

## COMMUNICATING RETAIL VALUE IN THE MARKETPLACE: THE BEEF CARDS SOFTWARE PACKAGE

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### SUMMARY

Boxed beef in the United States traditionally has been sold from the packer to the retailer as a commodity product based mainly on lowest cost. Most primals and subprimals could have up to 2.54 cm of subcutaneous fat remaining on the surface. The National Consumer Retail Beef Survey indicated that consumers wanted less fat, and retailers responded by implementing programs to supply retail cuts with a maximum of .32 cm fat. The Value Based Marketing Task Force stated that current marketing systems encouraged excess fat to be sold from packer to retailer. Two of the consensus points of the Task Force's report dealt with ways to reduce excess fat: (1) Communicating value to the retail industry is critical to reducing waste fat production, and (2) Closely-trimmed boxed beef should be an option in the marketplace. Limited information was available regarding possible reduced labor requirements and increased yields to assist retailers in understanding the value of closer-trimmed subprimals. Another problem identified was the use of gross margin to evaluate purchase decisions rather than actual profit.

To answer these questions, a simulated retail meat market cutting room was designed to replicate the conditions found in a typical supermarket. Professional meat cutters and wrappers were employed to prepare retail cuts from subprimals selected to represent the mix of cattle slaughtered in the U.S. Subprimals were pre-trimmed to 2.54, 1.37, or .64 cm subcutaneous fat and vacuum packed before the beginning of the project. Retail cuts were trimmed to .64, .32, or no subcutaneous fat before wrapping. Data were collected on times required to complete the following tasks: (1) pre-cutting, (2) retail cutting and trimming, (3) leaning out trim, and (4) traying and wrapping. Weights also were recorded on all products and by-products before and after cutting to determine yield data. Data collected were incorporated into a computer program entitled Beef CARDS (Computer Assisted Retail Decision Support) and distributed to retailers across the U.S. The latest version of Beef CARDS runs within the Microsoft Windows® environment. Major features of Beef CARDS include purchase parameters, merchandising options, and gross margin vs. U.S.\$/45.4 kg calculations. The software allows for the importation of existing data to build a library of cutting tests. Currently, over 1,200 copies of the software have been distributed to assist in evaluating the price/value relationship of more closely trimmed beef subprimals.

### Introduction

Cattle producers have been frustrated at the apparent lack of monetary differentiation among cattle with great variation in quality and carcass cutability. Marketing cattle "on the average" is commonplace throughout the United States. What beef producers want is a true "value-based" marketing system where cattle are bought and sold on individual carcass merit. Without market differentiation, no real incentives are given for producers to purchase "better" breeding stock to meet targeted slaughter endpoints.

Value-based marketing began being discussed in the late Eighties in the U.S. due to the efforts of the Value Based Marketing Task Force (1990). Membership on the Task Force came from seed-stock and cow-calf producers, feeders, packers, purveyors and retailers from across the U.S. The Task Force's mission was to discuss problems with the current "average-based" marketing system and to develop an action plan to solve these problems.

In its report (Value Based Marketing Task Force, 1990), the Task Force identified this clearly stated objective as its goal: "To improve production efficiency by reducing excess trimmable fat by 20% and increasing lean production by 6% by 1995, while maintaining the eating qualities of beef." The Task Force listed eight consensus points that serve as specific research areas or priorities to accomplish the stated objective of reducing excess trimmable fat and

increasing lean production.

The Task Force recognized that the major problem facing the beef industry was that proper economic signals were not being sent along the beef distribution chain from consumer to producer. It is with this in mind that the first two consensus points were focussed clearly on the interface between the retailer and packer.

**Consensus Point 1:** Communicating value to the retail industry is critical to reducing waste fat production. In 1986, retailers across the United States began the "War on Fat" with the adoption of closer trimmed programs (fat trimmed not to exceed .64 cm). This was the result of the major finding of the National Consumer Retail Beef Study (Cross et al., 1986; Savell et al., 1989) that closer trimming of retail cuts could result in an improved image for and sales of beef. The National Beef Market Basket Survey (Savell et al., 1991) found that: (a) the average fat thickness of retail cuts of beef was .28 cm, and (b) over 42% of beef cuts had no external fat. Retailers had responded to the clear message that for beef to be competitive in the marketplace, it had to have less trimmable fat than at any point in the past. The Task Force felt that the retail segment of the beef industry had done its part for beef; however, the rest of the industry was lagging far behind in reducing the amount of excess fat production.

