



# Why Finish Beef on Your Farm?

**cpa**  
*Extension Specialist*  
*Center for Profitable Agriculture*  
*A University of Tennessee - Farm Bureau Partnership*

**Farm Raised Beef Workshop**

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**Chattanooga, TN**

# Why finish beef on your farm?

- To add value to your farm commodity (BEEF)
- How can you add value?
  - Retain ownership through finishing rather than selling at weaning
  - Alternative production methods (natural, organic, humane, pasture-fed, etc.)
  - Differentiate the product (branded program, breed specific, etc.)
  - Sell direct to the consumer



*... with the central goal to obtain a greater portion of revenue as a producer*

# Why finish beef on your farm?

- In 2003 the net farm value for finished beef equaled 48.4¢ of the consumer's dollar
  - The share for those who did not retain ownership is less
- The other 51.6¢ went towards transportation, further processing, packaging, advertising and other activities beyond the farm gate

Net Farm Value (Finished Beef)

Marketing Bill (Beef)



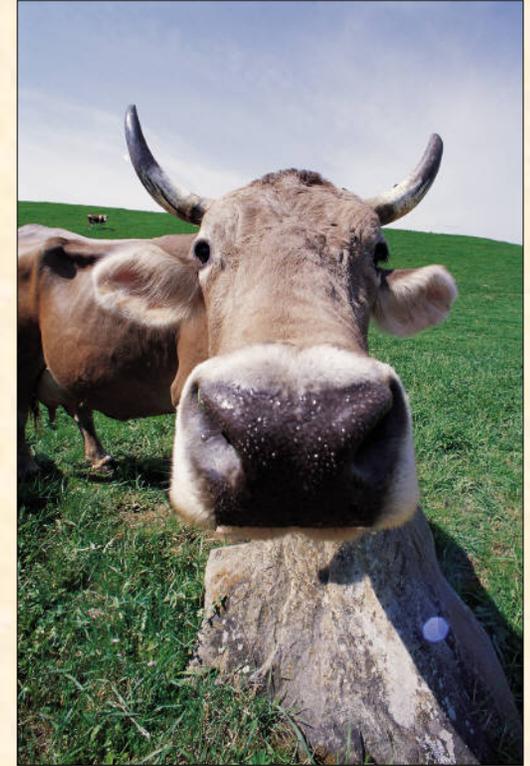
48.4¢



51.6¢

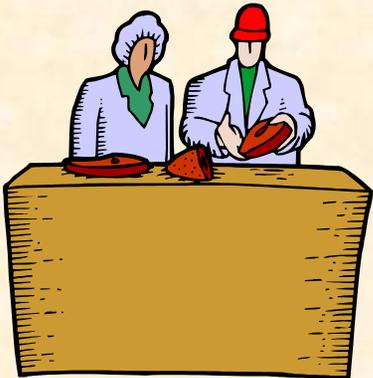
# Overview

- Conventional vs. Niche Beef
- What Attributes do Consumers Prefer?
- Risks of Alternative Marketing
- Case Study Colorado Homestead Ranches, Inc.
- **Summarize: Final Recommendations and Considerations**



# Conventional vs. Niche Beef

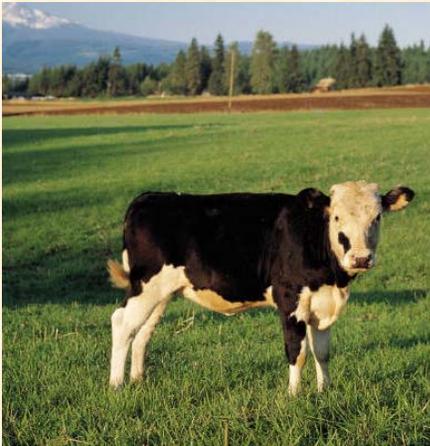
- Conventional beef is a homogenous commodity meat product
- Niche beef is a product targeted toward consumers who are dissatisfied with conventional beef and are willing to pay a premium for something different
  - Two ways to add value to your beef:
    - Finish out cattle on your farm
    - And/or enter a niche market



# Sell in the Conventional Market

Increase profit per head of cattle by:

- Retain ownership past weaning
- Produce heavier weight calves
- Feed to higher quality grade
- Carefully manage genetics and culling process
- Minimize costs of production
- Join an alliance or marketing cooperative



# Niche Markets

- Lean Beef – Laura’s Lean Beef
- Natural Beef – Coleman Natural
- Grass-finished – Lasater Grasslands Beef
- Breed Specific – Certified Angus Beef
- Others: Organic, Certified Humane, Predator Friendly, Kosher



