Enhancing the Financial and Marketing Performance of Firms in the Smoked and Processed Meat Industry

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Small smoked and processed meat manufacturers constitute a unique cottage industry in Texas. This paper assesses ways for such firms to improve their financial performance through better marketing strategies. The results indicate that, on average, small firms tend to be the most profitable. This is true whether size is measured in terms of dollars, pounds, or number of employees. The more profitable firms tend to be those that are located in rural areas or in shopping centers; those that make the majority of their sales at their own stores; those that do less of their own distribution; and those that emphasize fresh meat sales and de-emphasize jerky sales.

Introduction

Each region of the United States is known for a unique cuisine. A host of different regional characteristics can, by themselves or in combination, account for such uniqueness. These regional characteristics often include one or more of the following: a climatic ability to produce a superior raw product; the ethnic heritage of local food entrepreneurs; local traditions passed down over the years; cultural events surrounding a food's consumption; a critical mass of companies participating in the industry; and lastly, a wide number of variations, flavors, and styles of the cuisine. Due to characteristics such as these, California is known for its wine; Wisconsin for its cheese; Louisiana for its Cajun food; Seattle for its seafood; New York for its delicatessens; and so on.

In the state of Texas, one of the most unique foods is smoked meat and barbecue. The Texas barbecue industry exists in two different formats. First, outdoor barbecue cooking plays a major role in many special events sponsored by civic, cultural, ranch, school, church, company, and other organizations. In this format, beef brisket and sausage are the main barbecued items. The second dimension of the Texas barbecue industry is the focus of this paper, and it concerns commercial firms that manufacture sausage and smoked meats.

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Research Objective

The objective of this research is to assess the financial and marketing performance of small firms engaged in the business of manufacturing smoked meat products. These firms play an important historical role in a Texas agricultural economy dominated by animal products as opposed to other food and fiber products. The years have seen this role transformed from one of slaughtering animals raised by local ranchers to that of serving the local populace with processed meat products made from raw meat ingredients shipped in from distant plants. In Texas, these small businesses make a variety of products, including sausage, ham, smoked primal cuts, and jerky; they also portion fresh meats.

Small smoked and processed meat manufacturers still use unique recipes that have existed in rural areas for many years. It is common in many areas for a recipe to date back to a processor's ancestors from Germany, Czechoslovakia, or other European countries. Now, however, these recipes are applied to raw meats purchased by the pallet instead of to cuts of meat prepared in a local slaughter plant or butcher shop. Thus, product reputation and the important heritage of identity have been preserved while the number of processing steps performed by the firm have been reduced.

Despite the seeming importance of the meat processors, the number of meat processing plants in Texas continues to decline. The number of state and federally inspected plants dropped from 349 in 1982 down to 164 in 1999, a total decline of 53 percent (TASS, 1999). A causal chain of factors explaining this trend might best be summarized as follows. The sale of undifferentiated raw meat products leads to competition mainly on the basis of price. In turn, this leads to a quest for manufacturing cost reduction. The chief way to achieve cost reduction is to build large, modern, processing plants. Such plants need to maintain a high capacity utilization rate in order to realize cost efficiencies, and this, in turn, places further margin pressure on all processing firms (Simpson and Farris, 1982). As a consequence, many older, smaller plants close (Azzam and Anderson, 1996). Further, Ward (1988) states: "In addition to economics of size for individual plants, multi-plant economies may exist [within a single firm] in meatpacking. The existence of size economies is believed to be a significant factor explaining the trend toward fewer and larger meat packing plants." In such an environment, it is safe to conclude that those small plants that do survive must adopt a business strategy other than pure cost reduction.

Search for Uniqueness and Success

Today, many small meat processors in Texas have found a niche within the context of local and regional food identities that are so often a part of local food/community weekend festivals. These are the types of activities indexed at the back of regional magazines, such as *Texas Highways* and *Southern Living*. These festivals create tourism for rural towns, promote local flavor products, and help to build mail order business for local merchants. The role of the small meat processor in a community's identity is, thus, very important. Importance increases if the processing plant is located in a rural economy distant from urban areas. This is because such economies are often in a state of long-term economic decline. One solution to this decline is for smaller meat processors to leverage their uniqueness so as to better access the urban markets through tourism and image-based sales.

Financial and Marketing Initiatives

This project consists of both a financial and a marketing initiative. Regarding finance, the intent is to create strategic management information that entrepreneurs can use to improve the financial performance of their firms. Regarding marketing, the intent is to explore concepts that the industry might use to increase overall industry sales. In this paper, we will examine and report on only the first of these two initiatives.

The Typical Firm

A survey was developed in order to examine firm performance pertaining to profitability, strategy, and marketing practices. The survey instrument was developed by the authors with the help of Dr. Joe Harris, Executive Director, Southwest Meat Association, and Dr. Davey Griffin, Extension Meat Scientist, Texas A&M University. The draft questionnaire was pretested with 10 firms of various sizes and business configurations. The final questionnaire was sent to 137 firms, of which 84 completed the questionnaire in full, for an effective response rate of 61 percent.

