

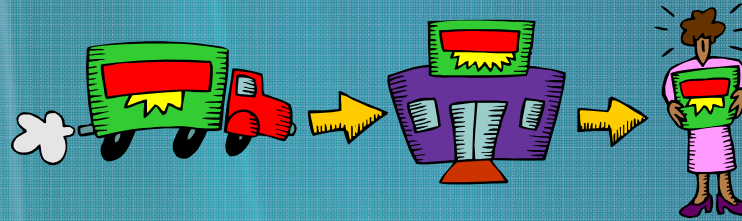
# Commodity Processing 101

Sherry Thackeray

USDA FNS FDD

SNA ANC Philadelphia 2008

# What is Commodity Processing?



- Regulatory Authority 1958 – to maximize the use of commodity
- Commercial food manufacturers convert raw bulk commodity into end products
- Wide variety
- More convenient
- Ready-to-use



# Who Are We?

U.S. Department of Agriculture

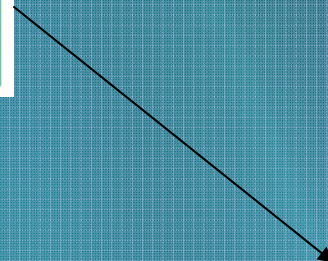
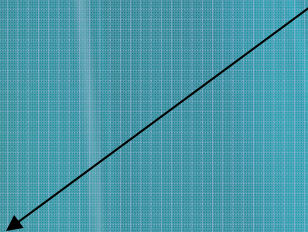
Food, Nutrition, and Consumer Services

Special Nutrition Programs

Food Distribution Division

Operations Branch

Processing Initiatives Team (PITs)



# ***FNS***

***Food and Nutrition  
Service***

Program Admin.  
Comm. Processing

# ***AMS***

***Agricultural  
Marketing Service***

Group A:  
Meat & Fish  
Poultry & Eggs  
Fruit & Veg

# ***FSA***

***Farm Service  
Agency***

Group B:  
Dairy  
Grain  
Oil & Peanut  
Contact facilitation

# Program Partners

Distributing Agency (DA) – State government agency which enters into an agreement with FNS for the distribution of DF to eligible RAs

Recipient Agency (RA) – Organizations within a State eligible to receive DF

Schools (public and private), RCCI, CI, NPE/NSIP, SFSP, summer camps, soup kitchens



# How Does It Work

1. Entitlement allocation
2. Decision to process
3. Agreement with processor
4. Procurement takes place with RA or SDA
5. State orders commodities to processor
6. USDA purchases commodity & delivers to processor
7. Substitution & Processing
8. Sales, delivery, VPT
9. Monitoring & Audit



# Entitlement Timeline

CNP – SY 2008

- **February 2008** – Enter Preliminary Entitlement Information
- **June 2008** – Calculate SY 2009 Commodity Assistance Rate
- **July 2008** – Publish Rate in Federal Register
- **August 2008** – Move Preliminary SY 2007 Balances into SY 2008
- **November 2008** – Update SY 2009 Entitlement – LEVEL TO BE MET
- **November/December 2008** – Reconcile FY 2008

# How Does It Work

1. Entitlement allocation
- 2. Decision to process**





# Evaluate the State Commodity Model

- How does State allocate entitlement?
- How does State assess school needs?
- State operating constraints?
- What are the distribution fees?
- State limitations on processing?
- State administrative fees associated with processing?
- What are school distribution channels?



# Assess Your Needs

- What does your organization need from the commodity program?
- What about your neighbors?
- What are your menu needs?
- Education and program guidance?



# Evaluate Your Operation



## Financial Health

- Are you in the red or in the black?
- What are your financial operational goals?
- How do you assess commodity value?  
Is commodity value a part of food cost or held out?

## Operations

- What sort of kitchen operations do you run?
- How do you factor in food safety?
- Are rising labor costs a concern?

