Marketing Meat is a Tough Business

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I have been working on niche marketing of meat since 2001. Working with several people on the establishment of High Sierra Beef has been a great learning opportunity and opened my eyes to many things I had not realized at the beginning of the project. I thought I would spend the next few paragraphs summarizing key points I have learned and questions I have.

Building a Business to Sufficient Scale
This is the number one issue I have become of aware of over time. I wrestle with determining the best solution. David Pratt, CEO of Ranch Management Consultants, made important points regarding scale at the 2006 Niche Marketing Conference held at Chico State last March. He re-stated these points in a May 1st **Profit**Points™ newsletter:

"A few attendees pointed to Joel Salatin's Poly Face Farm as a very diversified and successful operation. It was a good point, but they were missing several keys that Joel applies to each of his enterprises. The first and most important is scale. Every enterprise on the farm must operate at a scale that will produce enough gross margin to make a significant contribution to business overheads and profit. Joel's enterprises also complement one another on several levels. They share the same equipment, the same customers, and in many cases the same physical space. Joel is also the ultimate recycler. The waste of some enterprises provides the raw materials for others. For example, chickens in his pasture poultry enterprise provide pasture sanitation for his cows and fertilize the pastures while producing eggs. Manure from rabbits in cages over the chickens provides another food source for the hens.

Diversification can be a good way to manage risk. If one enterprise is having a bad year, perhaps another will pick up the slack. But too often diversification does not insulate us from risk. In fact, because of limited scale and other issues outlined above, it guarantees we'll make a loss.

An alternative approach to diversification could be to focus on the things at which you excel and that drive profit, then use that profit to secure your financial position and create off-farm investments."

The above three paragraphs have caused me to think long and hard about how to be successful with niche marketing. Most people getting into nice marketing have a desire to provide a locally raised product to others in their surrounding community at a higher price that supposedly translates into higher profits.

Do You Know Your Economics?

I am not convinced that most people have an understanding of what enterprises on their ranch contribute the most to profitability and which do not. If you do not know your economics, how do you know whether a higher price resulted with increased profitability? What if direct costs and or overheads had to increase dramatically in order to achieve that higher price? What is the higher price did not cover the increased costs?

Do You Have To Be So Big That You Become a Niche Commodity?

Is it possible to build a business of sufficient scale and still remain a niche? I do not know the answer to this question. If you have to market 5,000-10,000 head a year to be of sufficient size and scale, does this take you far away from your original goal of raising and providing food to your local community?

What are the problems with staying real small?

1. It will make it more challenging to work with a USDA inspected harvest and processing facilities. It is far easier for them to work with somebody bringing animals for most of the year rather than for just a few months. It makes it easier for them to project labor needs and cash flow.
2. Transportation becomes a huge direct cost. If you are marketing one or two head a week or month, transportation costs become very high. I know of one person who was marketing one head per week and had a five hour round trip to the processor. These costs can eat up any sort of price premium very quickly
3. Distribution becomes challenging as you are not large enough in volume for a regular meat distributor.
4. Retail stores and restaurants will be less likely to carry your product if you only provide it for part of the year. In addition, the retail orders will need to be large enough to justify the transportation expense to deliver the product.

There are other issues besides those listed above:

1. How will you maintain product consistency? Will you use ultrasound technology to help maintain consistency? A lot of people I talk with do not get any carcass data back. The prevailing view is a lack of customer complaints means the product is of sufficient quality. How do you know if a person would take the time to complain?
2. Other issues affecting product consistency are: genetics and frame size (smaller is generally better. With cattle, the longer you wait on genetics, the longer it will be to see results (from conception to consumption can take almost 2.5 years).
3. How will you finish animals, especially on grass or other forages? Most people lack the land resources to raise a calf, take it through a stocker phase, and then the finishing period. You will either need to lease or buy more land or find someone to custom graze.
4. Who will do the marketing? It takes time to meet with store managers, chefs, customers at farmers markets, and any other marketing venues. How much will be the compensation for the marketing person?
5. Who is running the meat business? How will you deal with cash flow as you may deliver meat to a store or restaurant and not get paid for 30 days or more?

Given all of the above, do you have to market thousands to be economically viable? Is marketing thousands of animals a year the reason why you became interested in doing this in the first place? Are there other alternatives out there?

Buyers Clubs

Joel Salatin came and spoke at the 2006 PlacerGROWN Farm Conference last February. During his presentations, he spoke about the creation of buyers clubs. The concept started with three ladies in Maryland who traveled to Polyface Fams regularly to purchase beef, pork, and chicken.

