Producer Economic Analysis Instructions

Overview

Livestock producers who are considering direct marketing their meat products to consumers must evaluate the economics of this marketing option carefully. By definition, a value-added product must actually add value – that is, direct marketing meat must have an economic advantage over conventional live animal marketing opportunities. This Excel spreadsheet is designed to help livestock producers evaluate value-added economics.

To properly analyze whether direct marketing is a viable opportunity, this economic analysis requires a producer's "meat business" to purchase finished animals from his/her "livestock business." This analysis does not account for the cost of producing a live animal; rather, the analysis assumes that the livestock business is profitable in selling a live animal at current market price.

To complete this analysis, add your numbers to the yellow cells. The white cells in the spreadsheet are calculated automatically. Please note that the numbers currently in the yellow cells are realistic examples. Your actual numbers may vary from these examples.

Several issues for producers to note:

1. Direct expenses are those costs that vary directly with the number of animals marketed. Overhead expenses are costs that are incurred regardless of the number of animals marketed. Obviously, overhead costs like marketing and storage will vary somewhat by volume, but they are still included as overheads.
2. Dressing percentages (that is, the ratio of the hot carcass weight to liveweight) for the four species analyzed are in the following ranges:
    a. Lamb: 48-50%
    b. Beef: 56-60%
    c. Pork: 65-70%
    d. Goat: 45-48%

   Actual dressing percentages may vary slightly from these guidelines.
3. Retail yield will vary depending on the products fabricated (that is, whether products are bone-in or boned, ground, etc.). Generally, retail yields will be 30-33%.
4. Transportation costs (for live animals and processed meat) are a significant factor in determining profitability. In general, it is not profitable for producers to process one or two animals at a time. Transportation expenses are calculated at the current IRS mileage reimbursement rate, which includes fuel and wear-and-tear on your vehicle. An alternative way to analyze this cost is to plug in a commercial haul rate for contract livestock hauling.
5. Marketing expenses should include fees (such as farmers' market membership fees, stall fees, advertising, etc.).
6. Labor includes charges for the time required transporting animals (which is calculated based on an average speed of 50 miles per hour to include loading and unloading time). Labor also includes marketing time. Producers should estimate the hours required to market and sell all products from a single animal. Obviously there are trade-offs relative to marketing labor – it may take less time to sell a whole animal to a restaurant than through a farmers' market, but the wholesale price will be less than the retail price.