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# Understanding National Food Supply Chains: Fresh Cut Pork

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In today's global food systems, the prices of food reflect not only the cost of the initial product but also the process of moving products from producers to consumers. It is useful for niche pork producers to understand how the national marketplace operates. A few questions they need to consider are: How is final value distributed among American consumers of fresh cut pork? What are the functions that command the greatest value? And consequently, what challenges are faced by local producers?

## Who buys fresh cut pork?

The total value of fresh cut pork (primary cuts) purchased by consumers nationally is estimated at \$25.5 billion.\* Grocery venues purchase approximately \$7.4 billion and deliver it to consumers for about \$8.3 billion. Food service venues purchase approximately \$4.6 billion and deliver it for \$17.2 billion.

Approximately 27 percent of the consumer's dollar spent on fresh cut pork delivered as groceries is retained by the grocery venue, 8 percent is kept by the wholesale/distributor venue, and 65 percent is passed back to the slaughterhouse.

Approximately 73 percent of prepared food value is retained by the food service venue, 2 percent is retained by the wholesale/distributor venue, and 24 percent is passed on to the slaughterhouse.

## How fast does it move?

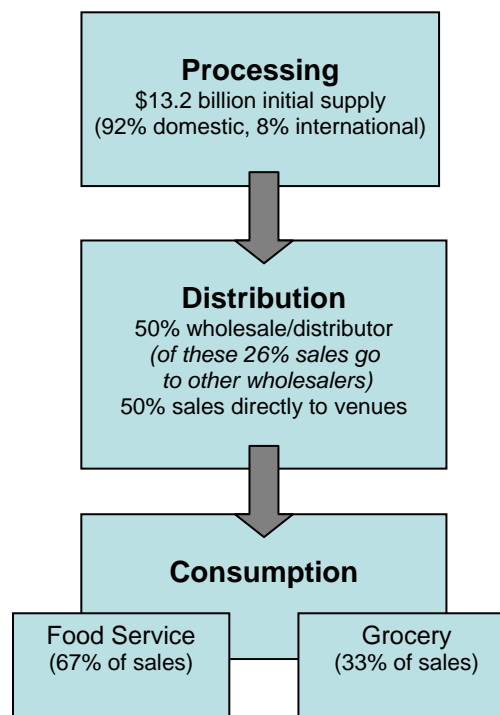
Manufacturing operations depend on rapid, relatively steady turnover. Fresh cut pork averages two days as a raw material, two days being processed, and seven days as a finished product while under the ownership of a slaughterhouse. Wholesale/distributors generally add about 14 days of ownership (as finished product), which generally contributes to the propensity toward direct sales for this type of product line – manufacturers can deliver fresh product.

\*\$8.3 Billion (sales as groceries) added to \$17.2 billion (sales as prepared foods), \$8.3 billion/\$438 billion in total grocery sales ~ 1%; \$17.2 billion/\$311 billion ~ 6% of total prepared food sales, from 2002 Census of Agriculture.

## How is value generated across the supply chain?

Slaughterhouses and imports provide \$13.2 billion in initial value, which generates \$14.5 billion in wholesale/distributor purchases by non-wholesale entities - \$7.4 billion (51 percent) by grocery venues, \$4.6 billion (32 percent) by food service venues, and \$2.5 billion (17 percent) by other entities (food manufacturers, etc.). Half of the fresh cut pork produced at slaughterhouses is distributed through wholesale/distributors; the other half is sold directly to grocery, food service, or other venues that interact with consumers.

**Figure 1. Movement of Fresh Cut Pork**



**Table 1: Comparison between Grocery and Prepared Foods**

	<b>Grocery</b> (foods sold for human consumption outside the venue)	<b>Prepared Food</b> (prepared for immediate consumption at the venue)	<b>Total</b>
Consumer Purchases	\$8.3 billion (33% of value)	\$17.2 billion (67% of value)	\$25.5 billion (100%)
Produced or Imported Value	\$6.7 billion (62%)	\$4.2 billion (38%)	\$10.9 billion (100%)
<i>Value Increase</i>	<i>1.2 x</i>	<i>4.1 x</i>	<i>2.3 x</i>
Post-Production Margin Added	\$1.6 billion	\$13.0 billion	\$14.6 billion
Post-Production Transaction Costs	\$1.2 billion	\$11.6 billion	\$12.9 billion
<i>Transaction Costs/ Margin Added</i>	<i>78%</i>	<i>90%</i>	<i>88%</i>
Share of Food Sales	2% (of \$438 billion)	6% (of \$311 billion)	3% (of \$749 billion)

### **How does pork compare as a prepared food vs. grocery item?**

Table 1 provides a side-by-side comparison of fresh cut pork sold as a grocery product with that sold as prepared food.

Even though the margin added by food service is 4.1 compared to only 1.2 for grocery venues, the overall ratio of cumulative costs to margins still is lower through grocery venues – 78 percent for grocery compared to 90 percent for food service. This implies that overall, fresh cut pork is generally more profitable sold as a grocery item than as a prepared food. Even though prepared foods generate significantly higher revenue, the cost to operate food service venues outpaces the relatively higher value.

### **Conclusions and Recommendations**

It is important for niche pork producers to understand what they are up against. Although the numbers in this report are helpful in understanding the national context, they do not necessarily reflect the reality confronting many niche pork producers.

Direct purchases from slaughterhouses account for approximately half of the fresh cut pork purchased by food service and grocery venues. This indicates that the supply from manufacturers probably is consistent and predictable enough to support direct long-term agreements.

However, comparing operating expense/sales ratios between slaughterhouses and grocery venues (97 percent and 78 percent respectively) suggests that grocery operations have relatively higher bargaining power for this type of product. Competition among manufacturers is relatively stiff for them to operate at such relatively low margins.

Attempting to compete on price alone probably is not realistic for small niche producers. Nevertheless, small producers who can establish a quality brand identity and deliver directly to grocery venues (and to a lesser degree to food service) probably will have a better chance of developing marketing strength relative to niche producers who do not label their products.