# Direct Market

- Freezer Beef
- Farmer's Markets
- Mail Order/Internet
- Meat Shop

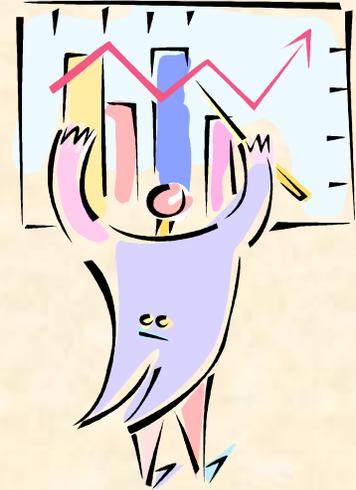


# What attributes do consumers prefer?

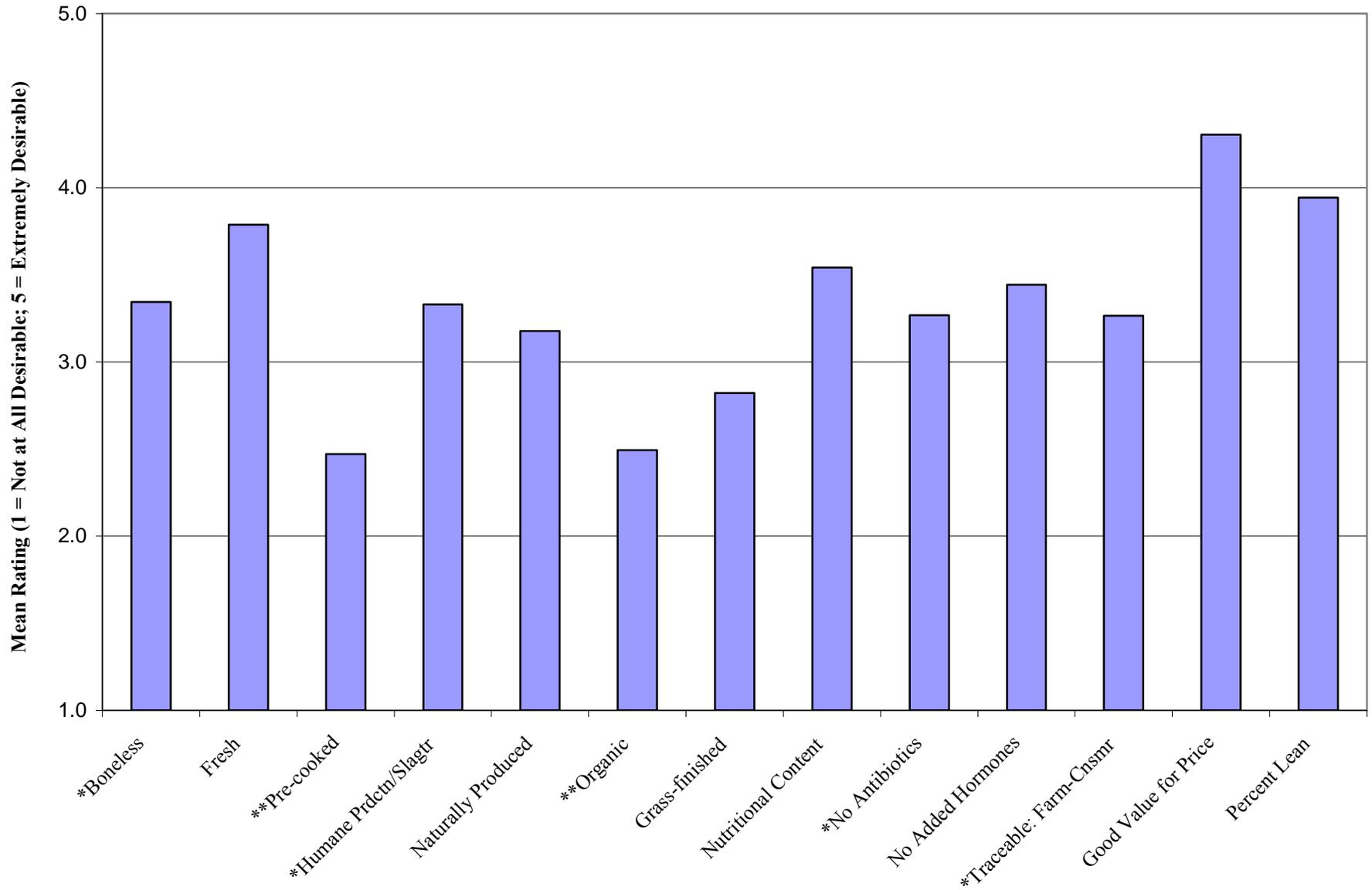


# Consumer Trends

- Convenience oriented – limited time
- Fewer consumers know how to cook
- More health conscious
- Growing ethnic diversity
- Increased purchases of organic products...including meat
- Demand quality and good service at reasonable price
- Concerns about food safety



# Mean U.S. Ratings of Desirable Beef Attributes (N=872 Respondents)

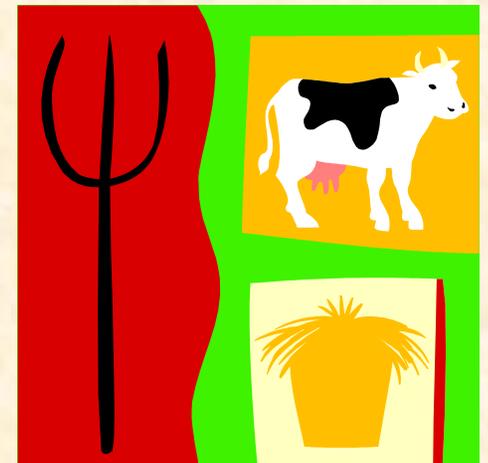


\*, \*\*, Attributes with similar superscripts are not significantly different from one another at a 95% level of significance.

Source: Ziehl, A., D. Thilmany, and W. Umberger. Consumer Beef Survey conducted online April 2004 by National Family Opinion. Data analysis done through the Department of Agricultural and Resource Economics, Colorado State University.