A description of the average firm in our study is provided in Table 1. Annual sales averaged \$2,163,363, and annual volume averaged 906,607 pounds; this equates to weekly sales of approximately \$41,600 and 17,400 pounds. Thus, it can be seen that these firms are very small, not even producing a truckload of meat per week. What they lack in volume, however, they strive to make up in margin. As shown in the table, the average firm had a return on assets of 29.2 percent. This is the result of an average \$128,155 in annual profits earned on \$545,536 of total assets.

The firms in our survey are very similar in that they all specialize in converting raw meat cuts into further processed items. The typical operation consists of a receiving/shipping dock where raw cuts of meat are received in jumbo boxes and where finished products are shipped to market. Cold storage exists for the purpose of holding incoming raw meat as well as for storing outgoing finished product. The processing areas of the plant are divided into several sections including raw meat mixing/grinding/stuffing; cooker/smoker room; and packaging room.

Eighty-six percent of the firms in our study operated a retail store. The average store size was 722 square feet. Seventeen percent of the firms operated a restaurant. Regarding food sold away from the plant premises, on average, the manufacturer's own truck does 80 percent of distribution while 20 percent of the distribution is hired. Such ability to do their own distribution reflects the fact that these plants are very small. Additional evidence of small size is reflected in the fact that advertising expenditures averaged only \$10,071 per year.

Table 1. Summary Statistics of Texas Smoked and Processed Meat Manufacturers.

Question Category	All Firms Surveyed
Number of Firms	84
Average Annual Sales Dollars	$2,163,393
Average Annual Sales, Pounds of Meat	906,607
Average Return on Assets	29.2%
Average Annual Profit	$128,155
Average Book Value of Assets	$545,536
Percentage Operating a Retail Sales Area	86%
Percentage Operating a Restaurant	17%
Percentage of Distribution Via Own Truck	80%
Annual Advertising Expenditures	$10,071
Average Number of Employees	15
Percentage of Planning Facility Change Due to HACCP	54%
Average Number of HACCP-Trained Employees	2

The firms that were studied define themselves in terms of a local sales area and a local style of food. Sausage items can be distinguished between makers by such characteristics as seasoning (hot, mild, garlic), grind (coarse versus fine), colors, moisture levels, types of meat(s), types of additives, shapes of sausage, shapes of packages, and sizes of packages. Brand names and labels further distinguish one manufacturer from another.

The firms averaged 15 employees. Among these, on average, two employees per firm were trained to comply with the USDA-FSIS Hazard Analysis at Critical Control Points (HACCP) regulation. The HACCP represents a major challenge to firms of this size, with 54 percent of survey respondents indicating that facility changes would be needed under the HACCP. Either federal, state, or local inspectors monitored the firms that were studied.

Factors Influencing Firm Performance

In order to determine factors associated with firm success, a variety of comparisons are presented in Tables 2 through 5. These tables contain averages for the most profitable 19 firms, the least profitable 19 firms, and the middle 46 firms. Profitability was measured by return on assets (ROA), with profit defined to include both company earnings and the owner's draw. The authors examined all survey responses after sorting on this basis. Interesting responses are discussed below.

ROA averaged 8 percent for the bottom group, 24 percent for the middle group, and 63 percent for the top group. A breakout of responses pertaining to annual dollar sales is provided in Table 2. This section shows that the most profitable firms tend to be smaller than the least profitable firms. This is reflected in two different ways. First, 21 percent of the most profitable firms are in the $50,000–250,000 sales bracket whereas only 5 percent of the least profitable firms are in this bracket. Second, only 5 percent of the most profitable firms are in the more than $5,000,000 sales bracket whereas 11 percent of the least profitable firms are in this bracket. In the middle section of Table 2, sales volume in pounds reflects a similar story, with 26 percent of the most profitable firms having sales below 50,000 pounds per year and only 11 percent of the least profitable firms having sales in the bottom interval. On the high side, only 21 percent of the most profitable firms had sales above 500,000 pounds whereas 37 percent of the least profitable firms had sales above 500,000. Lastly, in the bottom section of Table 2, it can be seen that the most profitable firms have fewer employees than either the least profitable or the middle group of firms. In fact, 42 percent of the most profitable firms have five employees or less.

Information on firm location is presented in Table 3. Here it can be seen that the most profitable firms have fewer downtown and industrial locations but more shopping center and rural locations. The shopping center response appears to

Table 2. Percentage of Firms, According to Annual Sales in Dollars, Annual Sales in Pounds, and Number of Employees.