# To Processor or Not to Process?

**SNA ANC 2008**

## Commodity Sessions

**Tuesday, July 22, 2008**

---

<b>8:30 – 9:30 am</b>	<b>Managing Processing Inventory</b>
<b>8:30 – 9:30 am</b>	<b>DOD Fresh Program</b>
<b>2:15 – 3:15 pm</b>	<b>Calculating Processing Profitability</b>
<b>2:15 – 3:15 pm</b>	<b>Commodity Holds &amp; Recalls</b>



# How Does It Work

1. Entitlement allocation
2. Decision to process
- 3. Agreement with processor**



# FNS Commodity Processing

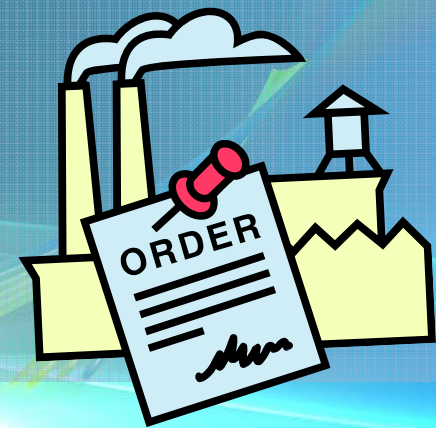
## Responsibilities

- Facilitate commodity processing
  - National Processing Agreements
  - Formulations
- Technical assistance
- Work with FSA, AMS, and States to improve program
- National regulations and policy
- Education and training

# State Responsibilities

## Ordering

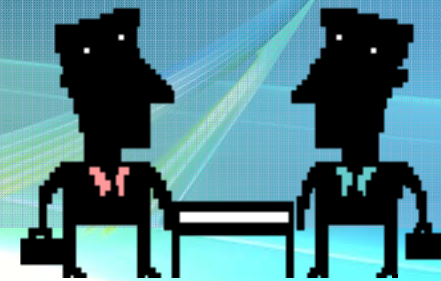
- Make commodities available for order
- Advise schools what processed products are available
- Consolidate truckloads & coordinate diversions with processors
- Monitor inventory levels



# State Responsibilities

## Agreements

- Enter into participation agreements with processors
- Select Value Pass Through systems
- Select end products
- Specify delivery terms
- Help with any problems that may occur
  - Monitor acceptability and field complaints
  - Quality
  - Delivery





# How Does It Work

1. Entitlement allocation
2. Decision to process
3. Agreement with processor
- 4. Procurement takes place with RA/SDA**



# Procurement

## ***Understanding Procurement***

Wednesday, July 23: 1:15 – 2:15 pm

Lynn Rodgers-Kuperman

USDA FNS Child Nutrition Division

# How Does It Work

1. Entitlement allocation
2. Decision to process
3. Agreement with processor
4. Procurement takes place with RA or SDA
- 5. State orders commodities to processor**



# Ordering Commodity

**SNA ANC 2008**

## Commodity Sessions

**Wednesday, July 23, 2008**

---

**1:15 – 2:15 pm**

**The 12 Steps of Commodity Ordering**

**[www.commodities.usda.gov](http://www.commodities.usda.gov)**

# How Does It Work

1. Entitlement allocation
2. Decision to process
3. Agreement with processor
4. Procurement takes place with RA or SDA
5. State orders commodities to processor
- 6. USDA purchases commodity & delivers to processor**



