

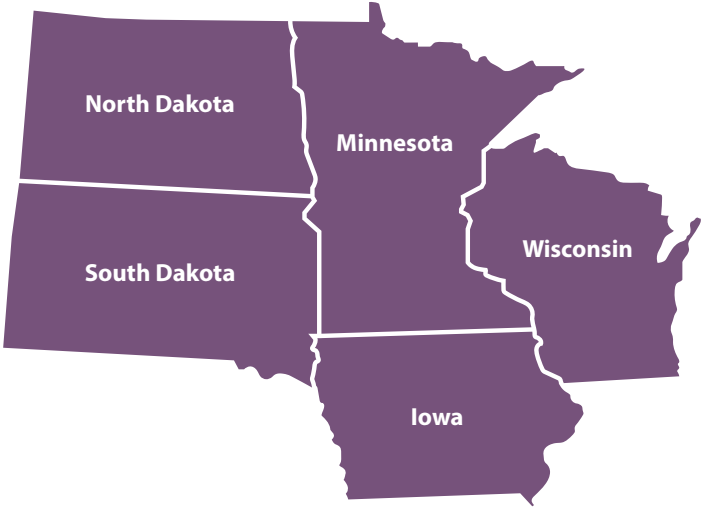
# Meat Processor Benchmarking Tool Development Brief

This report summarizes the research that Christianson Benchmarking conducted to design a meat processing benchmarking tool and defines steps to launch the tool to very small and small meat processing organizations.



## Background

In September 2021, the Agricultural Utilization Research Institute (AURI) and the United States Department of Agriculture, Agricultural Marketing Service (USDA-AMS) signed a multi-year cooperative agreement focused on the Upper Midwest's small meat and poultry processors. For purposes of this agreement, the Upper Midwest is defined as the following five states: Iowa, Minnesota, North Dakota, South Dakota, and Wisconsin. The five-state project explored opportunities to strengthen industry resiliency and create solutions to position small meat and poultry processors for success.



As part of this project, AURI convened a Finance Working Group (FWG) to identify financial challenges and opportunities facing the local and regional meat and poultry processing sector. The FWG identified the lack of comparable business performance information as a financial barrier to underwriting financing for new or expanding meat and poultry processors.



Christianson Benchmarking was engaged to design and develop a benchmarking tool for a future pilot launch with local and regional meat processors. The tool will benchmark the financial and operational performance of very small and small meat processing facilities. The tool and several supporting documents were created in preparation for a pilot benchmarking study.



## The Value of Benchmarking

While a benchmarking tool will aid the financing process, some processors may be reluctant to submit their individualized financial details into such a tool. With over 20 years of industry benchmarking services, Christianson Benchmarking has defined the primary benefits of benchmarking for businesses. Their findings are based on a review of the real-world uses of their database by clients, investors, lenders, vendors, trade associations, and researchers.

Businesses contribute to industry-specific benchmarking studies for five primary reasons:

1. **Optimizing financial performance.** Benchmarking can assist with understanding the market value of items produced for sale and costs can be analyzed on a line-item basis to determine a per-production-unit basis.

2. **Managing risk.** An industry benchmark comparison can help plants and lenders understand the risk of doing business and determine whether loan requests are within the normal performance range for that specific industry.
3. **Performing SWOT analysis for business development.** In strategic planning for a business's future, one effective way to assess a business and its value is to review its strengths, weaknesses, opportunities, and threats (SWOT) against industry norms. Benchmarking provides these norms in an easily quantified, data-driven manner.
4. **Contributing to a beneficial body of research for the entire industry.** When a large percentage of a given industry contributes financial and operational data to a single third-party entity for benchmarking purposes, that data can also be used by researchers and industry organizations to highlight the industry's contributions to the larger economy.
5. **Assessing business valuation.** A set of benchmark criteria can assist in valuing businesses for estate planning or sale. As some sole proprietors age out of their businesses, understanding the value of their assets is critical to effectively transferring or selling their business.

## Work Performed

Christianson Benchmarking began work by reviewing benchmark frameworks in their legacy system utilized in the ethanol and biofuels industry, researching specific data points that would be most useful for meat processors, and building a sample template for data collection. Researchers then selected four small-scale processors to participate in an in-depth interview process to further inform the development of a tool designed for the meat and poultry industry.

After completing interviews, Christianson Benchmarking outlined the key characteristics of an effective meat processor benchmarking tool:

- **Simplicity:** The tool should be simple to use and minimize the time and cost associated with inputting business information and interpreting results.
- **Applicability:** The tool should offer the ability to see performance against an overall average while incorporating differences due to geographic location, facility size, percentage of product sold at wholesale versus retail, type of animal processed, type of licensure, and number of employees.

- **Confidentiality:** Participant information must be kept confidential. A trusted third party should hold all individual data and share only averages and other statistical products of the research.
- **Low cost:** The fee should be reasonable. Ideally, the cost would be subsidized by state-level organizations in exchange for access to generalized reporting.

