

Poultry Processor Pinpoints Market Opportunities to Maximize Profits

Executive Summary

To capitalize on a favorable yet ever-changing market, poultry processors must balance costs of production and product mix with current market values. Using 3C Software's Impact:ECS Enterprise Cost System, one processor is making the most of market opportunities by continually monitoring costs of production for each product, allowing the processor to focus production on higher margin products.

The Challenge:

Measure Opportunity Cost to Manage Profitability

The processor has operations in two states including processing plants, breeder farms, hatcheries and feed mills. A network of local growers also supports these operations. The processing plants produce whole birds, chicken parts, boneless breasts, boneless leg meat, portion control breasts, IQF retail products, and custom products. In addition, they produce par-fried and fully cooked chicken products, organic chicken and a line of products tailored to the export market. Approximately 80 percent of the output is sold to poultry distributors, retail chains, and food service institutions across the country and the remainder is exported. Such a complex value chain requires a detailed understanding of the costs of production in order to determine the optimum product mix.

Revise Costing Methodology

The processor had developed a costing methodology that used Urner Barry Publications, Inc. as the basis for the meat cost; however, as birds are sourced from both company-owned farms and a network of local growers, this methodology made it impossible to calculate an accurate cost of the processed birds. The effect of this cost distortion was even more pronounced on commodity products where meat cost is a greater percentage of the total cost. This made it difficult if not impossible to make comparisons against the value added product lines. Also, costing calculations were performed at the higher product line level not the SKU level, resulting in profitability estimates that did not accurately reflect the cost structure of the actual product mix.

Leverage Existing Financials and Production Applications

Company financials and production applications reside on an AS/400 platform, while costing was performed in a number of standalone spreadsheets which required a duplication of maintenance efforts. The process also necessitated manual re-keying of data each month to the spreadsheets – a task that was both time consuming and susceptible to error.

The Solution:

Improved Visibility of Cost Information With Impact:ECS

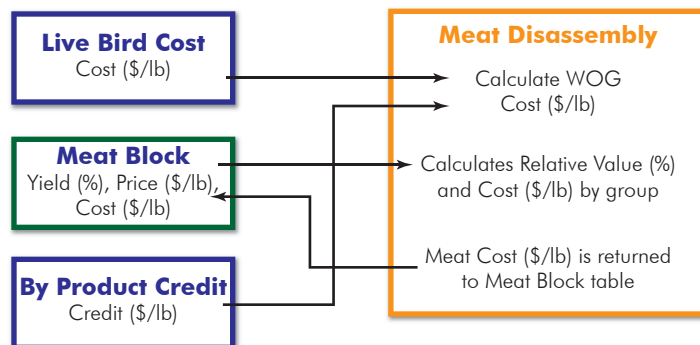
The typical processing plant produces hundreds of SKU's. With such a variety of products the processor needed a cost system that could provide detailed views of meat costs,

ingredients, further processing and packaging costs that allow them to determine the optimal point to stop processing. In addition, the new system needed to allow for analysis of profitability at all product levels. Finally, the processor hoped to find a system that would integrate with the existing AS/400 applications to eliminate the need from manual data entry. The processor determined that 3C Software's Impact:ECS provided the features it needed to meet these requirements and successfully compete in an ever-changing market.

Conversion to Live Bird Cost

The new costing methodology uses actual live bird cost, which is allocated to the various pieces (Figure 1). The basis for the allocation is the relative market value of each piece. As this represents a true meat cost, profitability of commodity products can be more equably compared with that of value added products.

Figure 1: **Disassembly Cost Object**



Track Cost of Manufacturing and Cost of Sales for Every SKU

Each month, and on demand, Impact:ECS calculates the detailed cost of production for every SKU (Figure 2). Impact:ECS also maintains an inventory of production for every SKU by period, which is used to calculate period Cost of Sales for each SKU on a first in, first out (FIFO) basis. The resultant cost data has resulted in more accurate forecasted and actual profitability for any product mix.

Integrate ECS with AS/400

Impact:ECS is now integrated with the processor's AS/400 system to automatically load information used in the cost calculations including bills of materials, product attributes and period production. A summary of the cost information generated by the cost system is uploaded to the AS/400 for further reporting and analysis.

The Payoff:

Maximized Profitability and Increased Flexibility across the Enterprise

The detailed cost information generated by Impact:ECS allows the processor to determine which products are most profitable and which products have opportunities for improvement. By combining revenue with the detailed cost information, profitability can be analyzed at any level, e.g. by product, product line, broker, customer, region, etc. While this capability offers the processor a competitive advantage during a favorable market, the benefits may be even greater when the market is less favorable and more dynamic.

