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Wisconsin Farmland Conservancy

Organic Meat Marketing Cooperative

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MARKETING DIVISION

*Value-added Marketing for Organic Producers
A Feasibility Summary & First Year Report*

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The Organic Meat Marketing Cooperative is a project of the Wisconsin Farmland Conservancy. The goal is to establish an independent, farmer-owned cooperative that will allow organic producers to sell into the general retail food market at premium prices, and also allow farmers to directly control and profit from the value-added processing and marketing of their product. This initial feasibility project is being developed using funds from an Agriculture Diversification and Development Grant from the Wisconsin Department of Agriculture. The Organic Meat Marketing Cooperative is an interim title, and the development of a brand name in connection with a marketing strategy will be part of the business plan.

The project is being developed in several stages. The first stage - an initial feasibility study - has been completed. The second stage will involve development of a formal business plan, and either incorporation of a new cooperative or organization of new meat pool within an existing co-op. The marketing stage of the project will also be implemented in a phased manner, and initial processing will be contracted. The project will actively seek opportunities to work with other cooperative marketing efforts.

The project has a steering committee of organic producers who are guiding the development. We are actively seeking organic producers who are interested in participating in building this cooperative effort.

Defining our product

We plan to market meat products (primarily beef and pork) that have the following characteristics:

- Certified Organic

Meat will be produced by organically certified producers, and will take advantage of new USDA labeling criteria for organic products. Marketing will use point of sale advertising, and labeling to reinforce key consumer messages - no hormone, no antibiotic, organic feeds, family farm, safe processing, etc.

- Convenient

The product will utilize a variety of packaging options, including cryovac freezing, packaging in individual servings, and the use of a light windowed box for frozen products.

- Nutritious

The products will emphasize low fat, with carcasses selected through a new grading protocol.

- Tenderness and consistent quality

A strong emphasis will be placed developing a production and processing system that delivers a consistently high quality product for both premium retail sales, and manufacturing sales.

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Who will be interested in our product?

- Retailers

The Midwest Organic Alliance (MOA), a promotion organization in Twin Cities, has identified over 60 mainstream retail outlets that are interested in developing a market for organic products. A growing number of mainstream stores are expanding their natural foods sections, including the sale of meats identified as "natural". There also continues to be a steadily growing demand within natural foods stores. This traditional organic market may be small, but it is continuing to grow quickly.

- Restaurants

Increasingly, top chefs are looking for sources of "natural" foods, including meat, and there is an increasing clientele to whom "organic" certification is important.

- Manufacturing

There is steadily growing demand by processors of high quality organic food products (i.e. baby food, soup). The project has completed an initial marketing of approximately 75 head of cattle to Earth's Best Baby Foods (discussed later) and was able to obtain a significant premium for producers.

- Consumers

A number of surveys show that consumers have lowered their red meat consumption because of concerns about fat and cholesterol, the use of growth hormones, overuse of antibiotics, the use of agricultural pesticides, and concerns about non-sustainable farming practice (to a lesser extent). Organically certified meat should appeal to these consumers.

There is a growing group of consumers who are willing to pay a premium price for meat that is produced with careful environmental and health standards. Surveys also show that consumers are increasingly appreciative of meat that is packaged for convenience.

Who can produce this kind of product, and what are the marketing barriers?

Organic producers tend to be smaller scale than conventional farmers, and they utilize a variety of breeds and production practices. This presents some particular barriers to marketing. Our study presents these obstacles, along with our proposed solutions.

- Problem : Lack of consistency of animals in terms of breeding, feeding, size, etc.

Solutions

Consistency of product is very important to consumers - they want to be able to count on quality. Repeat sales are dependent upon consistency of product. At the same time, the traditional meat grading system does a poor job of guaranteeing a consistent meat product. This is documented in the literature; "Inconsistency in meat tenderness has been identified as one of the major problems facing the beef industry....There are far too many carcasses with tender meat that are discounted and far too many with tough meat that are not discounted under the current USDA quality grading system." These statements appear in a 1995 paper called *Beef Tenderness: Regulation and Prediction* by M. Koohmaraie, T.L. Wheeler, and S.D. Shackelford, USDA-ARS US Meat Animal Research Center, Clay Center, NE, 68933.