These characteristics guided the development of the Meat Processor Benchmark Tool in November 2023. Upon the launch of the tool in 2024, participants will contribute data points from their annual financial and operational accounting systems and statements for the benchmarking program. Data will be collected via Excel workbooks for simplicity. A listing of the general items to be collected is shown below:

- **Production:** Hanging weight in pounds, and finished pounds, for each primary livestock type.
- **Revenues:** Finished pounds sold wholesale and retail for each primary livestock type. Total revenue in dollars collected for each primary livestock type, wholesale, and

retail. Processing fees, grant/incentive income, and other non-facility revenue earned by the business.

- **Costs:** All ingredients; supplies for packaging, cleaning, and office management; employee wages and benefits; professional/consulting fees; utilities; insurance; repair and maintenance expenses; and taxes. Other fixed costs include lease and storage expenses, transportation and freight, changes in inventory, and other expenses.
- **Balance Sheet:** Assets by category; liabilities and equity by category.

After data is submitted, Christianson will validate the data and create a PDF report for each participating processor. The report will include a summation of the participant’s individual business results and aggregate results for all participating processors. Table 1 includes a detailed list of items that will be included in the annual benchmark results.

Table 1. Sample of reported metrics to be provided to processors

| Metric                              |  | All metrics to be reported as facility data/average data/facility rank  |
|-------------------------------------|--|---|
| <b>Production</b>                   | Sausage casings for smoked meat products<br>Average lbs. hanging weight processed<br>Average finished lbs. processed   | Hot carcass weight for all animal types<br>Retail and wholesale for all animal types  |
| <b>Revenues</b>                     | All revenues reported per lb. processed  | Per lb. finished, per lb. sold retail and wholesale, any other fees and incomes collected, by animal type and total               |
| <b>Costs</b>                        | All costs reported per lb. processed<br>Labor information  | 20+ cost categories reported<br>Costs per lb. processed, employee headcount, hours per lb. processed                              |
| <b>Efficiencies</b>                 | Cutting yield/Dressed yield<br>Electricity used per lb. processed<br>Water used per lb. processed  | Costs per lb. processed, employee headcount, hours per lb. processed<br>finished lb./hanging weight lb.<br>kWh/lb.<br>Gallons/lb. |
| <b>Financial Ratios and Metrics</b> | EBITDA/net income totals and per lb. processed<br>Return on equity<br>Return on assets<br>Current ratio<br>Working capital per lb. processed<br>Debt payment coverage<br>Fixed assets per lb. processed<br>Equity to total assets<br>Liabilities to net assets<br>Other ratios as applicable/available | Ratio<br>Ratio<br>Ratio<br>Ratio<br>Ratio<br>Ratio<br>Ratio<br>Ratio<br>Ratio<br>Ratio  |

## Next Steps in Launching the Meat Processor Benchmark Tool

In preparation for the tool's launch in 2024, Christianson Benchmarking identified a participation process that will allow for data analysis and the creation of customized reports. In addition, a minimum enrollment of 10-15 processors will be required to launch the tool, with a target of enrolling 30 processors.

### Ideas to Encourage Very Small and Small Meat Processor Participation

Through this effort, some potential roadblocks were identified. To encourage future processor participation, these roadblocks might be overcome in the following ways:

- **Build trust:** In-person descriptions of the process, the program, and the benefits of participation would encourage participation.
- **Provide realistic deadlines:** Allowing ample time for potential participants to ask questions, as well as gather and input their data, will increase participation.
- **Lower costs:** Reducing financial costs to participants via grants or partnerships may allow more entities to participate.
- **Offer results interpretation assistance:** Interpreting and understanding the results will be key to creating value for each participant. Trade advocacy groups and organizations such as AURI will be invaluable resources for small processors to also discuss and interpret their results.

## Conclusions

Throughout the project, AURI received positive feedback regarding the development of a benchmarking tool for meat processors. Stakeholders across the five-state region are eager to begin its rollout. AURI concluded its cooperative agreement efforts with a convening of the Regional Advisory Task Force at the end of March 2024. AURI and Christianson Benchmarking are committed to launching the tool in 2024 and are actively seeking partners to align around the recommendations discussed in this report.

## Acknowledgments

The Agricultural Research Institute (AURI) and The United States Department of Agriculture, Agricultural Marketing Services (USDA-AMS) would like to extend gratitude to all meat and poultry processors in the five-state region, finance working group members, regional advisory task force members, and other industry stakeholders that contributed to the efforts of the Empowering Local and Regional Meat Processors in the Upper Midwest Project.

This report was created in fulfillment of a cooperative research agreement between the United States Department of Agriculture Agricultural Marketing Service (USDA AMS) Local and Regional Foods Division (LRFD) and the Agricultural Utilization Research Institute (AURI). Its contents are solely the responsibility of the authors and do not necessarily represent the official views of the USDA. USDA is an equal opportunity provider, employer, and lender.