Ten Meat Margin Killers:

How to keep your meat margins strong

BY PETE HODGSON

Building your meat department's reputation for variety, high quality, and freshness is a big part of creating loyal customers. Customers today often prefer cuts prepared in-house, and demand for value-added products and locally sourced meats continues to grow. The short shelf life of meat puts pressure on departments to be competitively priced to minimize losses due to perishability.

Photo by CDS Consulting Co-op

Successful meat department managers must commit themselves to excellence in many areas, including customer service, merchandising, product availability, and profitability. However, meat departments in particular and fresh-food departments in general can be very complex to manage. Managers are oftentimes dealing with highly perishable products in an environment of competition, changeable pricing, sourcing irregularities, and varying consumer demand.

In the last decade, big box grocery chains have been muscling into the organic and natural market with great products at attractive prices. Many times, these grocers can take a loss on margin in order to push their specialty meat programs, taking advantage of volume in other areas and making up the loss in other categories. This kind of competition is putting pressure on all meat departments, especially in the realm of price image.

Maintaining margins

How do co-ops and independent stores respond to this kind of challenge? While there are many factors to consider, the ability to sustain meat margins strategically is a crucial means to maintaining department profitability. Implementing best practices can increase revenue and boost department performance. Successfully addressing the potential pitfalls of margin erosion in meat departments is the focus of this article.

Meat is often a low-margin (28–32%), high-loss item in the grocery store compared to other departments. The storage, transportation, labor, and merchandising of meat is also very specialized. Therefore, a big part of its cost is in proper handling and processing. The raw product that is delivered is not always equal to the sellable portions, so accounting for trim and waste in margin calculations, and having suitable cutting and pricing systems in place, will ensure your operation is cost-effective.

Watch for the following undesirable department trends in order to keep that margin in check:

•Heavy ordering and overcutting

Ordering too much product for demand will result in loss. Usually the product has to be sold at a reduced price to move it more quickly; the overage gets made into ground beef or sausages that sell at a lower price–or, in a worst case scenario, it gets thrown away. Over-ordering and overcutting is a sure-fire margin killer and one of the biggest factors in shrink and waste. Utilize production checklists and an order guide system to help minimize this problem.

•Insufficiently trained cutters

Meat cutting is a skill, and it's important that department managers give staff the proper knowledge, tools, and techniques for handing meat. If someone cuts a steak that is one inch thick in one part, and a half-inch thick on another, it generally doesn't look good in the display case, and it won't uniformly cook for the consumer who bought it. This is a recipe for customer dissatisfaction that will cause them to look elsewhere for better cuts of meat. Properly trained cutters will generate quality cuts for good presentation and repeat customers. Managers need to implement training checklists with ongoing instruction and coaching to minimize costly mistakes.

•Not evaluating invoices or doing product check-ins

Because meat department managers and staff are typically very busy, it is easy to let proper product check-ins and invoice reviews slip. However, the extra five minutes you take to be thorough will have a big payback. Do the weights on the box match the weights on the invoice? Is the price what the supplier quoted you? Being charged the wrong price on invoices happens quite often. Are there multiple departments on one invoice, and are they coded correctly? Additionally, when an item's cost goes up, that item's retail price must be evaluated and changes entered in the point-of-sale system. You can reduce margin point losses by always evaluating your invoices and doing careful product check-ins.

•Incorrect inventory counts and erroneous valuation

It's important to count everything, and at its cost, not retail price. Be sure everything gets counted, from the back stock to the cross-merchandized items on a rack at the front. Don't forget to count all ingredients for value-added products as well as paper supplies (basically, anything used to get the final product out the door). Incorrect inventory counts and erroneous valuation of inventory are common causes of margin fluctuations.

•Not yield-testing whole animals and primal cuts

When a meat department orders a whole animal, it is often charged by the "hanging weight" of the animal. For example, an invoice will either stipulate 1,150 pounds live weight or 715 pounds dressed/hanging weight of the whole animal (about 62.2 percent of the live weight, in this case a whole cow/beef). However, it has to be broken down into smaller portions (primals/subprimals) by the processing facility and/or by the retailer in order to be sold. About 569 pounds, approximately 50 percent of the live weight OR approximately 80 percent of the hanging weight (for a lean beef) will be usable/sellable meat.

Accounting for all of the costs, including trim/bone loss as well as delivery, labor, and packaging, is very important for determining pricing and maintaining a profitable margin. Additionally, there is no consistent invoicing for whole and primal cuts, so one producer may charge differently than another. It's important to monitor that as well.

Monthly yield testing will allow retailers to ensure that they are pricing different cuts according to availability and customer demand and meat attributes. Yield tests are very important for margin management–yet because it can be complicated and time consuming, some managers may choose not to do it. However, this necessary test allows retailers to stay on track with meeting their profit-margin goals. Proper yield testing requires a good pricing formula and a spreadsheet to help make the necessary conversions. Professional assistance with setting up a system and training people to use it can make the difference between losing money and making margin.

•Incorrect applied margin range for a category

Using an across-the-board applied margin may seem to make the job of pricing simpler, but it doesn't give retailers much leeway in building a positive price image. Using variable margins and an applied margin range for different categories is important for reaching your overall margin goal. Some products may have a lower margin as a result of competition or demand, while others are higher due to quality and availability.

