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Improving profitability for small and very small meat processors in Iowa

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Abstract
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Keywords
Business management distribution and marketing, Niche meat dairy and poultry

Disciplines
Agribusiness | Business Administration, Management, and Operations | Entrepreneurial and Small Business Operations | Meat Science

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Principal Investigator:

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Budget:
$ 14,557 for year one
$ 8,231 for year two

Q Can targeted training and education help small and very small meat processing plants in Iowa improve the profitability of their operations?

MARKETING

A Offering classes for processors and providing individual follow-up sessions can help implement solutions offered during classes. Small and very small meat plants can learn to use the competitive advantages they have when compared to bigger meat packing plants.

Background

In 2009, a small productivity improvement project was conducted for meat processing plants in north central Iowa. It proved to be so effective for the pilot plants that this new project was proposed to continue and expand the knowledge to other Iowa small meat processing plants. The idea was to make the information easily usable for meat plant managers (beyond merely publishing articles).

The initial objectives of this project were to:

- Develop a plant productivity curriculum,
- Conduct quarterly one-day plant productivity classes at four regional Iowa locations, and
- Provide one-on-one follow-up services to people who attended the class.

Approach and methods

As the PI began the project, curriculum development and follow-up took longer than expected, leading to problems with the amount of labor time invested. In addition, the travel budget allotted to host classes in the four quadrants of Iowa had been underestimated. As a result, two half-day classes were conducted in Cresco, Iowa, based on the high demand in the northeast Iowa area. The free classes took place the first and third weeks of February 2012 and were attended by staff from eight meat plants. .

Personnel from two of these plants (Spillville - http://www.spillvillelocker.com/index.html, and Riceville - http://www.countylinelocker.com/ meat lockers) showed interest in one-on-one, follow-up meetings to help them implement solutions offered in class.

This involved revisiting the curriculum, helping plant staff troubleshoot some of their problems, and tracking the firm's profitability, employee wages, operating expense, and slaughter slots. These activities provided extra assistance for the plants as well as information on the impact of the class. Follow-up sessions with the two meat lockers have continued past the conclusion of this grant project.

Class one: *A New Way to Approach Meat Plant Management*
During the busy season, many plant owners are operating in a high-stress environment that leads to overtime, quality problems, slow service times, low quality of life, and loss of opportunities for sales. Often, plant managers turn away animals for processing because they feel they have insufficient capacity. The class describes common meat plant problems, and investigates why the problems exist. Management policies (rather than a lack of capacity) often constrain meat plants and cause many of the problems that are common in small and very small meat plant environments. The errant policies generally are formulated based on a faulty notion of efficiency. Currently, many meat plant managers make reactive decisions on which products and animals to process.

Helping processors to understand the different impact that each animal has on profitability is key to making plants more successful. One of the basic concepts is that profitability is governed both by the rate at which a product moves through the plant to the customer and the margin that is charged for the product.

Class two: *Retail Replenishment in Meat Plant Retail Counters*
Research has shown that the retail section is a key component of most profitable meat plants, and many small and very small meat plants in Iowa derive significant income from their retail counters. This income can be jeopardized by retail stock-outs---the customer cannot buy what is not for sale. Managing retail stock can be challenging for the small processor. In addition, it is hard to know how long it will take to restock a sold-out product. Running out of a product means that it must be purchased and then processed. A critical point the class teaches is the need to develop a proactive rather than a reactive approach to managing inventory. Many plants wait until a product is out of stock before they take action to make or buy more. The class stressed proactive scheduling of time and inventory management.

Results and discussion

One objective was to make the classes available to as many meat plants as possible. Instead of offering classes in each region of Iowa, a shortage of labor time and travel funds required the project leaders to seek other ways to share their knowledge. They concluded that a good solution would be the development of a webinar, hosted online through the Niche Meat Processor Association Network starting in August 2014. This will make the course available nationally. See: http://www.nichemeatprocessing.org/

Custom lockers are extremely busy in the fall during deer hunting season. In fact, most custom lockers rely on revenues from this busy season to subsidize an entire year's cash flow. It also means that these plants are working significantly under capacity for at least three other months out of the year, while labor, overhead, and other general costs continue to be generated. This leads to significant cash flow issues during the slow season. One key accomplishment was development of a slow season solution for custom lockers. This solution centered on aggressive sales and advertising during the slow season with the understanding that every dollar generated over raw material costs would add to the bottom line during the slow season when excess capacity was available.

Conclusions

Small meat plants can be successful and thrive. Their size and location constitute a competitive advantage. Most plants have excess capacity that is not being used effectively as shown after working directly with Iowa meat plants. The information needed to help small meat plants become more profitable is available. Classes and educational activities provide opportunities to share this information as well as help service providers identify specific plants for more intensive one-on-one efforts. This information will help keep rural areas dynamic and encourage economic development.

Individual follow-up was effective but not necessarily practical in terms of the time and money needed to provide it. The impact of webinars ultimately will show how important follow-up is to retaining the lessons learned.

To be implemented, any solution to increase meat plant profitability must:

- Be easy to implement.
- Result in significant increases in profitability so that any time or headache is more than compensated in increased income.

The classes in this project focused on:

- Figuring out where the constraint was in the meat plant system (how to find the bottleneck, and how to reduce it).
- How aggressive slow-season sales tactics could serve to significantly increase profitability: lower prices on retail, offer delivery, and promote meat bundles.
- Why #2 hogs ("junk hogs") can provide a viable opportunity to enter more competitive markets, despite overall higher processing costs than conventional large-scale meat processing.

Empirical evidence showed that it is possible for meat plants to significantly increase net income, cash flow, and return on investment without significantly increasing expenses. Classes created for this project provided opportunities to share information and helped service providers single out plants for more intensive one-on-one help.

Education and outreach

Articles related to project were published in the *Iowa Meat Processor Association Newsletter* and national newsletter of the same organization. Topics included:

1) Have you tried slaughtering every day?

2) Beef or hogs?

3) Retail counter management

4) Increase retail sales with more frequent delivery

5) Do you have the slow season blues?

These articles can be found on the ISU Extension and Outreach website: www.extension.org/pages/69289/strategies-to-increase-throughput#.U8Qw0PldUbJ

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