# USDA Purchases

Group A: ~ 80% total dollars spent

- Fruits and Vegetables
- Livestock
- Poultry

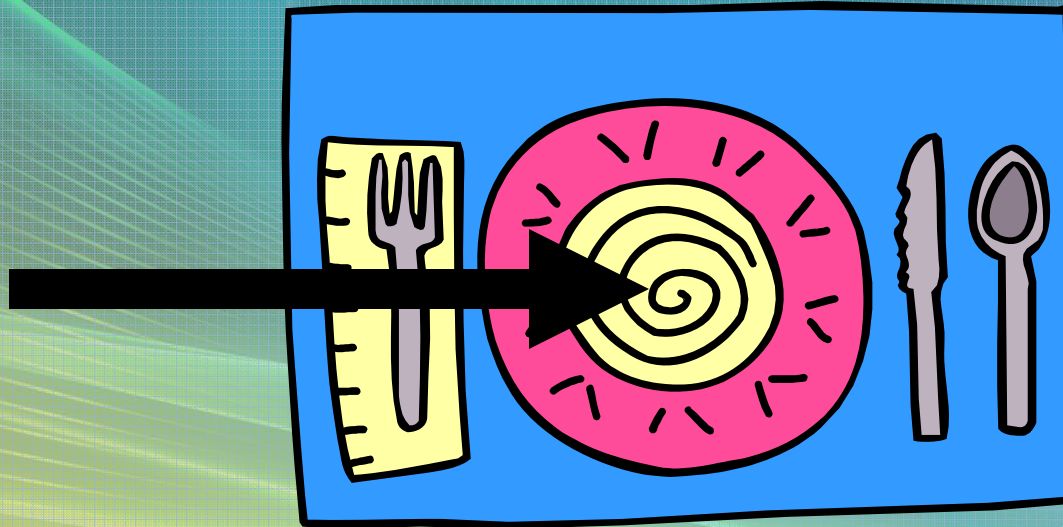
Group B: ~ 20% total dollars spent

- 80% of Group B dollars spent on cheese
- Other grain, oil, peanut



**Where do schools spend  
most of their  
Commodity \$\$\$\$ ?**

Where do schools spend  
most of their  
Commodity \$\$\$\$ ?



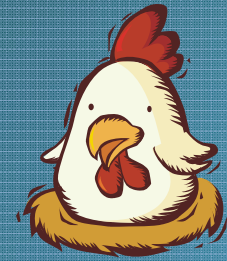


## SY0607 Processing Diversions

<b>Commodity</b>	<b>Pounds</b>	<b>Dollars</b>
Red Meat	100,314,000	\$137,527,000
Poultry	171,376,000	\$101,703,000
Cheese	70,086,000	\$89,265,000
Other Group A	109,713,000	\$14,569,000
Other Group B	26,369,000	\$7,932,274
	477,859,000	\$350,997,000

Total Purchases ~ 1,190,000,000 ~ \$931,000,000

# Chicken Purchases (FY06)



## Bulk

- A521 and A522
- 74% chicken lbs
- 54% chicken \$

## Value-Added

- Breaded & Cut-up
- Fajita & Diced
- 25% chicken lbs
- 45% chicken \$

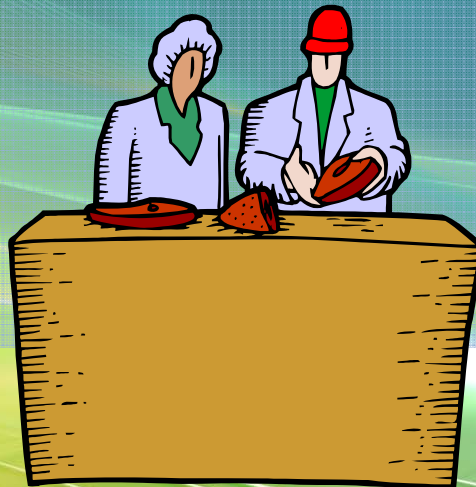
# Beef Purchases (FY06)

## Bulk

- 594 Coarse
- 704 Combo
  - 56% of lbs
  - 55% of \$

## Value-Added

- 608 Fine Grind
  - 31% of lbs & \$
- Patties (4 types)
  - 9% of lbs
  - 9.5% of \$



# Other Group A

	<b>Pounds</b>	<b>Dollars</b>
Processed	109M	\$14M
Total Purchases	477M	\$223M

- \$50M of total dedicated to DOD Fresh
- 87M lbs of processed is bulk potatoes ~ \$6M
- 4.5M lbs bulk tomato at \$1.8M

# FY06 F&V Purchases

<b>Commodity</b>	<b>Pounds</b>	<b>Dollars</b>
Peaches	50,345,000	\$28,555,000
Pears	49,428,000	\$24,170,000
Green Beans	30,150,000	\$10,538,000
Tomato Products (excluding bulk)	45,895,000	\$15,263,000
Apples	25,083,000	\$9,274,000

# Other Group B

	<b>Pounds</b>	<b>Dollars</b>
Processed	26M	\$8M
Total Purchases	268M	\$237M

- Processed lbs & \$ DO NOT include cheese

# FY07 Group B Purchases

	<b>Lbs Purchased (FY06)</b>	<b>Lbs Processed (SY07)</b>
Cheese	146.8M	70M
Flour	55.9M	12.2M
Peanut Butter	14.3M	3.9M
Oil	25.7M	1.9M
Pasta	10.8M	0

