

# PPI



## **Commercialisation of retail ready meat M.462**

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*Abstract: Retail ready meat arrives at the retail outlet already sliced and conveniently packaged ready for presentation to the final customer. Centralised production and the technology itself means retail ready meat lends itself to brand name development and increased availability. The production system greatly reduces the amount of space, processing labour and waste associated with the conventional in-store preparation of fresh meat. Beyond these cost-side effects, retail ready may lead to revenue gains in the event of brand name development, superior appearance and improved availability. The economics of retail ready meat have been evaluated as an alternative to conventional in-store butchery and as a new product line in convenience stores. The export prospects of Australian made retail ready meat have also been assessed. Whilst the economics of every commercial application of the retail ready system should be proven in-house (to take account of particular circumstances) the indications are that the benefits already exceed the costs.*

**TABLE 1 : OPTIONS FOR RETAIL READY MEAT (DISTINGUISHED BY APPEARANCE AND TRANSIT LIFE)**

Life of the Packaged Meat	Bloomed	Non-Bloomed
Short	Sliced and packaged meat with a permeable film, three days of display life at retail	
Long	Two systems fall into this category. Both use a Permeable Vacuum Skin on their primary pack. Transit life is provided by storing the primary pack in an outer, gas filled pack. Transit life can be up to six weeks.	Non permeable Vacuum Skin packs; up to 12 weeks life; no distinction between transit and display format.

The long life/bloomed form of retail ready meat is regarded as the most advanced form of the technology. It uses additional (or protective) packaging to give it a transit life of up to six weeks; once the primary pack is removed from the master pack, the product has a normal display life (of about three days). Transit life is defined as the total time the primary packs remain in the long life (outer) packaging. In practice the transit life will be used to either transport the meat to the customer or for holding in storage.

The imperatives that attached to the development of long life/bloomed packaging for fresh meat were: control of microbacterial growth, acceptable colour at point of retail presentation, enhancement of biochemical qualities (eg, tenderness and fat colour) and minimisation of purge losses. Experience has also suggested that the amount of packaging must be minimal to gain customer acceptance. When all these qualities are met, retail ready meat will be inherently superior to conventional pre-packaged fresh meat.

**Value to the Industry:** The transformation of carcasses and primals into 'customer acceptable' fresh meat has traditionally been performed at the retail site (butcher shop or supermarket). This practice has afforded meat a 'fresh' image but has incurred high production costs due to the system's high usage of in-store labour and space, reliance on a relatively small carcass (for ease of handling) and limited control over wastage. Also, conventional meat retailing has found it difficult to provide control over the quality of its product due to the independence and small scale of each outlet.

From an industry perspective, the primary goal of the retail ready system is to make meat more competitive in the market place by providing the manufacturer with mechanisms for adding value and reducing production costs. Value will be added through incorporation of services preferred by customers

## 2. BARRIERS TO COMMERCIALISATION

There are no regulatory barriers unique to retail ready meat that would stop it from entering the market place. There are, however, a few 'difficulties' of a regulatory nature. For example putting a use by date on long life retail ready meat at the point of manufacture poses a problem since the fresh life of the primary pack commences from when it comes out of the master pack and removal from the master pack can occur at any time inside the limit of about six weeks. Another difficulty is that any branding placed on the carcass at slaughter cannot be physically maintained through to the retail outlet.

These 'difficulties' are considered minor impediments to the entry of retail ready meat. More important barriers for considerations should be the acceptability of the retail ready format to existing and potential meat retailers and the preparedness of some business entity to undertake the manufacture of retail ready meat. For the purposes of this paper, retailers will include both local and export markets. The manufacture of long life, bloomed retail ready meat is a major issue because it is radically different from anything currently being performed by the industry.

Butcher Shops: Nationally, about 56% of fresh meat sales occur through butcher shops with the balance going through supermarkets. It might be expected that the domination of fresh meat sales by butcher shops could act as a barrier to the adoption of retail ready meat in Australia because butchers prefer to buy 'input' as carcasses or primals and perform the preparation functions themselves. The butcher's main reason for wanting to perform in store preparation is the high utilisation of labour it affords to a small, privately owned business. Since boning out carcasses and slicing meat are labour intensive functions, they tend to take up all the time not needed for serving customers. As such, butchers could see retail ready meat as a threat to their preferred way of doing things.

The butcher's organisational arm, MATFA, is indeed opposed to any initiative likely to threaten the livelihoods of its members. It cannot be concluded however that individual butchers will shun retail ready meat. Those butchers who see themselves firstly as retailers and secondly as preparers of fresh meat will have an attitude which allows them to assess usage of retail ready meat on the basis of commercial merit. In this regard there may be a parallel with butchers' usage of boxed primals; this product reduces in store labour usage but may actually improve labour utilisation, throughput and overall viability. Butchers located in suburban shopping centres (where the rents are high) will be particularly keen to minimise their usage of floor space.

Supermarkets: The supermarkets have gained market share (at butchers' expense) for three main reasons. Firstly, supermarkets have offered the convenience of one-stop shopping to many households. Secondly, the

The sale of fresh meat through convenience stores is clearly dependent on the retail ready concept. However there is a mutual advantage for the meat industry in having convenience stores sell fresh meat. Since convenience stores have not yet been sellers of fresh meat they could provide a means of increasing the availability of meat to the public.