In order to produce a consistent product, we propose to identify a *target carcass*. This is not a new concept - it is currently being used by beef niche marketers such as Coleman Natural Beef, Laura's Lean Beef, and others - although the giant packers have trouble utilizing the concept.

It will be very important to address each branch of the pipeline. At each point we expect to reward the producer for organic standards of production. Thus an even cull cow should bring a significantly higher price in the organic market than it would in a conventional market. Beyond that, we hope to reward quality carcasses in our payment formulas so that high quality, top yielding animals command the highest premium.

- Problem: We need to guarantee a consistent flow of product to markets.

Solution

A common problem for new marketers is underestimating demand once a product gains a retail spot - which severely damages potential for market development. This will need to be addressed within the cooperative structure. For at least awhile, it will be necessary to allow cooperative producers to market some of their production elsewhere, perhaps even as organic, but certainly as non-organic, while market for our label is being built. There needs to be enough certified product in the pipeline to fill the retail need, while anticipating periods of oversupply. Growth needs to be controlled by limiting the initial number of outlets and the ability to service well the outlets we create. The project will also explore the potential for providing a secondary marketing service to organic producers (also for producers who are moving towards organic certification). The goal will be to provide a ladder of marketing opportunity for producers, to encourage them to move towards certification, and to provide a source of new organic production as the market develops.

What is the competition, and why do we think we have an edge?

There is plentiful documentation that consumption of beef has dropped over the last few years. At the same time, organic sales are zooming along at 20% growth rate per year. Also, at the same time as general beef consumption is dropping, niche beef sales of different types are increasing. Consumer surveys go only so far in projecting buying habits. More reliable, we feel, is the proven performance of these niche beef products. Here are some examples:

- Laura's Lean Beef, a fresh beef, not yet in the Twin Cities market area, boasts an 80% growth, according to communications with potential producers, over last year.
- Coleman Natural Beef, also fresh, has grown steadily
- No Name Steak, a boxed, frozen product, with no natural claims, is available everywhere, commands a premium over fresh in some stores, and now advertises on TV
- Grocers are increasingly willing to make space for frozen beef products on their shelves

While these examples offer some evidence that there is a significant market for organic meat, however, we recognize that there are other obstacles to overcome as well, including:

- Retailers are not eager to feature fresh meat alternatives to their own store brands, especially if it seems to imply that their regular meat is inferior.
- Retailers seem more open to taking a look at a frozen product that is easy to shelve and has little shrinkage as compared to fresh meat.
- While there is exotic meat in the grocery freezer, existing frozen beef products are not presently advertising as "no antibiotics" or "no growth hormones" in the mainstream grocery store.

The target carcass method establishes a grading protocol or standard that can be applied at the packing plant. It provides pricing incentives for carcasses, using several measurable criteria, including: are within a specific size range; are of a specific yield grade - meaning the proportion of retail product to waste is favorable; have a specific quality grade - meaning within a certain range with respect to amount of marbling ; and are of a certain age - as determined by carcass characteristics.

We also propose to incorporate a tenderness test, such as the Warner-Bratzler shear force test, in our grading protocol in order to ensure a consistently desirable product. It can also be noted that one clear advantage of a niche market for beef is that it is small enough to be able to build quality controls directly into various stages of the production process, - beginning with organic certification on the farm and continuing through processing.

- Problem: The small scale of the market will raise processing costs too high to be competitive with giant processing plants. Sales across state lines will require Wisconsin plants to be federally inspected.

Solution

The best strategy for addressing this problem rests in the use of a cooperative structure - with its ability to spread risk and initial investment. We have solicited processing bids from several federally inspected plants in the state, and those estimates are incorporated in our preliminary analysis of the value of a carcass.

The project has identified several smaller plants in Wisconsin that are already federally certified and are interested in developing the capacity to serve an organic market. These plants have sufficient capacity to service our initial processing needs. This strategy (building a partnership with existing processors) will allow us to expand our processing needs gradually with our marketing success, will lower the initial start-up costs, and will allow investment and resources to be targeted to marketing and quality control initiatives (efforts that can directly contribute to market growth), instead of capital investment.

- Problem: We need to find outlets for all parts of the carcass - not just prime cuts.