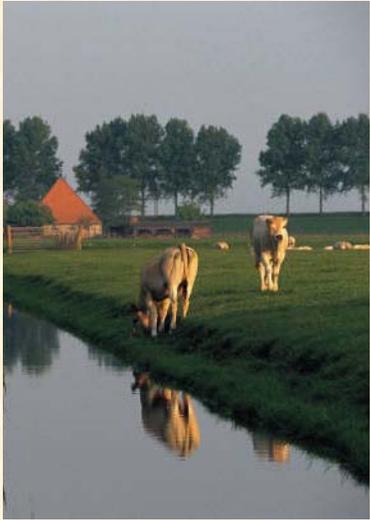
# Rated Attributes

- Very Desirable: Good Value for Price, and Percent Lean
- Desirable: Boneless, Fresh, Humane, Natural, Nutritional, No Antibiotics, No Added Hormones, and Traceability
- Somewhat Desirable: Grass-finished, Organic, and Pre-cooked



# Grass-fed vs. Grain-fed

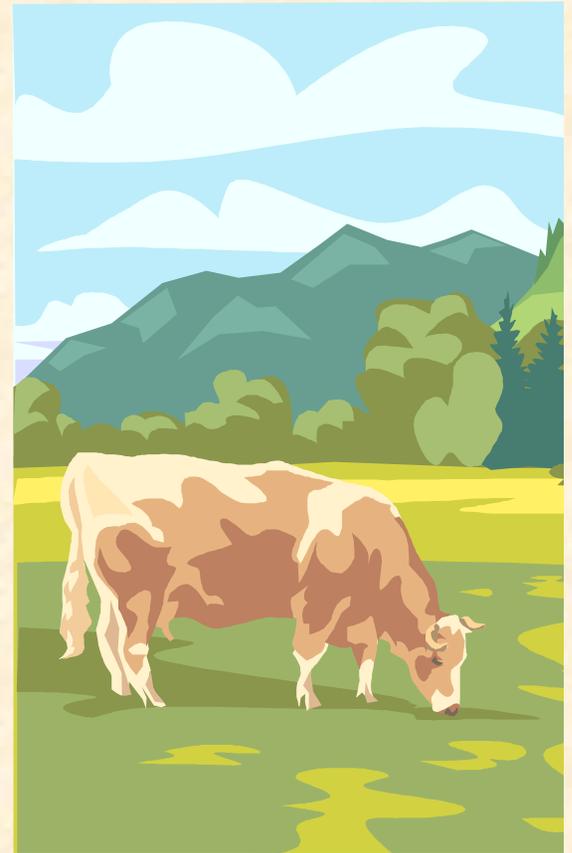
- Study in Denver and Chicago
  - Taste Panel and Auction to determine taste preference and WTP for preference
- Results and Implications:



- Most respondents preferred taste of grain-fed beef and were willing to pay more for the grain-fed than grass-fed
- 20% of the survey respondents preferred taste of grass-fed and were willing to pay a premium for it
- Implies a small market may exist for grass-fed beef

# Risks of Alternative Marketing

- Production risk
- Managerial risk
- Financial risk
- Marketing and price risk
- Legal risk



# Production Risks



- May involve new production practices or require skills to produce unique goods
- Small producers have difficulty producing steady quantities (consistent quantity)
- Beef products are sometimes difficult to keep uniform (consistent quality)
- Finishing, processing, seasonality
  - Difficult and costly to change finishing program, special processing hard to find, seasonality of breeding program

# Managerial Risks



- Direct involvement with consumer
- More time intensive, greater labor investment
- Must be prepared to change product to fit consumer demand
- Saboteurs do exist and may cause problems (may report false information about your product, contracts may be breached)

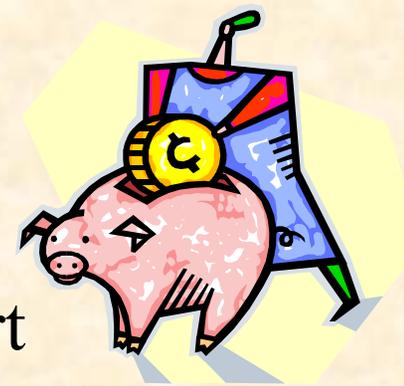
# Managerial Risks

Traceability can be a double-edged sword:

- Guarantees origin of product to consumers
- Improves food safety:
  - Consumers know who produces a safe product
  - Allows tracking contamination problems to source (E-coli, BSE)
- Liability may become an issue if producer found to be source of contamination problems



# Financial Risks



- Capital investment is generally higher to start up a niche business (organic certification, labeling)
- Reaching consumers in certain niche markets may require considerable capital investment
- Costs may be higher (labor, processing, promotion, transportation)
- May need to deal with bad checks from consumers

# Marketing and Price Risks

- New supply participants increase competition
- Prices fluctuate due to changing demand
- Must supply volume to meet demand
- Need to produce consistent product & maintain uniform pricing
- Seasonality affects sales (steak more popular during summer)
- Market access - “getting in the door”



