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FOR SUSTAINABLE AGRICULTURE

Cash flow and product profitability analysis and improvement for small meat processors

Abstract: Education on financial management techniques, individual assistance, and valuable information was provided to several of Iowa's small meat processing firms.

Question & Answer

Q: How can farmers learn to price their products appropriately?

A: An Iowa farmer can learn how to price alternative products such as specialty grains, meats and table food items. For example, an ISU extension specialist plans to utilize the project's costing system to price specialty soybean products, such as oils, for markets. The specialty soybeans are grown by a consortium of Iowa farmers. Another example is the hog producer who attended a recent Leopold Center conference, who could use the costing method to price his custom-processed products for the retail market.

Background

Iowa has more than 200 small meat processors, most located in rural towns. They face increasing financial pressures from the need to implement food and product safety practices, a declining customer base among their traditional farmer custom meat-processing clients, and a new customer group looking for niche items such as hormone-free beef. Many of these firms lack knowledge of financial management tools such as costing and the understanding of how to use these tools to manage their businesses more effectively.

The project aimed to improve financial viability of these firms by training owners and managers about the use of a

costing methodology. Project objectives were to:

- Develop software and instructional materials for assisting small meat processors to improve their financial performance through better product costing and cash flow.
- Provide instruction and software to 60 Iowa small meat processors to:
 - o Analyze product line profitability,
 - o Establish rates for custom processing,
 - o Establish a cash flow management system, and
 - o Establish costs for implementing and maintaining food safety and product safety standards.
- Assistance
 - o Provide direct assistance to participants in developing and analyzing cost information designed to improve profitability and/or reduce costs at 15 to 20 participating firms.
- Information
 - o Develop a baseline of information about product profitability of small meat processors through a survey administered to 60 firms at the start of the project.
- Conduct surveys 12 to 18 months after the training sessions to determine impact on financial performance. Goal is improved financial performance from at least one-quarter of firms that implement the new techniques.

Approach and methods

The Center for Industrial Research and Service (CIRAS), Iowa State University's Meat Processing Laboratory and Iowa Central Community College staff worked together to

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Budget:
\$18,307 for year one

educate small meat processing firm employees. The educational approaches were intended to enhance the managers' knowledge of basic financial management tools used to improve product pricing, pricing of services, and efficiency of cash flow, along with greater understanding of the financial impact of business decisions.

The project investigators developed direct costing software and a manual cost system based on an existing CIRAS direct costing package. Meat processing firm managers learned about the cost system and cost flow techniques at a series of one-day community college workshops. The workshops were public workshops open to anyone to attend.

These workshops were held at:

1. Ottumwa, Indian Hills Community College
2. Calmar, Northeast Iowa Community College
3. Mason City, North Iowa Area Community College
4. Carroll, Des Moines Area Community College
5. Ames, ISU Meat Laboratory (follow-up session)
6. Fort Dodge, Iowa Central Community College (Train the Trainer session)

The workshops were held in the community college computer labs so the participants could learn to use the software, while applying their own cost data. Paper spreadsheets also were available for those people more comfortable working with a paper system. Two to three staff members were present at each workshop to provide individual assistance.

Results and discussion


The project did not conduct research, but attempted to educate small processors about more effective business practices.

The 26 firms represented at the workshops were among Iowa's best firms in the meat industry, according to ISU's Meat Laboratory. The 64 employees from participating firms came to the workshops with the desire to improve product costing in their businesses. They left the workshops committed to implementing the cost system. But, before implementation could proceed, some firms faced challenges:

- Inadequate cost information and/or lack of a cost collection system,
- Inadequate or no computer system,
- Poor computer skills or Microsoft Excel spreadsheet skills, and
- Lack of time to implement the cost system and other needed changes.

Conclusions

The costing strategy for small processors is a useful tool and will improve pricing strategy and profitability. Many processors have obstacles to implementation such as lack of knowledge of spreadsheets, no time for implementation, and/or lack production volume or production cost data. Workshops and one-on-one assistance should be provided to assist firms in adopting the cost system.

	 PROFIT CENTER CONTRIBUTION					
			PROCESS PLANT		RETAIL & FREEZER	
	\$	%	\$	%	\$	
A. SALES REVENUE						
LESS: VARIABLE COSTS						
Labor						
Material						
Utilities						
Supplies						
Sales Commission						
B. TOTAL VARIABLE COSTS						
C. CONTRIBUTION (A-C) BY PROFIT CENTER						

Impact of results

The effort to educate small meat processors about the benefits of a direct cost system to control costs and price products will continue with four additional workshops in 2008. One-to-one technical assistance will be provided along with the workshops.

Leveraged funds

No additional funds were leveraged by this project. Additional workshops were supported through IMEP funding from CIRAS and through the Iowa State University Meat Laboratory.

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