Beef Product Pricing: Part 3

Meatcase Math

How retailers establish beef prices.

by ***Miranda Reiman***

When cattlemen put an asking price on a bull or a load of calves, they set it as high as they can reasonably hope for a sale. At an auction, the sale manager announces the target price before calling for bids. Grocers take a similar tack, but feedback is not as direct at the meatcase.

"Retailers price their meat at the highest level that consumers still perceive as delivering value," says Al Kober, veteran meat manager and retail director for Certified Angus Beef LLC (CAB).

So they're the ones making all the money in the beef business? Not exactly, Kober says.

"There are controls, like competition," he explains. "In a metropolitan area, a five-mile circle around a retail store could have 20 to 30 other retailers selling basically the same products."

And consumers, just like feeders or packers, will only pay so much.

"Above a certain price point, the product won't move anymore," says Julian Leopold, beef industry analyst for Peterson Management. "It meets a level of resistance." In a tight economy, consumers may be more likely to "trade down" to less expensive cuts when their favorite is priced above that certain price point, he adds.

►Retail prices aren't based only on product cost, but must also cover the many other costs of operation and overhead to stay in business.

Complicating factors

Grocers can't be as responsive to the markets as other industries, says Randy Irion, channel marketing director for the National Cattlemen's Beef Association (NCBA), which contracts to manage retail programs for the beef checkoff.

"They are very slow to make change in either direction," he says. "When the wholesale price of gasoline changes, it changes at the pump pretty darn quickly. We buy gasoline not because we like it, but because we need it."

In contrast, demand for beef can switch to other proteins or even non-meat food items.

"The retailers have to be careful to avoid a dramatic swing in prices that reflects exactly what's going on in the market," Irion says, noting there are also many logistics against physically adjusting all the numbers that often.

Longer-term market fluctuations — like the steady downward trend for middle meats this past year — are usually reflected in the featured advertising or the weekly sales flier, but forward contracts and printing deadlines still cause a delayed response. Retailers might get customized annual bids from packers for staple beef items, and then shop around for these "features," which they often use to draw customers into the store.

"The retail trend would be to buy within a four- to six-week window," Leopold says. "All the ad circulars are printed weeks before. If you came out with something really cheap today, they couldn't use it for at least a month."

With those time constraints, some retailers engage in less featuring when prices are extremely volatile, he adds.

Generating foot traffic

In addition to regular retail and features, grocers often use meat items as their "loss leaders." Lower-priced hams at Easter or turkeys at Thanksgiving will generate more foot traffic.

"If a retailer is going to lose 86¢ per pound (lb.) on hams, he has to make it up someplace, because it's a for-profit company," Kober says. That's why a tenderloin might sell for $20 per lb. in the store, when the cost is only $7.50 per lb. wholesale. "It's only one tiny little muscle, about 1% of the carcass,

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while the chuck is about 30%," he says.

Anatomy makes merchandizing beef more difficult than other goods.

"Unlike manufactured products, with the beef animal you've got to sell the whole thing to make money," Irion says. "As they start breaking up the primals, there are some cuts that are going to be more in demand than others, but you have to move all of them."

The more customers, the easier it is, and retailers often use meat and produce as a way to build loyalty by differentiating themselves.

"Then within fresh meat, there's certainly more opportunity to distinguish yourself with fresh beef than other proteins, particularly like chicken and turkey that are largely case-ready anyway," Irion says. "Retailers do that by carrying brands, but the cut selection, depth of inventory and knowledge of people behind the counter are all very important."

Kyle Miller, CAB executive account manager and chef, works directly with retailers in the Great Lakes region. Many companies use the *Certified Angus Beef*® (CAB®) brand to set themselves apart as quality-focused, and use a concept called "shadow pricing" to grow sales.

"If they sell CAB and a commodity quality grade, they'll put them in the same ad with, say, a 50¢ price spread," he explains. "They let people know, 'We've got a hot deal on Choice ribeye steaks, but for only 50¢ more you can trade up.'

"That retailer is giving customers an opportunity for a better eating experience, plus they make more gross profit and sales dollars," Miller says.

That added revenue is filtered back to producers.

"Getting consumers to pay more for more quality is the only way producers can get more for cattle that meet the CAB specifications," Kober says. "At every level, they will pay more because it has intrinsic value."

In large chains, most meat strategies are set at the corporate level, which takes into consideration the entire product mix from canned goods to toiletries.

"A retail store is very successful if it can make more than one penny per dollar (1%) average profit," Kober says.

Retail prices aren't based only on product cost, but must also cover the many other costs of operation and overhead to stay in business.

"Meat departments have to sell everything in the case or it's going to spoil," Irion says. "Everything they do is about avoiding that situation."

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Shelf life is typically three days, which includes the day of packaging.

"If it isn't sold by the end of the second day," Miller says, "they'll put a discount and sticker on it, like a 'manager's special,' to make it more appealing and at least get something out of it."

A careful balance

Irion notes it's a careful balance between enough inventory and overstocking, because consumers like options at the meat counter.

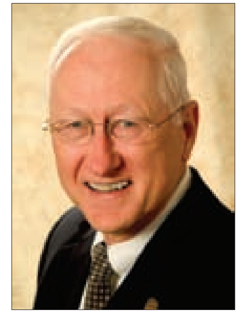
"If there's only one package of ground beef, even if it looks fine, but the rest of the case is rummaged over, you might think twice about picking up the very last package," he says. "Whereas, if it were Rice Krispies,® you'd think nothing of it because they're all exactly the same."

In addition to managing this kind of "shrink," managers are constantly monitoring yield, or how much saleable product they have after trimming fat and cutting portions.

"As soon as you open that Cryovac® [brand vacuum pack] you're incurring a loss," Miller says, noting yields can vary anywhere from 88% on a New York strip to 50% on a tenderloin. "You're trying to make the most money out of the product."

Often the trim will sell as cube steak, grinds or stew meat. All of the specialized trim labor adds cost.

"When you buy a 20-count box of oranges, you get 20 oranges," Kober says. "When you buy beef, you've got to break it down."



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Top sirloin butts were roughly $3.43 per lb. in May.

"That's the cost from the packer," Kober says. There is an 11% yield loss, and then labor, benefits and overhead add up to about 15%.

"You have more than $100,000 of equipment in every store for wrapping, grinding and cutting. That has to be paid for," he says. Throw in maintenance and you have an average 26% markup, or $4.32 per lb., before any profit can be figured in.

It's a lot of work, but beef can bring in more revenue than any other protein.

"Beef has the advantage of being the item with the highest average price," Irion says. "Even if the margins aren't as good, you're going to make more dollars. Retailers need a good beef program to have a good meat program."

Similarly, producers need good beef retailers to channel consumer demand from the meatcase to cattle that hit consumer targets.

"Every segment has to be profitable, but each division must manage [its] own interests," Kober says. Still, common interests are critically important. "We all need to get out of the mind-set that the other people in the chain are somehow taking advantage and making all the profits. We have to realize that we all have a vested interest in keeping each segment profitable."

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