# Legal Risks

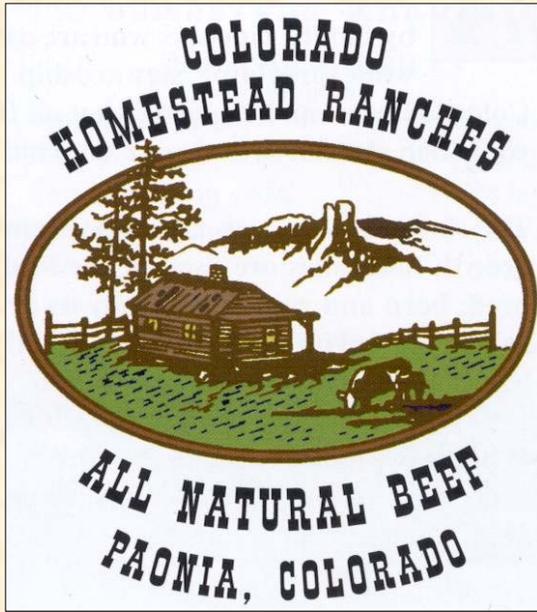
- Food safety regulations
- Product liability
- Regulatory compliance (USDA, HAACP, labeling claims)
  - See the following website about labeling claims:  
<http://www.ams.usda.gov/lsg/stand/claim.htm>



# Legal Risks



- Contractual agreements:
  - USDA Grain Inspection, Packers and Stockyards Administration (GIPSA) has information on contractual agreements online at:  
<http://www.usda.gov/gipsa/>
  - Contracts not always economically enforceable (i.e., breach of contract by a large wholesaler, difficult for a small producer to take legal action because of limited legal and financial resources)



# A Case Study of Colorado Homestead Ranches, Inc.



# History of CHR

- Five ranches united to form Colorado Homestead Ranches, Inc.
  - Ayer & Ayer, Karl Burns, Campbell & Sons, Kossler Ranch, Norm and Susan Smith
- All ranches are family-owned, cow-calf operations
- Two ranches are distinguished in their community as “Centennial Ranches”
- Stewardship awards



# Vision and Goals

- Goal to sell a healthy, high quality product that local consumers demand
  - Natural beef that is locally raised and free of antibiotics and hormones
- Desire to support local agriculture and return \$1400 per head to each ranch that sells through CHR
- Sell more head from each producer, by increasing sales of CHR product (Goal to sell 200 head through the cooperative in 2003)



# Freezer Beef

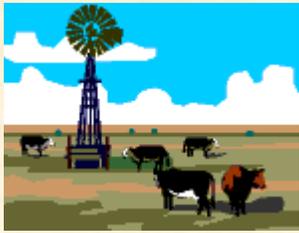


- In 1997, CHR began selling natural freezer beef to local consumers
- Started selling only a few head, but gradually began to sell more
  - Now sell about one carcass every two weeks
- Whole processed hot carcass weighs 700# ~465 lbs. meat (sell whole,  $\frac{1}{2}$ , or  $\frac{1}{4}$  carcasses)
- CHR producers contribute sweat equity (they are not paid for their labor contribution)
- Future goal: pay each producer for contributed labor as market and sales expand

# Freezer Beef

- Retail prices in 2004
  - \$1.77/lb./whole (700 lbs.) ~465 lbs. meat
  - \$1.80/lb./half (350 lbs.) ~233 lbs. meat
  - \$1.83/lb./quarter (175 lbs.) ~117 lbs. Meat
- Prices per actual pound of meat:
  - Whole - \$2.66/lb.
  - Half - \$2.71/lb.
  - Quarter - \$2.75/lb.





# Decision to Expand Market

- Began to enter Farmers' Markets after a couple years
- Sell individual cuts as well as take orders for freezer beef
- For profit maximization, need to sell as much of the carcass as possible
- Ran into their first big problem:
  - Easier to sell the middle meats or “high-end” cuts (i.e. top loin, ribeye), but ran into difficulty selling “low-end” cuts (i.e. chuck, ground beef)

# Adding Value to Chuck and Ground Beef

- Sell processed meats: jerky, hot dogs, sausage, beef sticks
- Performed survey and taste panels on different pre-cooked entrées made of chuck and ground beef
- Test market showed interest in ready-to-heat entrées
- Needed to see if entrée production was an economically feasible option
  - Performed a benefit/cost analysis to determine feasibility



# Concepts from the Feasibility Study

- It was economically feasible to produce entrées, margins were small but positive
- Potentially could decrease costs by using all ground beef and no chuck, as well as better facilities



- When doing your own feasibility studies, perform sensitivity on changes in cost and benefits to determine strength and weaknesses of your project

# Farmers Markets

- Currently committed to Aspen and Glenwood Springs farmers markets in Colorado
- Operate during weekends for 15 weeks of the year
- Costs are relatively low (registration fees, transportation, labor) in comparison to returns
- Greatest profit margin through farmer's markets
- But market is difficult to grow so they needed to expand into another distribution channel



# Decision to Expand Market Again - Homestead Market

- Despite success of the farmers' markets, CHR still needed to increase the number of head sold from each producer
- The opportunity to purchase a butcher shop arose in 2001... they jumped on that opportunity and opened Homestead Market in May 2002
- Able to sell CHR products as well as other locally produced goods such as: elk, bison, lamb, pork, chicken, in-season fruits and veggies, and other local gift-food items

# Homestead Market



# Why has CHR succeeded thus far?

- Five member ranches work well together, flexible to new ideas and dedicated to vision/goals
  - Communicate effectively when making marketing decisions and entering new business ventures
  - All members have donated A LOT of “sweat” equity to make the operation work, now slowly starting to reap the rewards
- Learned to bounce back from mistakes and willing to make large changes for the good of the cooperative



