

Market successes

One of our great market successes was the effectiveness with which our members could personally market our beef. We attended promotions and trade shows in which our passionate, western-clad ranchers were popular attractions and generated great consumer enthusiasm. People loved to meet and visit with the actual producers. The only problem was this was time-consuming and expensive.

At first we assembled our own promotional material, but later hired professional graphic designers who produced award-winning labels and promotional materials. We were fortunate to receive attention from local and national media, and won Best of Show awards in our state food exhibition. It is our strong opinion that we had one of the most healthy, delicious and environmentally sustainable food products ever offered to the American consumer.

At our peak, we were marketing our beef in 23 states through three large natural food distributors. From the beginning, we also direct marketed some beef in our local area. However, our local markets were so low in volume and high cost in service that they were never profitable. The markets that worked best economically were the large distributor markets.

Catch-22 or barriers

Barriers we encountered were numerous. Many we were able to overcome through hard work and determination. Others had become insurmountable by the time we perceived them clearly, and we found ourselves caught in a vicious cycle.

Our volume was too low to obtain processing of our product at an economically viable, competitive rate (our costs were triple those of other high volume suppliers). Yet even managing the volume of orders we had was exhausting our members and employees. We lacked adequate supply to access the markets we needed to reach the volume we needed to obtain affordable processing and transportation. Additionally, we did not have the capital to acquire professional management to guide our company in these directions.

Despite painstaking monthly analysis of our gross margin and exploring every cost-cutting measure we could think of, including heroic subsidization of our business with free labor from our members, we were consistently losing equity. We could not see any improvement in sight within the economic structure in which we were trapped. At that point, we used our now considerable experience to produce a thorough business plan.

Using this plan, we looked for outside help including private investors, financial institutions, government agencies, foundations and other rancher alliances. However, we could not find the help we needed. Ultimately, we lacked the capital to escape our quandary. Our members, who had already made significant financial investments in the co-op, faced the prospect of mortgaging their family ranches to back what we knew was a worthy but risky enterprise, to compete in a cut-throat and volatile commercial arena.

In 2000, after five years of intense struggle, we made the painful decision to terminate our sales and stem our loss of equity, so that we would be able to pay all of our co-op's bills and not cause financial injury to others. In hindsight, we realize that we should have initially leveraged our investments and borrowed heavily from a financial institution, based on a sound business plan developed by professionals that would have established a larger, viable scale, professionally managed operation.

Instead we tried to avoid co-op debt and do it all ourselves, learning as we went. In retrospect, we also learned that even larger specialty meat companies we had thought were very successful also are struggling. The phenomena of concentration both within the processing industry and retail arena is so intense that the profit margins are slim for everyone. There are fewer and fewer processors available for mid-size companies. The expense and burden of service and promotion are almost entirely passed on to the supplier by retailers. We wonder now if it would even be possible to survive as a "mid-size" company, with volume of around 30,000 head a year, which was what we were considering as our expansion level goal, an astronomical increase from our peak of 400 head a year.

Our co-op is made up of committed, active members. We feel the co-op model is an excellent one, except a professional manager should run the business and not the board of directors. We attribute our remarkable level of progress on so little capital and without professional guidance to the sheer commitment of our member families.

As we see it

The fundamentals of profitability depend on three elements:

- Professional management of operations and marketing to establish and manage legal, safe operations, to penetrate the market and to navigate the complex food distribution system. This is essential for the business to succeed and to allow producers the time to do what they know how to do, which is to produce high quality products.
- A successful business needs access to volume markets to reach breakeven (when gross profit on sales exceeds overheads). A business may be able to break the paradigm of huge scale production and survive on lower volume, but in so doing it must practice honest accounting for personal time and must reach a volume that covers these overheads.
- Cost-effective operations are necessary to realistically price the product and reach the volume needed to be profitable.

The two keys to acquiring the above three elements are a critical mass of supply and capital.

Supply

- An adequate supply is critical to access cost-efficient processing. The smaller the volume, the more expensive the processing. Only high volume, highly-efficient processing operations can turn the commodity into a safe product and keep direct costs within reason. Unless a business can offer a significant supply on a regular basis, these operations will not bother with it.
- The ability to access volume markets depends on an adequate supply. Buyers won't even talk to a business unless it can consistently deliver a quality product with no interruptions in supply.

- On a related note: adequate supply is a prerequisite to offering fresh product, which has significant market advantages over frozen beef. We found consumers really wanted fresh beef, and that frozen product severely limited our marketability, except in very low volume, tiny outlets. But since a fresh product has such a short shelf life, it requires a steady, consistent volume of product turnover.

Capital

- Adequate capital is necessary to acquire expertise and information to develop a feasible business plan, to acquire competent management to run the business and to cash flow the operation. The basic formula summary for economic sustainability: Supply + Capital = Lower-cost Processing + Volume Markets + Professional Management.

