Beef Product Pricing: Part 1

Behind the Menu Price

Beef prices undergo changes between the ranch and the restaurant.

by ***Miranda Reiman***

Farm and ranch freezers are often full of home-raised beef, yet producer families still enjoy the classic steakhouse experience now and again.

With a quick scan of the menu and some cowboy math, most producers figure the New York strip list price at a hefty premium to the weekly sale-barn reports for beef on the hoof.

That means either (A), someone in the restaurant business is getting rich or (B), it takes plenty of work and capital to get beef to the consumer.

"The reality is everybody is taking a little piece of the pie all along the way," says Mark Polzer, vice president of Certified Angus Beef LLC (CAB). "Product doesn't go right from the packer to the plate; there are many important steps in between."

"This is one of the few businesses where we not only sell the finished product, but we manufacture it as well. We get it as raw goods at the back door, we make it in the kitchen and then we bring it out and sell it on a retail basis. It takes a lot of capital to do all those things."

— Rick Cassara

Piece of the pie

Rick Cassara owns John Q's, an upscale steakhouse in downtown Cleveland, Ohio.

"Theoretically you could go directly to the packers, but they would have to provide a whole host of services to me that a distributor does," Cassara says. "One is that he cuts the steaks for me. I don't have a butcher here and don't want to get into that cost." The distributor also packages the steaks to allow for some shelf life.

Another bonus is advice and market support.

"We're more consultants than order takers," says Ron Becker, president of Stock Yards Meat Co. of Phoenix, Ariz., a business unit of U.S. Foodservice Inc. "We're out there face-to-face with the customers talking about what they're buying every single week."

Cassara's Midwestern-based distributor "knows the marketplace," giving him information on price trends and new products.

The same is true in the Southwest, Becker confirms. "Really our focus is on helping our customers make more money."

That starts with purchasing, then processing and finally, service.

"We're not just buying from anybody who comes out of the woodwork," Becker says. Stock Yards constantly negotiates and works closely with certain packers.

"When the product hits our door, the quality control process starts," he says. The company monitors temperatures, inspects delivery trucks and assigns tracking numbers. "We have full traceability on every case."

The beef is aged, typically 14 to 30 days for added flavor and tenderness.

"At any given time we have about a month's worth of inventory aging, so that ties up a significant amount of money," Becker says.

Customers can specially request certain brands, sizes or even product sourced from a particular packer. Stock Yards is one of the leading volume distributors licensed to sell the *Certified Angus Beef*® (CAB®) brand in the Southwest.

"That's why on the receiving side we have to have every single case accounted for," Becker says.

The details keep up as subprimals enter the production area, where beef is trimmed, cut, marinated or diced for accounts.

"We make each order as they come in — to do that you have to have a high level of productivity," Becker says, crediting their people and equipment.

Customers can place orders up until 5:30 p.m. for delivery the next morning.

"They can get all the way through their lunch and have a feel for what they're going to need the next day, but there are some expenses in that," he says. "We're running multiple shifts and smaller trucks to deliver that aggressive service platform."

Becker always has one underlying concern that trumps all others: "While all that's going on you have to be impeccable in food safety and people safety. It doesn't matter how busy you get, those are non-negotiable."

That vigilance takes extra training, labor, time and money.

Part of the difference in what a packer charges and what a restaurant pays is found in the cost of handling the product, from warehouse workers and cutters to packagers and truck drivers.

"We can't forget about the overhead for that manufacturer's plant, or the cost of buying new trucks and putting gas in them," Polzer says. "We can't forget about the cost of vacuum-packing film, knives and mesh gloves."

Liability insurance, salaries for the sales force and all the related staff also must come out of the end profit, along with the ever-growing problem of "bad debt" or customers unable to pay their bills.

"The National Restaurant Association estimates 17,000 restaurants may go out of business this year, so accounts receivable is another cost," Polzer says. "With all of those factors, a foodservice distributor would be happy to come out with 3% to 5% net profit at the end of the year."

Foodservice perspective

Restaurants generally work on similar margins.

"The cost of doing business in a restaurant is not just the plate of food and what I'm getting for it," Cassara says. "That would be like if I had a stand outside and I grilled the steak myself and handed it to you."

Polzer says three main factors affect expenses at foodservice venues: overhead, labor and food costs.

"What are the costs to operate your home?" he asks. "They're going to be pretty similar, but magnified by the scope and size of the restaurant."

Those prices can increase with a commitment to providing a special "atmosphere" for a desirable eating experience.

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"Outfitting the fine-dining establishment in both the front and the back of the house would be considerably more," Polzer says. For example, fast-food locations have a couple of flat grills, fryers and microwaves, versus the white-tablecloth category with its gas ovens, stoves, broilers and stockpots.

"It's just a much more elaborate set of equipment," he says. That translates to a need for more highly skilled workers, too.

"You've got to hire a chef, a sous chef (assistant), a dishwasher and a busboy," Polzer says. "Then your management team and waitstaff to take care of the front of the house."

Casual observers may not realize it, but those people are part of the fixed expense, Cassara says.

"You have to have your staff, and if nobody comes in, you still have to pay them," he says. "If people do come in, hopefully you have enough staff to provide good service — because if you don't, people aren't coming back."

Experienced kitchen help can also be an asset in managing food costs.

"You need to have skilled people who know how to take care of the product," Cassara says. "If you burn a steak, it costs me a lot of money."

Typically, what a diner sees on the menu is marked up two to three times what the raw products cost coming in, just to approximate that 5% projected profit.

"This is one of the few businesses where we not only sell the finished product, but we manufacture it as well," Cassara says. "We get it as raw goods at the back door, we make it in the kitchen and then we bring it out and sell it on a retail basis. It takes a lot of capital to do all those things."

It also takes a lot of old-fashioned hard work — not the get-rich-quick business often imagined at a first glance at menu prices.