meat department managers must use to meet operating margins. Co-op managers will have to conduct cut tests to identify the true cost basis for pricing. Further, the meat manager will also have to develop pricing skills unfamiliar to other merchandising departments, because you are processing several different products which all come from the same lump-sum source.

Although these tools will not necessarily make your meat department profitable in themselves, they are absolutely an essential part of every profitable meat department. In an article to follow I will discuss other essential tools such as inventory management, sales and purchase monitoring, and becoming familiar with your co-op accounting and point of sale staff. These administrative divisions probably have some reports that you will find very useful and will give you a more thorough comprehension of what will make your department function most profitably. ■

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