



Cargill Meat Takes the Challenge To Orchestrate Demand

Monday, May 12, 2008

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Cargill Meat Solutions is the largest processor of fresh whole turkeys, the second largest beef processor, and the fourth largest pork producer in North America. The company has \$5B in revenue and over 35,000 employees, with operations in four countries.

Cargill took the challenge to orchestrate demand through price management. Using SignalDemand's on-demand software application, the company's beef business is now able to use dynamic mix and pricing optimization to facilitate hundreds of thousands of pricing, production, and product mix decisions every week. In this article, AMR Research shares insights from our recent interview with the project's sponsor, Herb Meischen.

Q: Can you describe why price management is important to your business?

Mr. Meischen: For Cargill Meat, it's important because a single carcass can yield 500 cuts of beef, with 1,500 options on how to optimize the mix in manufacturing. This reverse bill of materials (BOM) or disaggregation capability is needed, but seldom found in food and beverage and life sciences industries.

Today, using SignalDemand's pricing technology guides the company on how to make 150,000 pricing decisions a week. The optimization is run daily to help negotiate market demands and guide manufacturing decisions.

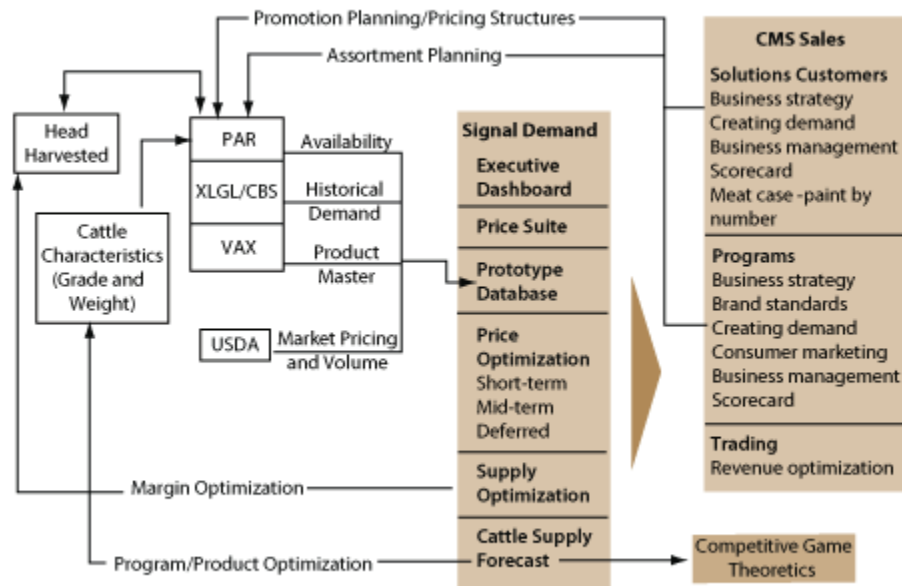
Q: What were the project's steps?

Mr. Meischen: Cargill has been interested in price optimization technologies for over 10 years, but it had a hard time finding an application that could handle the complexity of the beef industry. The company evaluated traditional price optimization technologies in 1999, but quickly realized that, without the capability to translate price into manufacturing options, the usefulness of the technology was just too limited.

With the entrance of SignalDemand into the market, Cargill became a development partner in 2004 to make its vision a reality. We had two goals:

- Translate commodity fluctuations into pricing decisions for every product and time horizon.
- Use the technology to determine how to best process the meat to make the most margin.

The supply and demand forces in the beef industry are complex. SignalDemand's software combines the pricing knowledge and experience of our team with sophisticated algorithms to evaluate changing market forces, including customer demand for individual cuts, seasonal product flows, available cattle supplies, and quality characteristics.

Figure 1: Process flows: a meat processor perspective


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Source: Cargill, 2008

As a result, Cargill is able to simplify price discovery with customers and determine the right assortment and price to pitch to the diverse channels it serves. Since each channel has its own characteristics, the technology needs to be flexible enough to manage channel dynamics while driving higher levels of performance.

Q: How did you manage the change management elements?

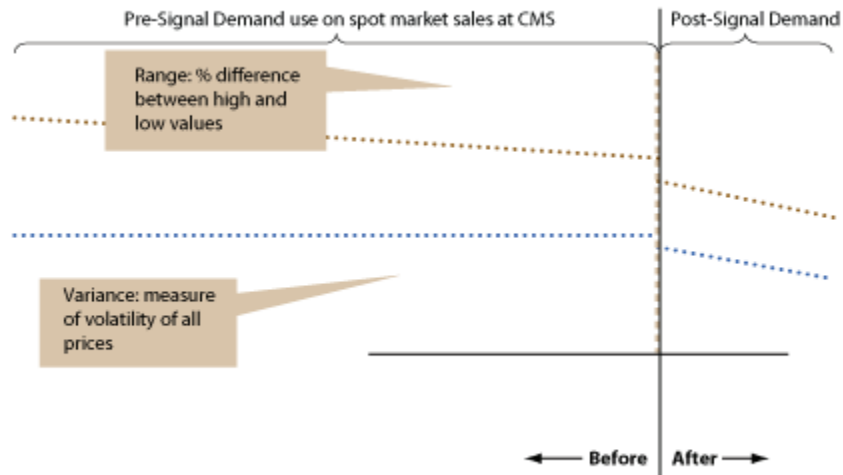
Mr. Meischen: The president of Cargill sponsored the project. This senior sponsorship helped facilitate the product's rapid adoption.

We worked hard to test and prove system capabilities. Initially, we ran the technology in parallel with what was then a spreadsheet-based method to determine price.

Each day, the SignalDemand technology calculated pricing options and the best mix, while the team used existing processes to calculate pricing options manually. When team members found out the technology could more accurately price a complex scenario in minutes versus the manual process of hours or days, they quickly adopted the tool. The team now uses it to calculate the forecasted price recommendations for the midterm (four to eight weeks) and long term (nine or more weeks), as well as the optimized price for the short term (one to three weeks).

Take the price management challenge

While the privately held company would not share information on the results, they clearly were substantial (see Figure 2).

Figure 2: Project results: impact of demand orchestration


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Source: Cargill, 2008

Many companies don't orchestrate demand through the demand-shaping practices of price management. However, this challenge is becoming more important for the food and beverage industry, where prices are rising and channel demands are increasing. For more information on price management in demand-driven manufacturing, see "Developing a Manufacturing Strategy: Four Characteristics of Demand-Driven Leaders."

Related research

"Take the Challenge: Orchestrate Demand" "CP Companies: Seven Actions To Take To Weather the Recessionary Storm"

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