# Smart Marketing

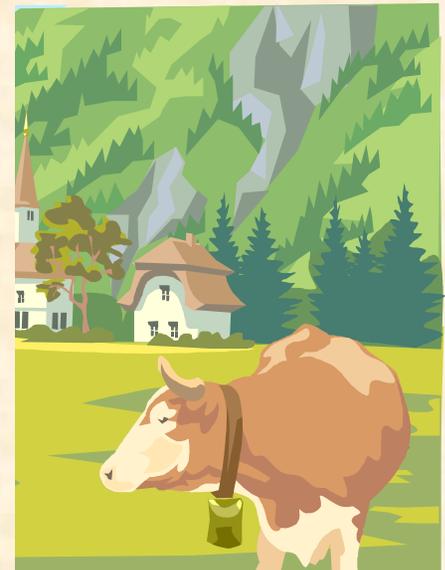


- Promotion through word-of-mouth and public relations events: speaking on panel discussions and to University classes, and sponsoring local bluegrass band
- Farmers' markets are a successful marketing tool, people see the products at the market and decide to visit the store
- Take every available opportunity to tell people they meet about their product

# Should You Finish Beef on Your Farm?

## Steps To Help Decision-Making

- Evaluate current business plan or develop new one
- Identify necessary resources: land, labor, capital, knowledge, skills, talent
- Conduct market analysis: characteristics, demographics, location, market size, expected obstacles



# Is your idea feasible?

Perform feasibility analysis: Are you able to retain ownership or produce and sell a niche product?



- Financial plan: develop enterprise/partial budgets
- Marketing plan: determine product, pricing, promotion and distribution
- Sensitivity analysis: look at different outcomes then determine feasibility

*Nothing is as simple as we  
hope it will be.*

**- Jim Horning**



*Growing livestock is the easy part.*

*The hard part is getting your product to the people  
and giving them what they want while  
communicating your message to them.*

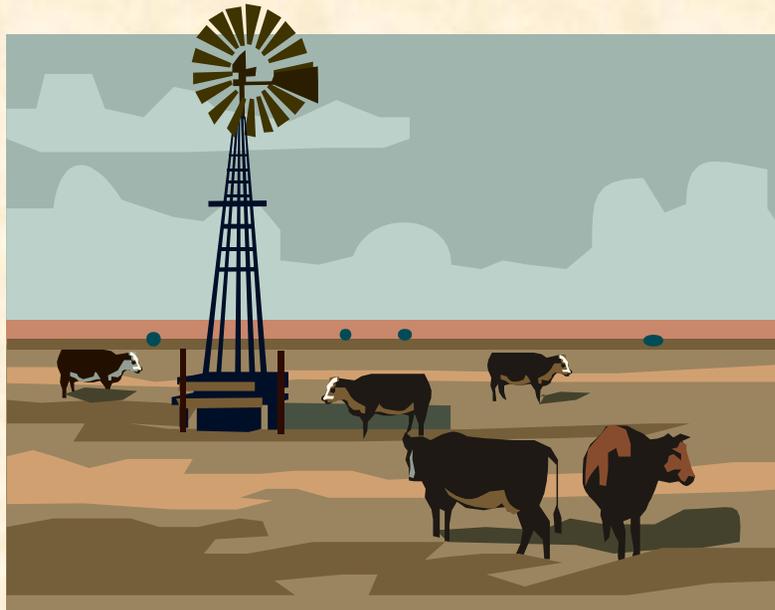
**- Joel Huesby, Thundering Hooves Ranch**

# Final Recommendations



- Write down what you want to achieve
- Educate yourself on the aspects of the market
- Create mental discipline – learn how to deal with criticism and fear of failure/change
- Start out small and then grow – determine the scope of your operation and how big it can get
- Determine who will do what – time management is often a challenge
- Sell first... then process... then produce

# Marketing Farm Raised Beef



# Overview



- Discuss the Need for Marketing
- Discuss Market Planning
- Marketing Farm-Raised Beef
  - Customer Value
  - Target Markets
  - Marketing Strategies
  - Marketing Budget

# What is Marketing?

Planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives.

-The American Marketing Association



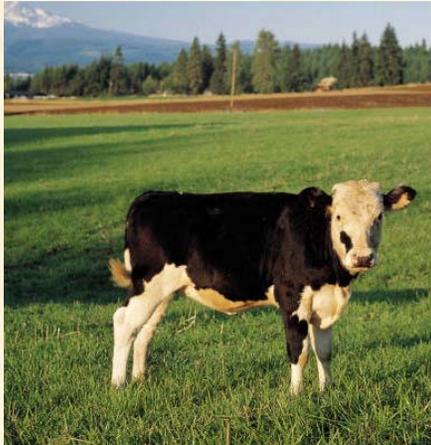
# In other words, marketing...