The main factor identified by the Task Force for the lack of response by the rest of the industry was the lack of clear economic signals being sent from retailers back through the beef chain. It was felt that the retail segment did not have the information available that would show what the value of closely trimmed, higher cutability primals and subprimals should be worth. Therefore, conducting research to gather new cutability information or taking existing cutability information and disseminating it was considered a high priority to help everyone in the beef industry make more informed purchase decisions. Five recommendations for information needs were listed in the Task Force report:

1. Carcass to primal cut. Called for developing cutability information from the carcass to the primal cut that reflects differences in cutting style, sex-class, breed-type and fat trim effects. This information is reported in Griffin (1989).
2. Primal to retail cut. Called for developing cutability or yield data from the primal to the subprimal to interface with the information obtained in Griffin (1989). The information will reflect differences in trim level, cutting style, bone-in versus boneless, and other factors related to the yield of retail cuts from various subprimals. This information is now complete and is reported in Garrett et al. (1991).
3. Retail simulation. Called for a retail simulation study to determine all of the factors needed for a "value equation" of closer trimmed beef. A simulated backroom of a retail store was constructed in the Rosenthal Meat Science and Technology Center at Texas A&M University. Information from this study makes up the backbone of the Beef CARDS program.
4. Develop user-friendly software. Called for developing user-friendly software to aid packers and retailers with making decisions regarding selling/purchasing closer trimmed beef. As a feature of the information gathered for Recommendations 2 and 3 above, a software program, called CARDS — computer assisted retail decision support — was developed by animal scientists and computer specialists at Texas A&M University (Walter et al., 1991).
5. Develop communication workshops for the industry. Called for conducting workshops that would help in the dissemination of cutability information to the various segments of the beef industry. With the unveiling of the Beef CARDS system at Kansas City in September, 1991, the dissemination phase of the packer-to-retailer cutability information began. It consists of hands-on workshops, meetings, one-on-one visits, and other methods of information transfer. When the packer-to-retailer information transfer process has reached a saturation point, concentration will focus on the feeder-to-packer interface. Attempts to work from the producer forward likely would be counterproductive without the other segments demanding new and improved products.

**Consensus Point 2:** Closely-trimmed boxed beef should be an option in the marketplace.

This point is related to Consensus Point 1. With retail cuts having less than .32-cm fat, and with boxed beef, for the most part, coming into the backrooms of retail stores with up to 2.54 cm of external fat, a tremendous amount of fat is being trimmed at retail.

Packers have incurred problems merchandising closer-trimmed beef subprimals in past marketing attempts because there was either no comparative competition. Retailers faced the dilemma of comparing commodity prices to closer trim prices, which could differ substantially based on the cut. Without competition to compare prices against, most retailers continued to select commodity products.

By the summer of 1991, IBP and Monfort were offering their own versions of subprimal cuts trimmed to .64-cm or less. In 1992, Excel came out with "Smart Choice," their new line of .64-cm trim or less product. With three companies competing for the closer trimmed subprimal market, retailers can price products from one packer against those from another. Having a substantial market for closer trimmed subprimals is important to cattle producers; without



this market, there is no incentive for packers to purchase higher cutability cattle if up to 2.54-cm of fat on each cut can be sold for the same price as the lean.

#### Conclusions

The Beef CARDS software package has been in release since September, 1991. The Beef CARDS software allows comparisons among different purchasing options for commodity (up to 2.54-cm), 1.27-cm or .64-cm maximum external fat boxed beef cuts when cut into retail cuts with three different fat trim specifications — .64-cm, .32-cm or no external fat. Information generated by Beef CARDS includes gross profit, net profit (U.S.\$ per 45.4 kg sold), cutting yields, and labor costs. The Beef CARDS program is being distributed to interested parties at no-cost, courtesy of the Cattlemen's Beef Promotion and Research Board, to get the maximum use of the information by the different segments of the industry.

As of March, 1994, over 1,200 Beef CARDS software units have been shipped to over 800 different companies and organizations. This represents retailers who have individual stores numbering in the tens of thousands. This penetration is having an impact. First, some chains are now at least considering the evaluation of closer trimmed boxed beef. Secondly, some chains have used Beef CARDS to determine the range they can afford to pay for closer trimmed cuts and have purchased some on a test program. In every case we have heard from, the profitability of using closer trimmed boxed beef was similar to that revealed by Beef CARDS. The major consideration that most retailers who have experimented with "new and improved" boxed beef is that they must purchase additional lean trimmings for ground beef to compensate for lost poundage that would be sold if they were purchasing the regular commodity beef.

Both the demand for Beef CARDS and the feedback we received from early users of this software aided us in development of a new improved version that was released in early summer of 1992. This version is much faster and flexible than the original version. The original CARDS required both Microsoft Excel® and Microsoft Windows® to run, while the new version of Beef CARDS only requires Microsoft Windows®. This major upgrade is the result of both talking and listening to retailers. With major input into the new version of Beef CARDS, retailers feel even more strongly about this tool helping them become more competitive in the marketplace. Beef CARDS is helping pave the way for value-based marketing to become a reality in the future.

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