ECS Integration Reduces Cost of Ownership

By integrating Impact:ECS with the AS/400 applications, the need for duplicated maintenance

of standalone spreadsheets is eliminated, as is the time and potential errors associated with manual data entry. What's more, by feeding the cost summary generated by Impact:ECS into existing sales and profitability reports, key users are able to benefit from the more accurate profitability calculations immediately and without additional training.

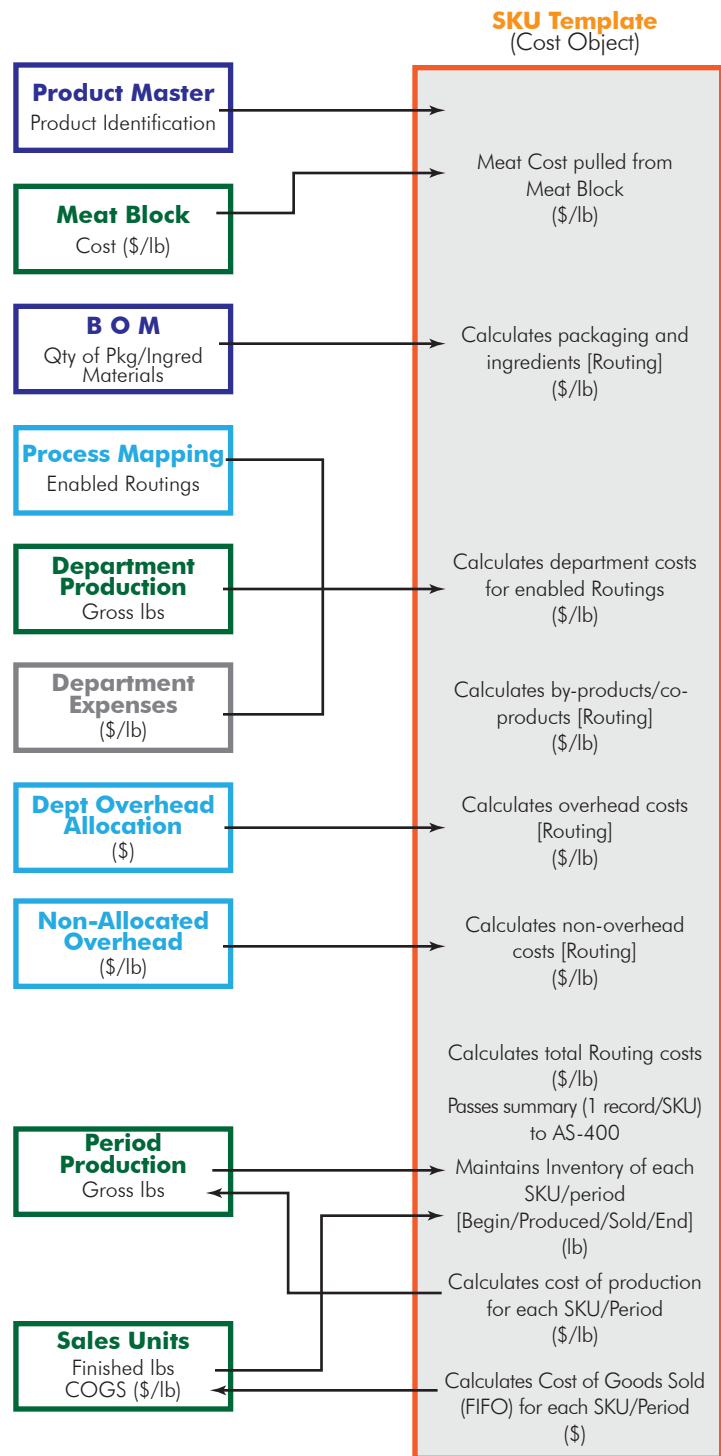
Secure System Increases Awareness and Access to Cost Information

Leveraging the latest technology advances, Impact:ECS is a true enterprise cost system that allows the user to implement the internal controls and reporting procedures to securely deliver accurate, timely and consistent cost information to financial professionals, decision makers and operations personnel throughout the organization in the format and level of detail required.

Automated Information Flow Accelerates Monthly Close Process

Impact:ECS produces faster and more accurate calculations of Cost of Sales, product margins, product line contribution margins, profits and inventory valuations that reduce the time to close each month and improve the confidence in financial statements and disclosures. In addition, the cost system is used to run weekly estimates providing critical information necessary to effectively run the business and eliminate surprises.

Figure 2: **Product Cost Object**



To learn more about Impact:ECS and discover how it can help your company produce results, call 800-226-2036 or visit us online at www.3csoftware.com.