Lessons learned

1) *The emperor may have no clothes.*

Don't automatically believe everything you read and hear about marketing projects. Any new business makes understandable attempts to project confidence in its enterprise, but saying it doesn't make it so. In addition, the ag media and some food reformers have a desperate need for attention-getting success stories and role models.

The result of these two tendencies was that our little struggling cooperative was touted as an inspiration and example to others. We know of many other similar operations that are not yet profitable, but are nonetheless presented as successful models in marketing. This misrepresentation is unrealistic and possibly harmful, as it adds to deceptive and misleading myths contributing to the "local niche marketing as salvation for all farmers" movement. This may influence other producers to enter into similar projects at great personal risk. Producers who hear about these projects need to be extremely skeptical and find out the details before accepting the stories at face value. Also, especially in direct marketing enterprises, ask if the project is honestly accounting for all administrative time, delivery costs, etc.

2) It may actually take a “rocket scientist.”

Having farmers manage their own food processing and marketing cooperative is risky. Just as we ranchers wouldn't want a heart surgeon to run our ranch, we should not presume to perform heart surgery. Nor should we pretend we know how to survive in the technical food industry. Getting food to the consumer today safely, legally and at a competitive price is an overwhelmingly difficult and high risk task, challenging even for experts. The idea of exorbitant profits earned easily by lazy middlemen is an out-dated myth.

In reality, most companies' profits are generated only at high risk in tiny margins per unit on huge volume, capital-intensive, highly technical operations. Survival as a niche company in such climate takes a specialized expert. So, our advice is to raise the capital to hire a trained, experienced professional. Don't do-it-yourself on this one. By the time you learn your lesson, you may have run out of capital and energy and missed critical early opportunities a professional would have seen.

3) Honest accounting or is your time really worth less?

Do-it-yourself farmer-run businesses often fail to honestly account for the farmer's own time contribution to the business. A sustainable business must account for time in planning meetings, in product and label development, record-keeping, advertising, taking orders, packaging and delivering orders, and collecting monies and bookkeeping. In addition, time spent in talking to customers must be accounted for. Getting close to the customer is a nice goal for direct marketers, but this can be time-consuming.

Working free or failing to account for every bit of this time leads to unrealistic, unsustainable business practices that are too labor-intensive and inefficient. A realistic opportunity cost of your time in production, delivery, etc., must be honestly accounted for, not only to determine accurate costs of doing business, but also to be sure you adequately value your own quality of life. An advantage of hiring professional managers is they will insist on being paid for their time, which results in honest accounting for administrative and other labor costs.

4) Are grants the answer?

We had the sincere and valuable support of some wonderful organizations when we started, and we will always appreciate what they did for us. But we must point out that most public agencies and private foundations give grants only for research and education, not for operating capital to actually implement research. Grants can be helpful in limited areas. For example, we received wonderful assistance in doing nutritional research that we were able to use in product development and labeling. However, some grants also are time-consuming and may unintentionally divert energy away from business development, subverting the business mission from profit to education. They also can mask the real need for hard capital and a solid business plan.

Be wary of outside sources of nonprofit income and focus efforts on private investors who don't just want to learn about change but want to implement change. Your mission must first be to make the business profitable for your producers; then if possible later, educate others.

5) Follow the rules - every time.

We always maintained the highest ethical level regarding our production claims and following the USDA rules on labeling. This was a real hassle, but we always felt that our product's credibility depended on following the letter of the law. This was especially frustrating when we knew other products on the shelf were ignoring the rules. We often felt we were not competing on a level playing field. Nevertheless, we refused to compromise our principles just because we knew we could probably get away with it. We often said that if “60 Minutes” ever interviewed us, we wanted to be able to look straight into the camera and tell the whole truth with nothing to hide.

6) Do price and convenience matter?

Some claim that price and convenience are not important to the new ethical consumer; yet the economic and time pressures these consumers face are just as real as for anyone. People are all strapped for time, so convenience matters a lot. Be wary of field of dreams food distribution schemes which depend on people going out of their way to get your product.

This reduces your market potential to an infinitesimal percentage and will eventually burn out both you and your customers. Also, our customers tended to be well-educated but not necessarily terribly affluent. They can pay some extra for special food, but must be fiscally responsible and definitely have a “choke level.” Marketing techniques which ignore price and convenience issues are doomed, reflecting a lack of understanding of economic realities of food marketing and distribution.

7) Are natural foods markets the answer?

The main market we discovered for our beef was the natural products market. However, we discovered several contradictions in dealing with that market sector. One of the largest sectors of the natural products market is not foods, but pills consumed by people who seem to have abandoned the concept of eating actual foods as the key to good health. Following the trend in conventional foods, the most profitable food products in the natural foods industry are not whole foods such as produce and grain, but heavily processed, packaged items. Again following the trend in conventional foods, the natural foods industry is becoming concentrated with little room for small suppliers. The beef that was most popular in natural foods markets was grain-finished, higher fat beef, and very few natural foods consumers were knowledgeable enough to make any distinction between grainfed and grassfed.