These three ladies had been traveling 400 miles round trip to Polyface for 18 months, every six weeks. Each visit, they would spend $700-800. One of the ladies mentioned that several other people would be interested in purchasing product if it could be delivered to their area.
She asked Joel how much in sales it would take to get him to deliver to Maryland. He thought a minute and said $3,000 – thinking there was no way they would go for that.

He did not realize that one of the ladies had written seven books and taught adult classes. She discussed the idea with her class and had them sign up. The following week, they called Joel up and said they had the sales volume. These new customers tended to be organic supermarket drop-outs. Marketing using this concept expanded from 100 to 400 families with no advertising.

There are currently nine metropolitan buyers clubs and demand for more. There are three main transportation routes: Maryland, Upper Virginia, and Central Virginia. In order to get a stop, you have to get enough people together for $1000 in sales for each drop. Deliveries are scheduled every six weeks.

For example, one day they left at 6:00 AM on the Upper Northern Virginia route. By the time they got back to the farm at 6:00 PM, they had an empty van and $21,000**. The volume is sufficient to create transportation efficiency.** Product is ordered by email through Joel's daughter-in-law. You get $10 off your order when you successfully refer another person. The email keeps the different clubs apprised of their sales volume compared to the other clubs. This creates a friendly competition to see which club can be first in sales volume.

The delivery time is given specifically – an example would be 2:00 PM. Sales end up happening between 1:45 and 2:15 PM. This cuts down on waiting time. Since all products are pre-ordered, you come home empty. In addition, it is a great way to move slow moving product. If you have too many chucks and not enough sirloins, the buyers club are a great avenue to keep inventories balanced. The increasing demand has resulted in Polyface doubling their grass-fed beef numbers to 200 head and leasing an additional place for grazing.

Think About The Implications

The Buyers Club model holds a lot of potential for solving many of the issues listed earlier.

- You know your sales volume ahead of time
- Knowing your sales volume allows you to make economic projections (answering the question is it profitable) and financial plans (answering the question how do I manage the cash flow)

- You should be able to work out a harvest flow and meet with your processor to review and finalize. The processor knows when and how many animals are coming along with cutting instructions. You know when you can pick product up.
- Transportation to and from the processor becomes economically efficient. Since you will be selling frozen product, you should be able to drive up with a trailer full of live animals and drive back with a trailer full of meat.
- Distribution becomes economically efficient. Ordering is done ahead a time. You have set up the expectation of needing a sufficient sales volume to justify your trip. You travel to a designated centralized point and people come and pick up their product. You leave with an empty vehicle and payments received for the order.
- Seasonality of production becomes less important since product is frozen.
- Marketing costs are minimized as you have a market with each drop point. Marketing efforts can be focused on building new buyers clubs. In addition, new markets can be brought on at a pace that matches your ability to increase production.
- Cash flow into the business is immediate as people pay for their order.

There's No Free Lunch

Starting a buyers club does not happen overnight. Here are some important considerations:

- You need for a consistent, quality product to have repeat customers and word of mouth advertising
- You must know how much retail product you have to sell.
- People must be able to sample your product if you are going to generate orders.
- You must determine the sales volume do you need to make a buyers club delivery
- A system must be developed for processing orders, packing for delivery, making the delivery, and handling cash and checks.
- You must develop or identify a place to store frozen product and manage inventory.
- Product diversity will be important. You may need to collaborate with others to offer eggs, chicken, pork, and lamb if you are only raising beef.

Where to Start

Farmers Markets would be one venue for getting people to sample and buy your product. You can identify groups in your area who are interested in local food and make presentations about you and your product. You could give a way samples as door prized and perhaps grill some product at the site – if possible. A couple of groups might be Weston Price Chapters and Slow Food Groups.

It may take you a year or two before you have enough of a customer base to consider a buyers club. Remember, the key is having a sufficient diversity of product and volume of orders to justify your time and transportation.

Final Thoughts
Are buyers clubs the solution to developing a business with sufficient scale to be profitable while still keeping your product as a niche? I don't know. I think it has a lot of potential and makes a lot of sense in starting to build a business. It might be as the buyers club continue to increase that a new, more effective and efficient model takes its place.

There is still a need to market at Farmers Markets and retail outlets as opportunities arise. You could sell excess product to existing alliances and companies that pay on the hot carcass weight with premiums and discounts based on carcass quality.

Please let me know your thoughts on where all this nice marketing is heading.