	Least Profitable 19 Firms	Middle 46 Firms	Most Profitable 19 Firms
Annual Sales Dollars			
$50,000–250,000	5%	20%	21%
$250,000–500,000	32%	22%	26%
$500,000–1,000,000	26%	13%	21%
$1,000,000–5,000,000	26%	34%	26%
$5,000,000–10,000,000	11%	7%	5%
More Than $10,000,000	0%	4%	0%
All Sales Ranges	100%	100%	100%
Number of Firms Responding	19	46	19
Annual Sales Volume			
Less Than 50,000 lbs.	11%	20%	26%
50,000–250,000 lbs.	42%	28%	37%
250,000–500,000 lbs.	11%	17%	16%
500,000–1,000,000 lbs.	21%	9%	0%
1,000,000–5,000,000 lbs.	16%	22%	21%
More Than 5,000,000 lbs.	0%	4%	0%
All Volume Ranges	100%	100%	100%
Number of Firms Responding	19	46	19
Number of Employees			
0–5	11%	24%	42%
5–10	32%	33%	21%
10–20	47%	17%	32%
20–50	11%	17%	5%
50–100	0%	9%	0%
More Than 100	0%	0%	0%
All Employee Ranges	100%	100%	100%
Number of Firms Responding	19	46	19

Table 3. Percentage of Firms by Establishment Location.

Establishment Location	Least Profitable 19 Firms	Middle 46 Firms	Most Profitable 19 Firms
Downtown	33%	41%	16%
Industrial	22%	22%	11%
Shopping Center	0%	2%	16%
Rural	44%	35%	58%
All Locations	100%	100%	100%
No. of Firms Responding	18	46	19

Table 4. Percentage of Sales by Location and Method of Outside Distribution.

	Least Profitable 19 Firms	Middle 46 Firms	Most Profitable 19 Firms
Sales Location			
In Own Store	38%	34%	62%
In Own Restaurant	1%	4%	3%
To Other Retail Stores	11%	23%	14%
To Other Restaurants	16%	15%	13%
To Institutions	13%	5%	4%
Via Mail Order	4%	2%	0%
Other	18%	17%	4%
All Locations	100%	100%	100%
No. of Firms Responding	18	44	18
Method of Distribution			
Own Truck	87%	79%	74%
Outside Distribution Firm	13%	21%	26%
All Outside Distribution	100%	100%	100%
No. of Firms Responding	19	45	18

Table 5. Firm Annual Sales Dollars by Type of Product Sold.

Type of Product	Least Profitable 19 Firms	Middle 46 Firms	Most Profitable 19 Firms
Sausage	33%	40%	33%
Ham	5%	3%	3%
Jerky	16%	4%	4%
Wild Game	10%	5%	11%
Restaurant	4%	4%	6%
Fresh Meat	20%	31%	30%
Other Smoked Meats	4%	5%	4%
Other	5%	7%	8%
Total Sales	100%	100%	100%

be particularly important in that 16 percent of the most profitable firms are located in shopping centers versus none of the least profitable firms and only 2 percent of the middle group of firms. Paradoxically, the majority of the most profitable firms are located in rural locations where one would tend to think that they would be far from a customer base. However, Texas has an interweaving mix of rural and urban locations so that a rural firm is not necessarily precluded access to urban markets.

Information on the sales location of products is presented in Table 4. Categories include own store, own restaurant, to other retail, to other restaurants, to institutions, via mail order, and other. The most profitable firms realize 62 percent of their sales in their own stores. Such sales hold the advantage of fully conveying to the manufacturer 100 percent of the consumer's sales dollar. On the other hand, by its very nature, the dominance of this sales path would only be open to smaller businesses. When product is transported to market, the most profitable firms tend to use distributors a little more, accounting for 26 percent of their firm's outside distribution versus only 13 percent for the least profitable firms. Also shown in Table 4, the most profitable firms distinguish themselves through less sales to institutions in the amount of 4 percent, versus 5 percent for the middle group and 13 percent for the least profitable group.

As shown in Table 5, the firms in our study made a wide variety of products. Sales categories that distinguished the most profitable firms included fresh meat at 30 percent of sales versus 20 percent for the least profitable firms. Also, the most profitable firms only realized 4 percent of their sales from jerky versus 16 percent for the least profitable firms. Comparing these two sales categories, jerky is a low-volume, labor-intensive product whereas fresh meat can be much higher in volume with much less labor required. All firms receive a great deal of their sales from sausage, with both 33 percent of the top group's sales and 33 percent of the bottom group's sales coming from sausage and 40 percent of the middle group's sales coming from sausage.

Study Implications

Long-term restructuring has brought about a reduction of meat processing firm numbers. However, despite this restructuring, some smaller firms have prospered. An examination of such firms has revealed several keys to financial success when such success is measured in terms of return on assets. Such successful strategies include the following:

- On average, small firms tend to be the most profitable. This is true whether size is measured in terms of dollars, pounds, or number of employees.
- Firms that are located in rural areas or in shopping centers tend to be the most profitable.
- Firms that make the majority of their sales at their own stores tend to be the most profitable.
- Firms that do less of their own distribution tend to be more profitable.
- Firms that emphasize fresh meat sales and de-emphasize jerky sales tend to be the most profitable.

The authors intend to do additional research in several areas. These include the development of ideas aimed at promoting industry-wide sales, a statistical analysis of firm financial performance, and lastly, an examination of strategies used by successful, small, slaughter plants.

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