It's also not enough to base margin on costs or demand. For everything sold, managers need to take into account that 4–5 percent of product costs are not reflected on producer invoices and will include shrink (product reductions, outdated/damaged product, theft, samples, customer returns, errors at checkout), and packaging. If your goal is a 30 percent margin on a certain product, you will want to price at 34–35 percent to make up for shrink and packaging. That is why developing a systematic margin scheme for each category will give you flexibility in meeting margin goals.

•Inaccurate SKU pricing

The role of inaccurate SKU pricing and its negative impact on margin is a no-brainer. However, it is also a pretty routine error in retail because keeping up on price changes and recording them in the system takes focus and effort. Inaccurate pricing turns up in many guises—staff not using correct PLU (price-lookup) numbers or being given incorrect PLUs, managers not updating the POS (point-of-sale) system when changes occur, and meat department scale programming that isn't in sync with the main POS system. Having someone in charge of monitoring this critical but underappreciated task will make a big difference in meeting margin and reflecting accurate department sales.

•Not monitoring ingredient and packaging costs

It can be easy to forget that the costs that go into selling and displaying meat for sale go beyond the raw product that's delivered. Vacuum-seal bags typically cost eight to 12 cents each. That may not sound like much, but multiply 12 cents by a hundred and it is $12, or by 500 and it is $60—those costs add up. Or, let's say the house-made sausages are ►

"HOW DO YOU KEEP YOUR MARGINS IN CHECK?"

(I asked a few meat and seafood department managers how they kept their department margins in check, and some of the responses follow. —Pete Hodgson)

For me, the easiest way to keep good margins, besides correct pricing, is through accurate ordering and proper product rotation. Even with the best ordering, improper cooler rotation can be a margin killer. It's important to walk through your coolers every day and to have a really good grasp of what has come in and what really needs to go out for sale before it becomes a loss. Making proactive instead of reactive decisions is crucial.

Nick Bauer, Meat and Seafood Manager
Honest Weight Food Co-op, Albany, N.Y.

Running an itemized contribution analysis really helped us to illuminate which items or categories were healthy and which needed adjustment. Outside of the contribution analysis:

I would say running a clean and current point-of-sale system is critical. This means updating costs and retails as soon as invoices are received.

Do your research and shop around for products. Ensure that you are buying at the lowest possible cost. Ingredient and supply costs can be sneaky and eat into your margin. Strive to not overbuy here and, again, purchase at the lowest possible cost.

Yield testing is a must, whether you're doing whole-carcass programs or filleting whole fish. Yield tests provide you the clarity to achieve profitability.

Matt West, Meat and Seafood Manager
Monadnock Food Co-op, Keene, N.H.

One way to keep your margin in check is to order what you need when you need it. Making sure that your yield/cut tests are updated periodically is also very important.

Sonny Porter, Meat and Seafood Manager
Ever'man Cooperative Grocery & Café, Pensacola, Fla.

produced with certain spice blends—are those costs being accounted for? Keeping track of value-added ingredients and packaging can pay off. Continually shopping around (get at least three bids) for those items can help meet margin and reflect a lower price to consumers.

•Running out of fast-moving items

Having too little inventory is all about lost opportunity on a number of levels. There's the obvious disappointment to customers who will go elsewhere, but also margin takes a hit. If your meat department has 20 top movers and you're running out of several of these items, that's not going to help the lower margin products. Top movers should have priority merchandising and display at eye-level, and they should be continually well-stocked. To keep product on hand at all times, it's important to track weekly sales and look at movement reports before placing orders. Note the days between scheduled deliveries if things run out, and boost the order to meet demand. It's especially important during holiday seasons to look at what had occurred in the prior year, continually adjust, and have a product backup plan.

•Not receiving all appropriate credits from vendors

Making sure you are receiving the credits your department is due from vendors is another important detail in successful retailing. Most suppliers are good about offering credit for damaged or unsellable product, but it's really up to the retailer to follow through and make sure those credits appear on your invoices. Track your credits by keeping written or electronic lists, and take the time to refer to those lists to make sure you received the proper credits.

Effect on overall price image

As we have examined in this article, margin erosion is a major cause of profitability issues in meat and seafood—and in many fresh-food departments. It's also important to keep in mind that in today's market, margin and price image are inextricably linked, especially for meat and seafood departments.

The top-selling items in the meat and seafood department include: ground beef, whole chicken, boneless chicken breasts, wild-caught salmon, and bacon. Every grocery retailer with a meat and seafood section sells these items.

What price are competitors selling these items for? Are there major differences in quality and sourcing? If so, how are you educating customers about your products? For instance, a competitor may be offering a conventionally raised "natural" ribeye steak for $2 less per pound than what you are selling. Your beef is from locally raised, grass-fed animals grown without antibiotics or hormones, whereas the competitor is selling a conventional-brand, grain-finished product that has been administered antibiotics and hormones. Are you demonstrating that the customer at your store gets better-quality meat for their dollar?

Of course, price image is not only a concern for meat departments. If the price image of one department is out of step with the rest of the store, or even other competitors, it can leave an unfavorable impression with the customer, even if all the other departments' prices are competitive.

Consumers will always have price sensitivity around top-selling products, and using formulas that help with setting variable margins, product ordering, and determining accurate yield will give retailers the tools they need to be profitable and to keep their customers happy with quality and the price.

Use these tips and best practices to sustain meat margins, increase revenue, and boost overall department performance. ☐