

Basic Concepts of Commodity Processing

Why Process, How to Start, Yield and Other Traffic Signals

- 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)
- What is the Commodity Processing Program?
 - 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
 - Our Sister Agencies

AMS – Agricultural Marketing Service

- “Group A” Commodities
- Beef, Pork, Poultry, Eggs, F&V
- “Surplus Removal”
- End Product Certification (Grading)

FSA – Farm Service Agency

- “Group B” Commodities
- Cheese, Grain, Oil, Peanut
- “Price Support”
- 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
- Sources of Commodity
- Entitlement – A dollar value of commodity assistance which is required by law to be provided to the CN Programs
 - Per-Meal-Rate x Meals Served
 - “PAL”: Planned Assistance Level
 - Bonus – Food items not charged against entitlement or appropriated funds
 - Surplus Removal or Price Support
 - Use Without Waste or Fair-Share
- Delivery Options
- Direct Diversion – Food is shipped directly from the USDA vendor to the processor
AKA: Direct Shipment or Direct Delivery
- Backhaul – The pick up of a DF from a DA or RA for processing and return.

Types of Processors

- Multi-State Processor – enters into agreements with agencies in more than one State or an agency in a State other than where the plant or business office is located.
- Single State Processor – processor doing business solely within a State where the plant or business office is located.

Processing Agreements

- National Processing Agreement
 - Multi-State Processors
- State (Master) Agreement
 - Single State Processors
- Recipient Agency Agreement
 - Single State Processors

Yields

- 100% Yield

- Guaranteed Minimum Return/Yield
 - Traditional Processing
 - Red meat & Poultry
- Standard Yield
 - Poultry Only
 - Fruit & Veg
- Guaranteed Return/Yield
 - Beef & Pork On\

Value Pass Through

- Refund or Rebate
- Direct Discount
- Hybrid System
 - “Net Off Invoice” is a variation
- Alternate VPT
- Fee-for-Service

USDA Responsibilities

- USDA enters in to agreement with processor
- USDA approves EPDS and SEPDS
- USDA holds surety instrument
- USDA purchases commodity and delivers to State designated location/processor

Processor Responsibilities

- Processor sells end products to RA
- Processor submits national MPR to USDA

National Processing Agreement **DOES NOT** Eliminate bidding/procurement by SDA/RA

State Responsibilities

- Specify delivery and billing terms

- Specify value-pass-thru method
- Coordinate truck loading or commodity ordering
- Monitor State inventory draw-downs
 - Verify minimum yield/return met
 - Monitor acceptability or field complaints

State Distributing Agency Role in Commodity Processing

- Make commodities available for order
 - Divert for further processing
 - Receive “brown box” from USDA
- 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
- Verify yields, where applicable

Procurement Assistance

- State bid
- Bid template

Help with any problem that may occur

- Monitor acceptability of processed product and field complaints
- Quality
- Delivery

- Sample Worksheet
- **Commodity Math 101**
- **Compare prices**
 - **For purchased foods**
 - **For processed foods**
 - **add the commodity \$\$\$**

1 case **purchased** chicken nuggets = \$50.50 (145 servings per case)

Purchased Cost per serving: **five(5) nuggets = \$.35**

Jim's Chicken Processor is offering a chicken nugget that meets your specifications and is acceptable student preference.

Processing fee per case= \$24.45

(145 servings per case)(FOB destination – delivery fee included)

Processing Cost per serving: **five(5) nuggets = \$.17**

Add the DF value to the case cost

Let's Add It Up

Processed: FFS = \$.17/serving DF Value = \$.07/serving Total serving cost = \$.24/serving

Purchased: \$.35/serving

A SAVINGS OF \$.11/SERVING

- **Ready, Set, Order!**
- Decide to Process
- Procurement Guidelines Met
- Ordered Raw DF into Processor
- Complete Order
- Know how delivery and billing will happen with state/processor/mainline food vendor
- **How the flow goes...**
- FFS established with Jim's Chicken
- Issue a Purchase Order

- Order 1,000 cases
- Chicken Delivered
- Owe Jim's \$24,450.00
- Negotiate Delivery schedule options with Processor.
- Pay attention to YIELD.
- Start small and work your way up.
- Set up a worksheet/spread sheet to track DF

Questions??

- Contact Us

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