- Encompasses all of the operations and decisions made by producers from production to delivery
- Marketing does not begin **after** a good is produced, but should be considered well **before** production takes place



# Importance of Marketing

- **80% of new products fail within the first three years**
- **Three Ms of business/product success:**
  - **Money**
  - **Management**
  - **Marketing**



- *Marketing will help increase chances of new product survivability and longevity*

# Market Planning

- Research and Analysis
- Marketing and Financial Objectives
- Marketing Strategies
- Marketing Mix
- Marketing Budget
- Monitor and Evaluate



# Research and Analysis

Helps to Determine:

1. If a profitable market exists
  - Able to produce at a cost low enough and sell at a price high enough to generate a profit
2. The identity of the target market
  - Who is likely to purchase the product
3. How to reach the target market
  - Price, Place, Promotion, Packaging

# Marketing and Financial Objectives

- Have GOALS for all activities
  - It is best to quantify your marketing goals
  - I will increase sales by 10% by selling jerky at a farmers' market
- Objectively determine financial GOALS
  - I will sell 7 head of grass-finished beef during my first year and 15 head the next
  - Be **REALISTIC**



# Marketing Strategies and Mix

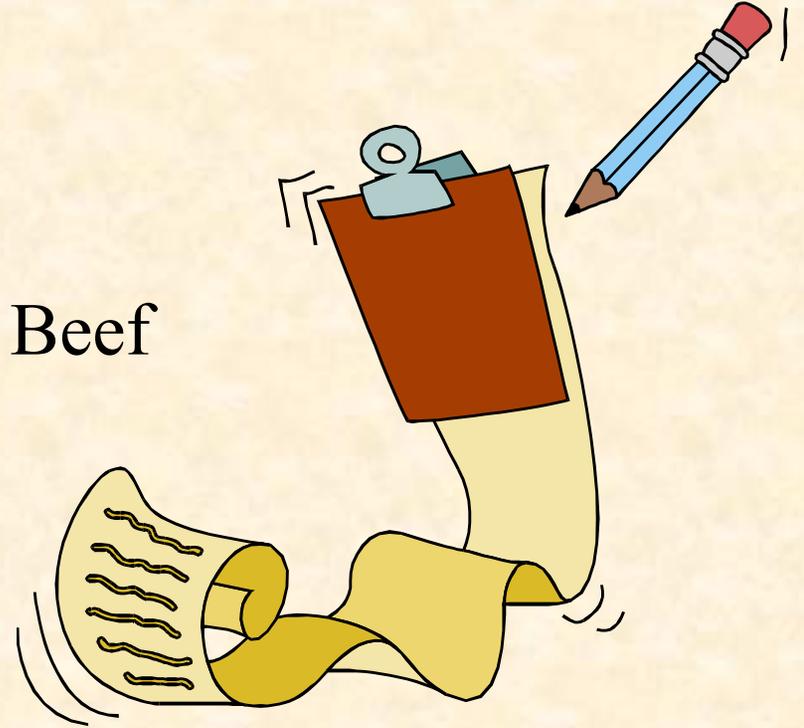
- The Strategies
  - Diversification – choose different channels of distribution
  - Product Development - change product to meet consumer preferences

- The Mix
  - Product
  - Price
  - Place
  - Promotion



# Considerations for Marketing Farm-Raised Beef

- Customer Value
- Target Market for Farm-Raised Beef
- Recommended Strategies
- Marketing Budget