# Increase in Group B Prices

	FY07	FY08	Increase
<b>Pasta</b>	0.3778	0.5607	48.41%
<b>Wheat Flour</b>	0.2178	0.3228	48.21%
<b>Peanut Products</b>	0.7298	1.0204	39.82%
<b>Bakery Flour Mix</b>	0.5887	0.8084	37.32%
<b>Vegetable Oil</b>	0.5213	0.6675	28.05%
<b>Bakery Flour</b>	0.3481	0.4039	16.03%
<b>Crackers</b>	0.9293	1.0589	13.95%
<b>Ready to Eat Cereal</b>	1.3939	1.5515	11.31%
<b>Rice Products</b>	0.2838	0.3151	11.03%
<b>Corn Products</b>	0.234	0.2515	7.48%



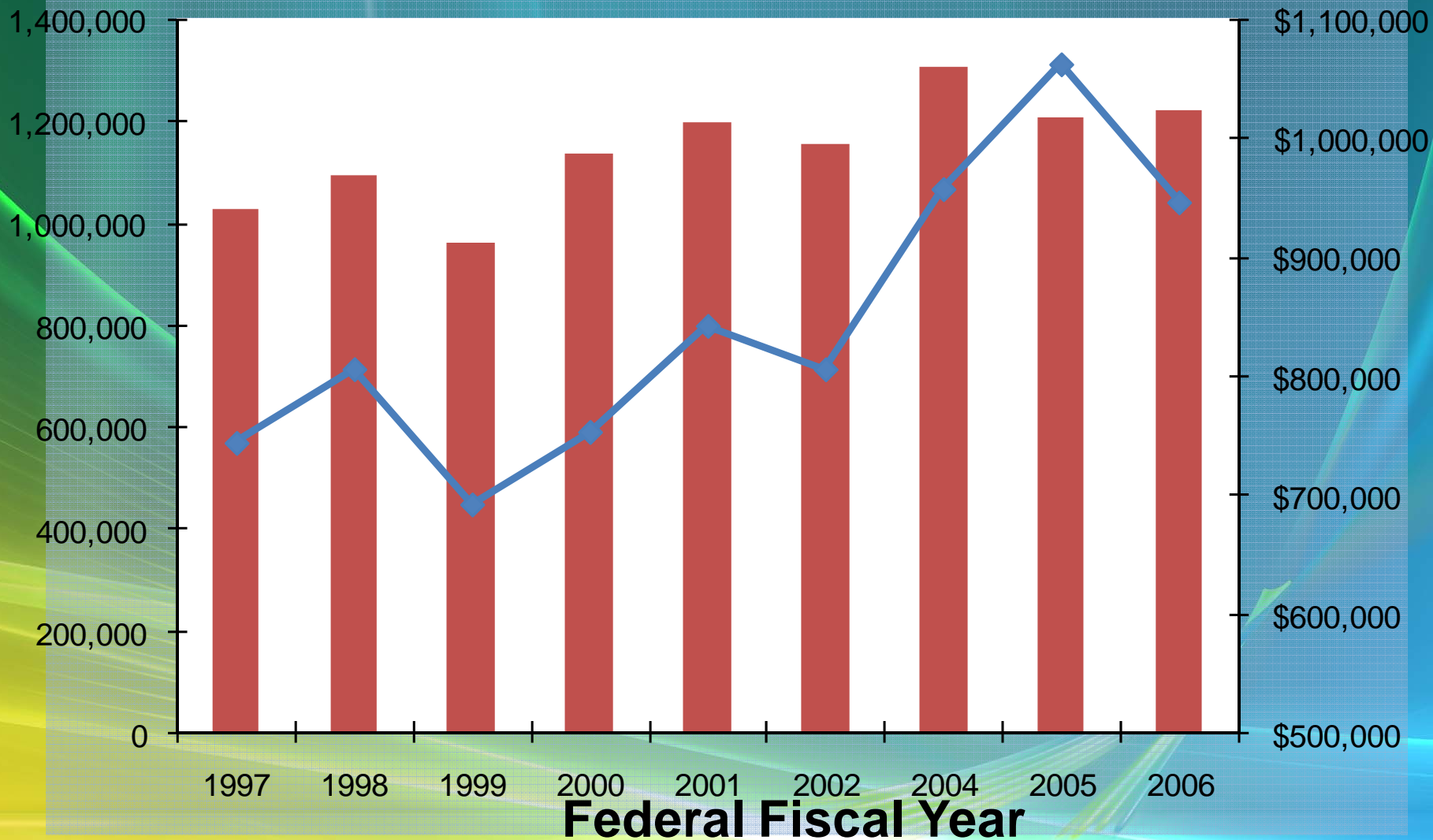
# Increase in Cheese Prices

	<b>FY07</b>	<b>FY08</b>	<b>Increase</b>
<b>Mozzarella Cheese</b>	1.7005	2.1155	24.40%
<b>Process Cheese</b>	1.7651	2.0911	18.47%
<b>Evaporated Milk</b>	0.5027	0.587	16.77%
<b>Bulk Cheddar</b>	1.9107	2.1457	12.30%

# Commodity Purchases

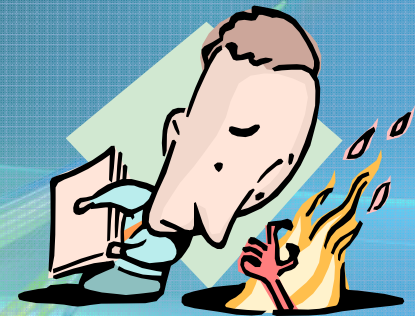
Lbs. Purchased (in thousands)

Dollars Spent (in thousands)



# How Does It Work

1. Entitlement allocation
2. Decision to process
3. Agreement with processor
4. Procurement takes place with RA or SDA
5. State orders commodities to processor
6. USDA purchases commodity & delivers to processor
- 7. Substitution & Processing**

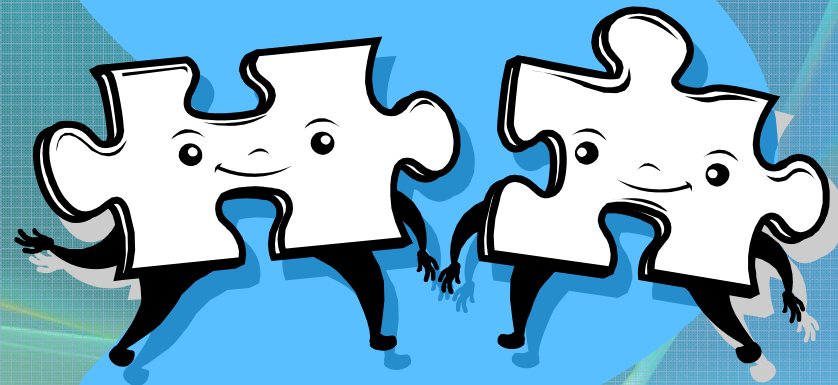


# Substitution

- Processors are not required to “front load” commodity pounds
- Strongly discouraged from going into negative inventory
- State responsible for managing RA allocations at processor

# Do you understand USDA's processing methods?

- ✓ 100%
- ✓ SY
- ✓ GRO
- ✓ GMR



# Processing Methods

## Fixed Yields

- 100% Yield
- Standard Yield (SY)
- Guaranteed Return (GR or GRO)

## Variable Yield

- Guaranteed Minimum Return (GMR)

# How Does It Work

1. Entitlement allocation
2. Decision to process
3. Agreement with processor
4. Procurement takes place with RA or SDA
5. State orders commodities to processor
6. USDA purchases commodity & delivers to processor
7. Substitution & Processing
- 8. Sales, delivery, VPT**



# What methods do you use To get back your "value"?

- ✓ FFS
- ✓ Discount
- ✓ Rebate
- ✓ NOI





# NOI Considerations

- Impact on State warehousing
- Will delivery costs for non-processed commodities increase?
- Are local distributors automated & interested?
- What amendments need to be made to procurement documents?
- How do you compare NOI with other VPT systems in bid evaluation?
- What training/guidance does the State need to make available to the schools?