**Export Markets:** Australia's beef industry is export orientated and it is the export registered establishments that are best placed to commence manufacture of retail ready meat. Australia's meat exports go mainly to America and Japan so only these markets will be addressed on this occasion. It should be noted however that worthwhile niche markets for retail ready are likely to exist throughout SE Asia.

A study of the commercial prospects for retail ready meat in America uncovered several barriers:

- supermarkets were concerned about their brand names (on meat) being replaced by the manufacturer's name
- supermarket butchers in America are highly organised and they have voiced opposition to centralised slicing and packaging that would threaten their jobs
- the USDA grading system relies on a surface brand to identify the grade of each carcass. Supermarkets are concerned that this identity would be lost before reaching their butcheries if the current practice of in-store slicing was to be replaced by retail ready meat.

The current applicability of these barriers is unknown but export of retail ready meat to America possibly faces more fundamental barriers.

Practically all table quality beef sold in America is graded by the USDA. This label can only be given by USDA graders so it is unlikely an Australian exporter could designate his product (say) Choice. Under these circumstances it is doubtful Australian sliced beef would be competitive in American supermarkets. (It is well recognised in the literature that grading systems can be used as a barrier to trade).

However the situation could be better for lamb since we already know that this product can sell competitively in America under an Australian brand name.

A second problem of a labelling nature could face retail ready meat in America. Whole muscle retail meat in that country must now carry nutritional labelling to inform consumers about the quantity of protein, fat, etc contained in a specified serving. Appropriate compliance would add to the cost of accessing the American market.

### 3. THE ECONOMICS OF RETAIL READY MEAT

To succeed in the market place, retail ready meat will have to be competitive against the existing forms of presentation. Initially at least, it will not be possible for retail ready to command a higher price since customers are unlikely to see it as superior to pre-wrapped meat (although promotion and experience will eventually correct this perception). Assuming no price differential, retail ready's competitive advantage will have to stem from the cost side ie, it will have to show the meat industry a cost saving against other methods of presentation.

Figure 2 contrasts the cost trail of fresh meat prepared and presented by conventional versus retail ready methods. It will be appreciated from the figure that retail ready takes the major preparation costs (of slicing and packaging) out of the retail site and relocates them in a centralised factory where it is surmised the preparation costs will be lower. Obviously the meat retailer will have to pay a higher unit price for retail ready product than he/she would for (say) boxed primals but this extra may be more than offset by in store savings. Below we go through the steps required by a detailed costing; it is assumed the product sought is long life bloomed. This product employs a primary pack and master pack with appropriate gas and temperature technology.

### **Step One: What will be the Extra Unit Cost due to the Retail Ready Format?**

A manufacturer entering the business of retail ready meat will need to recover all his costs and make a profit. Consequently the cost particular to manufacturing retail ready meat will be passed onto the retailer. The capital outlay involved before any product comes off the line includes building space, an automatic slicer, a vacuum skin packaging plant (to produce the primary pack), a secondary packaging unit (to produce the master pack) and some minor equipment such as a transfer train and thermo sealer. Altogether, this equipment will cost about \$1m in 1995.

Capital budgeting requires this plant cost to be spread across its useful life and output. Accordingly, assumptions have to be made about life of the machinery and its salvage value, about the hours worked through time (per day/week/year) and output rate (measured in retail units/unit of time). To give an example: with a double shift 14.67 hours are worked per day converting to 3,520 hours per year. Based on primary packs of 120-200gm of meat, annual output from the system should be over 10 million units per year. The capital cost of this output is estimated at 1.2 cents per unit.

The variable cost of manufacturing retail ready will apply to materials, labour and operating functions. With retail ready, material costs are significant because extra plastic film and gas are required. A master pack will hold six units and the total gas and materials associated with one master pack costs \$1.55 or 25 cents per unit. Labour and operating costs add a further 13 cents per unit. Total production costs (ie, all costs required to achieve the retail ready format) within the factory are therefore about 40 cents per unit.

Beyond the factory it is possible that retail ready may suffer additional transport costs because of its bulkiness whilst in the transit mode. Naturally this cost will vary in practice depending on the significance of bulkiness to unit costs. In any event, an allowance of two cents per unit is made to bring the additional landed cost of retail ready to 42 cents per unit.

Assuming the manufacturer has his/her profit margin incorporated into the meat itself, he/she will want the equivalent of 42 cents per unit EXTRA to supply the retail outlet with retail ready product.

### **Step Two: Magnitude of In-Store Savings Due to Retail Ready?**

If the retail outlet does away with its own butchery and goes over to retail ready product, will the savings at least offset the extra cost of purchased retail ready? Savings will arise in four areas:

- avoidance of the packaging materials used by in-store butchery;



The dollar cost of wastage will vary from store to store depending on the efficacy of their temperature and stock control. In any event, it is likely the wastage factor could be greatly reduced by conversion to retail ready. This is possible because product can be held for extended periods in a masterpack and only put on display as required. A lead time of only 20-30 minutes between impending demand and display is possible.

For the supermarket, wastage avoidance due to conversion to retail ready will approximate the average price discount currently performed in order to speed exit of particular meat cuts. This figure has been estimated at six cents per unit; again this amount is available to offset the extra cost of retail ready packaging.

When all the savings identified above are summed they amount to 45 cents per unit - which more than offsets the extra costs associated with manufacturing retail ready meat. This position by itself should make the concept attractive but its prospects will be enhanced if it can attract a premium price. The most likely reasons for retail ready attracting a price premium are:

- establishment of a recognised brand name;
- superior appearance due to the vacuum skin packaging; and
- superior availability due to sale through convenience stores.