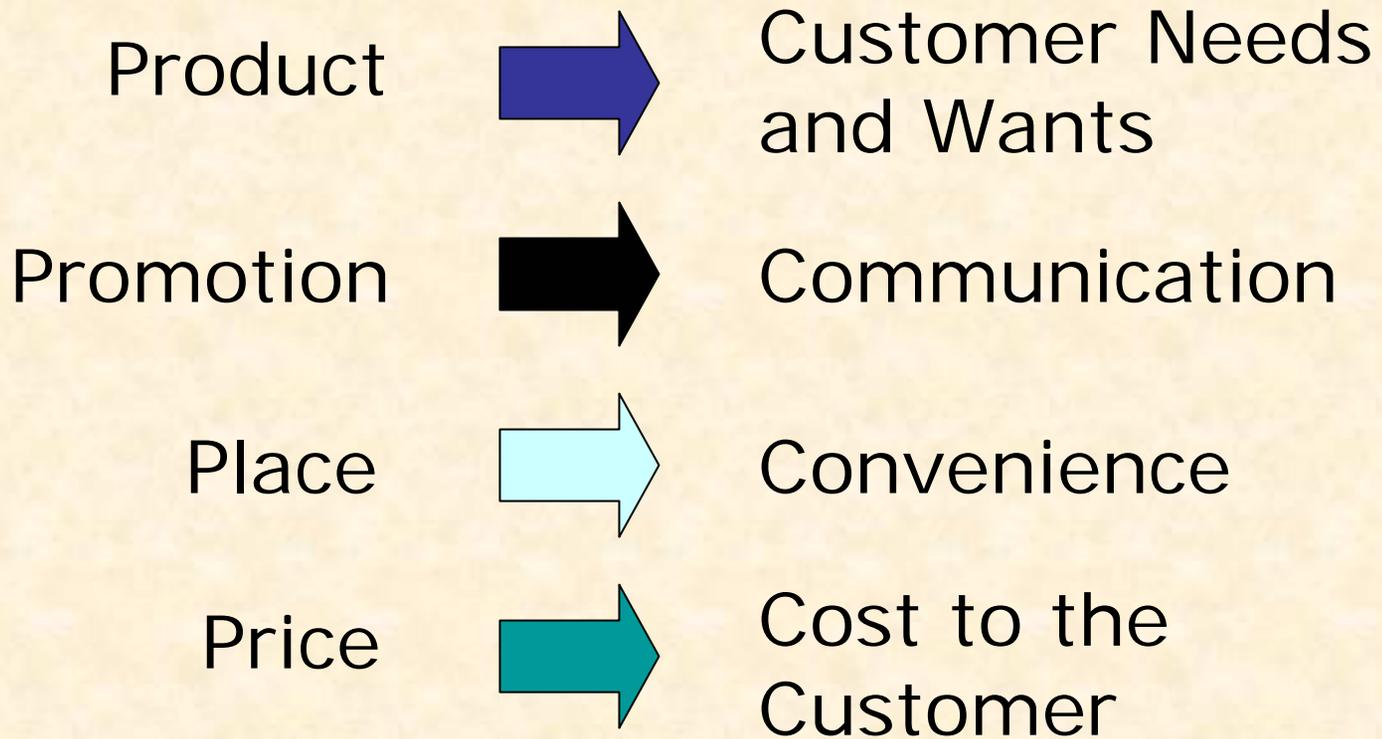
# Customer Value

There are four main things that create value for a customer known as the 4 Cs:

1. Customer Needs and Wants
2. Communication
3. Convenience
4. Cost to the Consumer

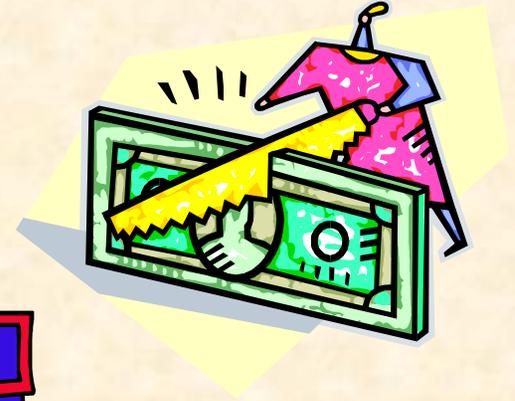


# Link the Marketing Mix to Customer Value



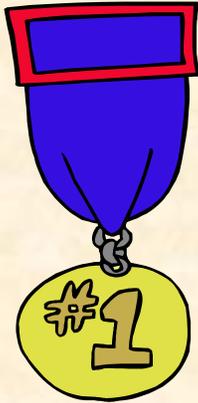
# How do you link to these values?

- Three Strategies
  - Be Cheaper
  - Be Better
  - Be Unique



# Recommended Strategies

- Be Better



- Be Unique

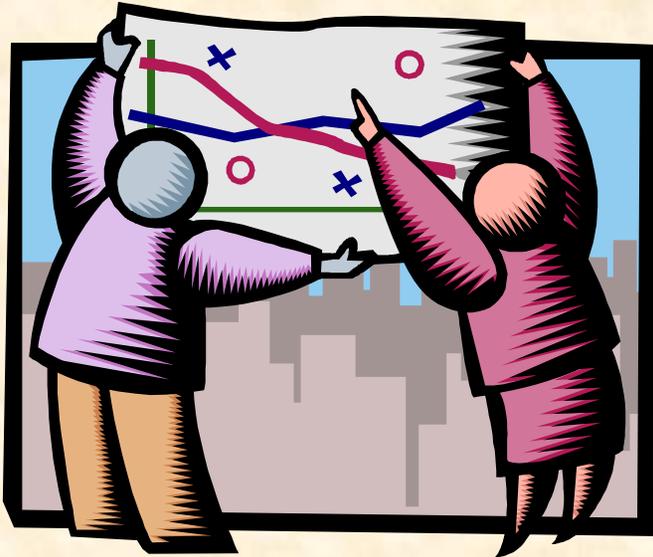


Why not cheaper?

- Competitors can win on lower price



# Choosing a Strategy



Match strategy to

- Product strengths
- Market opportunities
- Your goals/objectives
- Target market characteristics

# Who is YOUR target market and what do they value?



A target market is...

- A portion of the population with a:
  1. Need that your business/product can fulfill
  2. Willingness to purchase
  3. Ability to purchase
- Determined through market research

# Potential Target Markets for Your Products

- Medium to high income
- Price insensitive
- Quality driven
- Educated
- Health conscious
- Community/state loyal
- ??????