# How Does It Work

1. Entitlement allocation
2. Decision to process
3. Agreement with processor
4. Procurement takes place with RA or SDA
5. State orders commodities to processor
6. USDA purchases commodity & delivers to processor
7. Substitution & Processing
8. Sales, delivery, VPT
- 9. Monitoring & Audit**



# Asset Management

- PAL \$ are Real \$
- Use it or loose it!
- Who can afford to give up dollars?
- Need to use in school year it is allocated
- Use commodities in other meals: Breakfast, snack
- Do not order with out a plan to use it
- Spread the love


# Asset Management

**SNA ANC 2008**

## Commodity Sessions

**Tuesday, July 22, 2008**

---



<b>8:30 – 9:30 am</b>	<b>Managing Processing Inventory</b>
<b>8:30 – 9:30 am</b>	<b>DOD Fresh Program</b>
<b>2:15 – 3:15 pm</b>	<b>Calculating Processing Profitability</b>
<b>2:15 – 3:15 pm</b>	<b>Commodity Holds &amp; Recalls</b>

15% - 20% = Big \$



### Then...

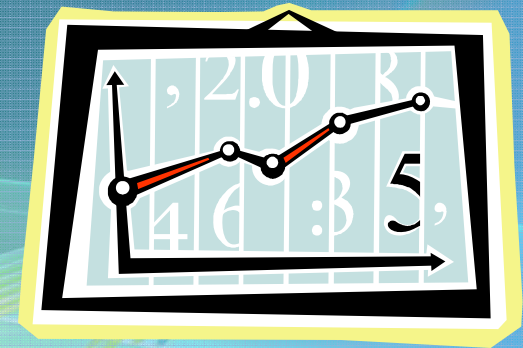
- Commodity Values used to be ignored
- Once considered “Free Food”
- Once forced distributed with no plan

### Now...

- Spend on products that support your program
- Spend on products that can help increase your ADP
- Analyze with the same detail you use on your commercial purchases

# Advantages to Processing

- Spread your commodity dollars further throughout the year
- Plan for commodities, don't react to them
- Get the products when and how you want them
- Utilize VPT methods to realize commodity value quickly
- Food Safety – HACCP



# Advantages to Processing

- USDA value-added purchases
  - Broad spec
  - Low bid, multiple suppliers
- Processing allows for changes and variations
- Product consistency, recognizable flavor profiles
- Brand recognition for your customers
- Can use one processor and order variety of items



PHILADELPHIA



## SNA ANC 2008

# Commodity Sessions

### Sunday, July 20, 2008

---

- |                |                          |
|----------------|--------------------------|
| Noon – 1:00 pm | Why Commodities?         |
| 1:15 – 2:15 pm | Commodity Processing 101 |

### Monday, July 21, 2008

---

- |                 |   |
|-----------------|---|
| 11:00 am – Noon | Commodity Culinary Demonstration            |
| 2:15 – 3:15 pm  | Meshing Commodities with Nutrient Standards |
| 3:30 – 4:30 pm  | The Benefits of ECOS                        |

### Tuesday, July 22, 2008

---

- |                |                                      |
|----------------|--------------------------------------|
| 8:30 – 9:30 am | Managing Processing Inventory        |
| 8:30 – 9:30 am | DOD Fresh Program                    |
| 2:15 – 3:15 pm | Calculating Processing Profitability |
| 2:15 – 3:15 pm | Commodity Holds & Recalls            |

### Wednesday, July 23, 2008

---

- |                |                                    |
|----------------|------------------------------------|
| 1:15 – 2:15 pm | The 12 Steps of Commodity Ordering |
|----------------|------------------------------------|

[www.commodities.usda.gov](http://www.commodities.usda.gov)

# CONTACT US

USDA FNS  
Food Distribution Division

General Inquiries  
[FNS-PSB@fns.usda.gov](mailto:FNS-PSB@fns.usda.gov)  
(703) 305 - 2680

Commodity Processing  
[NPA@fns.usda.gov](mailto:NPA@fns.usda.gov)

Sherry Thackeray  
Processing Initiatives Team  
[Sherry.Thackeray@fns.usda.gov](mailto:Sherry.Thackeray@fns.usda.gov)  
(703) 305 – 2652