8) Are conscientious chefs the answer?

The food service industry including hotels, restaurants and institutions is extremely competitive, and cost-conscious. There is a growing movement of sustainable-minded chefs, but they are rare, may be demanding and may not order on a consistent basis. Participation in food service requires a sophisticated level of operations that provides a high volume of certain specialty cuts, so you must complement this market with other substantial markets for low end cuts and hope they balance out. If you run out of supply for this market, you are dead.

Dealing directly with restaurants, instead of going through a food service distributor, also can lead to freight/distribution problems when their order sizes vary. Chefs often have very little understanding of

these obstacles for the supplier. Finally, food service is a tough business and most restaurants are short-lived. Getting stuck with a large accounts receivable from a failed restaurant customer can be fatal. Stay on a cash-only basis.

9) Seasonality is a terrible handicap.

We did not encounter any markets willing to accept only a seasonal supply. In attempting to keep up our supply for existing customers, our on-ranch costs for producing off-season grassfed beef were extremely expensive and unprofitable for producers—a production issue we never solved. Had our volume increased substantially, this would have been a crippling problem.

10) How different can you afford to be?

Your product must have attractive features that differentiate it from others. This may be simply a claim of quality. Or it can be a different way of producing the product that results in unique features. In any event, this differentiation must be carefully approached, answering two questions:

- How does it affect your cost of production and long-term profit potential?
- What marketing benefits do you gain by doing it?

Our main differentiation was based on a very technical production model, grass finishing, which it turns out was expensive and significantly increased our on-ranch cost of production. Furthermore, most consumers did not begin to understand or appreciate the concept of grass finishing. In fact, we learned that most customers understand very little about livestock production in general, often not knowing enough to support sustainability even if they want to.

This all raises the issue: How much education of the consumer can you afford to do? Consumers generally recognize and trust the term organic without understanding all the complexities of production it requires. If your product feature is actually beyond or different from the definition organic, you have to independently translate your technical production model into understandable consumer benefits, such as improved nutritional value and supporting the environment.

Differentiating our product by its reliance on grass finishing meant consumers needed to first understand that most cattle are grain-finished, which they do not. Further, they needed to understand the nutritional differences of marbled, grain-fed and grassfed beef. This goes against the government-sanctioned USDA beef quality grading system that is the basis of conventional consumer wisdom on beef quality.

Moreover, dwelling too closely on the environmental problems of grain feeding may cause a strong backlash from the conventional beef industry. Furthermore, even the word “grain” is a very attractive word, especially to natural foods customers, who of course associate it positively with human consumption and transfer this to cattle without realizing the differences in cattle nutritional requirements. In summary, despite our strong commitment to the concept of grassfed beef, we wonder if some lessons may just be too hard and expensive to teach, at least at this point of consumer consciousness.

11) Managing quality of life and sustainability on a personal level.

We wanted to start a marketing cooperative to preserve our way of life, but the time and pressure of running our own beef operation, and our financial losses, actually detracted dangerously from family life and our farm operations. Ironically, while trying to devise a way to produce beef in an environmentally sustainable way, we accidentally fell into a pressured schedule that was destructive to the values of family we were trying to preserve, and that was unsustainable on a personal level. Thus our business risk also became a personal risk. Agriculture is already hard enough. We strongly believe that supplemental enterprises must be consistently operated at a personal cost that will be compatible with farmers' values and way of life.

** Reprinted with permission Agricultural Marketing Resource Center, Iowa State University.*

. . . and justice for all

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Many materials can be made available in alternative formats for ADA clients. To file a complaint of discrimination, write USDA, Office of

Summary

The Tallgrass Prairie Producers Co-op recommends that projects to market added-value beef be developed with a sound business plan, adequate capital, professional management, cost-effective operations, consistent supply, compliance with legal standards and access to low-cost processing and volume markets. All the costs of the business must be accounted for in order to protect the core values and goals of the farmers.

Many have described our odyssey as a remarkably successful effort that took us much farther than most groups of this type ever get. One expert characterized our activities as a “successful test market” of a product that could some day be taken to the commercial level with adequate capital and professional guidance.

In recent months, our co-op has been exploring the possibility of joining together to develop a cooperative tourism enterprise in which we would host guests on our ranches and offer authentic experiences in ranch daily life and prairie ecology. We also are considering remaining as a ranching cluster that shares production ideas and economic information in an effort to assist and advise each other on economically and ecologically successful ranching strategies.

We don't know where all this will lead us. What we do know is that we have been fortunate to know each other and have developed tremendous loyalty, respect and affection for one another. No matter what happens, we have been through an adventure together that we will never forget and we will always be friends.

** Rural Papers Newsletter
Kansas Rural Center, Oct. 2001*

Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call 202-720-5964.

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Jack M. Payne, director, Cooperative Extension Service, Iowa State University of Science and Technology, Ames, Iowa.