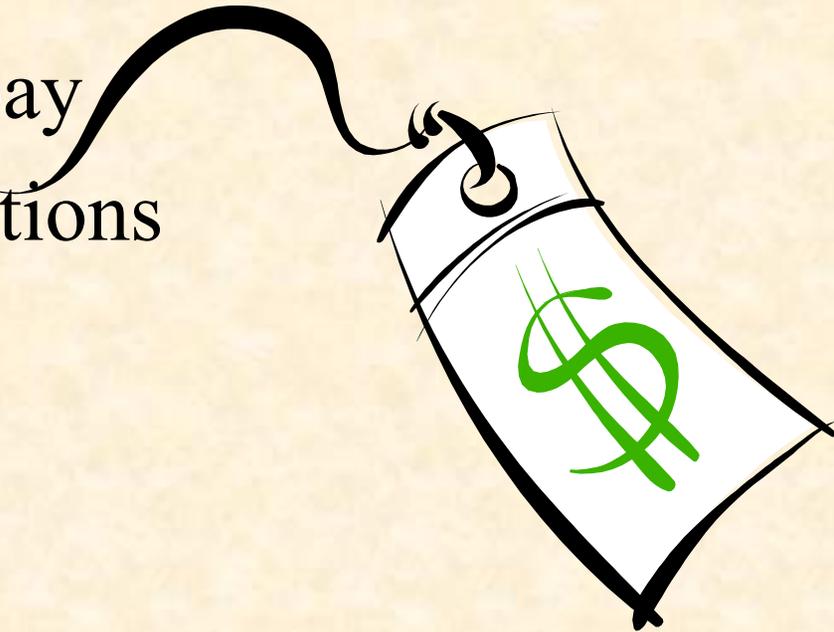
# Product

- It is what you offer to meet the needs and wants of your consumer
- Success depends if it meets consumers' needs
- Ultimately you should want to create a product that will be sought by your consumers and is differentiated from your competition



# Price Determinants

- Cover fixed and variable costs of production
  - Common retail price markup ~30%
  - Wholesaler earns 10-15%
- Customer willingness to pay
- Supply and demand conditions
- Competition pricing
- Product positioning



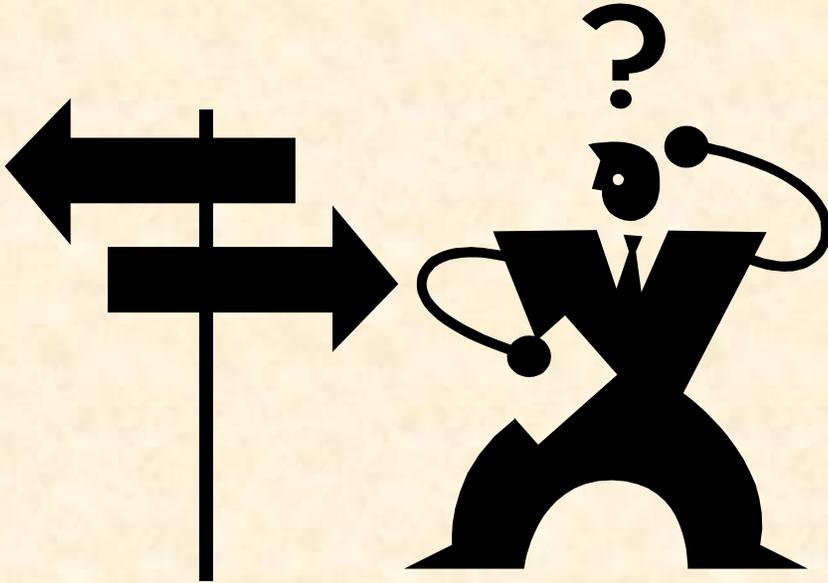
# Price

- Do not only look at price as the amount you receive for your beef, but the cost of that beef to the consumer and its worth in relation to the competitors product
- Do the benefits (both tangible and perceived) outweigh the costs?



# Place

- On-Farm Retail
- Farmers' Markets
- Grocery Stores
- Gift Shops
- E-commerce
- Restaurants



# Place

- Place is not just location, but delivery of your beef to the consumer
- How does your target market perceive your location?
- Think about time and time saving techniques
- What are your hours of operation?



# Promotional Strategy Options

- Word-of-Mouth
- Publicity
- Sampling
- Advertising
- Discounting
- Trade Shows



# Promotion

- Most promotion is top-down
  - Seller to buyer



- Communication should be two-way



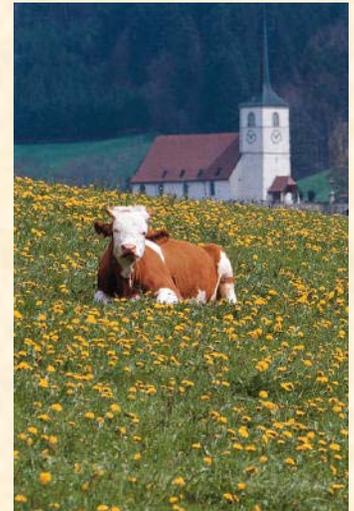
# Marketing Budget

- Create based on expected sales and costs of marketing activities
- Marketing budgets are often 5-10% of sales



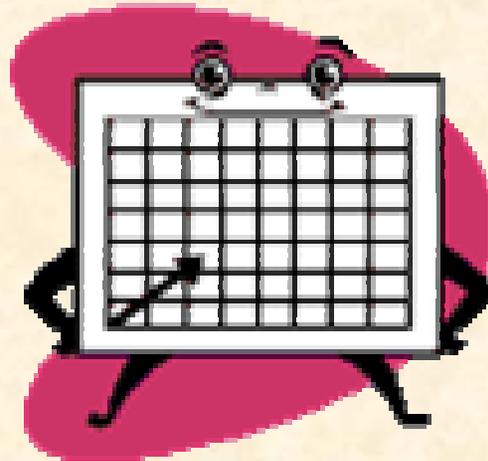
# Important Factors that may Lead to Successful Marketing

- A unique combination of resources
- Labor/time management skills
- Ability to adapt to many new regulations
- Organizational management skills
- Able to maintain a strong financial position
- Commitment to the long-term
- People skills and marketing savvy
- Ability to manage and maintain cash flow
- Quality control
- Large volume of output or steady output levels



# Measure and Evaluate Your Plan

*A Successful Plan has Measurable Outcomes*



# Contact the...



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