Solution

Many niche meat marketing efforts have stumbled and failed on this piece of the puzzle. We need to look at marketing as a pipeline through which product flows, but which has at least three branches leading to different endpoints, including :

- the highest quality portions of carcass, primarily steaks, must be packaged individually for retail and packaged for restaurant trade. It should be noted that we are proposing to use *less* of the carcass as steaks and roasts (29% compared to 39%); consumer research shows that people don't know what to do with a roast anymore, and that they eat the most beef (at home) in the form of a low fat content ground beef;
- the remainder of lean carcasses will be used for lean ground beef, probably 93% lean, with some pre-formed into patties;
- the higher fat content trim (35% fat) will be sold in bulk quantities for products such as baby food (infant nutrition requirements need to include fat). Our marketing effort with Earth's Best Baby Foods is an example of this market;
- other organic processors of soups, sauces, sausage, etc., can provide a steady market.

with the Midwest Organic Alliance to evaluate marketing opportunities in Twin City supermarkets and restaurants.

Production Standards

The project has worked with Prof. Dean Swenson of the UW-River Falls Meat Science Department to explore methods to implement a grading protocol that will allow us to assure consistent quality, and provide reliable feedback to producers. Mr. Ken Knight from Knight Marketing is also assisting in this effort as a consultant.

Processing

The initial ground beef marketing effort allowed the project to develop a working relationship with a new local processing plant that is federally certified. The project, through CROPP, has assisted the plant in obtaining USDA approval from manufacturing label. The plant was also able to meet very strict micro-biological conditions at both the plant and product level. Several other Wisconsin plants are also being evaluated.

Technical Assistance / Partnerships

The project has received assistance from numerous sources in the past year, including:

David Trector, Rural Development Institute, UW-River Falls
Dean Swenson, Meat Science Dept., UW - River Falls
E.G. Nadeau, Cooperative Development Services
Barry Bjornson, Cooperative Development Director, Farmers Union Enterprises
Ann Woods, Midwest Organic Alliance
Ken Knight, Knight Marketing Services
Mike Dummer, National Farmers Organization
George Sieman, CROPP

Final Report / Evaluation

a. Project Goals:

The Family Farm Meat Marketing Project was organized to explore the potential for establishing a new marketing network that could provide small and medium-sized livestock producers with access to a mainstream retail market - at premium prices. Our goal was to determine whether a marketing network that used themes of family farm operation, environmentally sound production practices, and local processing could secure a significant market share, and to determine the feasibility of establishing a new cooperative structure to develop this network.

b. Achievements:

The project feasibility study has clearly demonstrated that this type of marketing network can provide a viable new marketing opportunity for Wisconsin farmers. The initial marketing of 75 head of cattle at a significant premium provides hands-on evidence of the potential for increased income for qualifying producers. This effort has also demonstrated the potential for developing partnerships with existing processors. This confirms one of our initial hopes - that the project could provide opportunities for both farmers and local businesses. We have clearly demonstrated that this partnership can assist both farmers and processors in gaining access to a

- We are not able to predict with certainty right now if Coleman or Laura's Lean products will be able to claim organic certification when the USDA standards are finalized (probably in early 1997). If they can't, there will some question as to whether they will be able to continue using their "natural, no hormones, no antibiotics" label - which to many consumers says the product is organic, even though it is not.

Current status of organic meat production

One of the earliest decisions of the producer committee was a commitment to using "organic" criteria. This decision followed extensive discussion about the impact of the pending USDA standards - which will allow producers to identify their meat as certified organic. The committee argued that our product needed to maintain a clearly identifiable standard. This will be especially true if the USDA standards are formulated in a weak enough form that existing "natural" processors can meet an organic standard for their labeling. On the other hand, we also recognized that the new USDA standards may indeed be too difficult for our potential competitors to meet, and that the new standards may even provide that only "organic" producers can use a "natural" claim on their label. By being prepared to meet an organic standard, we can both secure our market niche, and leave open the potential for more access to the existing natural market.

Currently, "organic" beef is found primarily in the co-ops in the Twin Cities area. Certified organic producers avoid directly labeling the product itself as organic. We estimate there are about 200 head of organic beef per year marketed through the entire Twin Cities Coops, and that may be generous. This is a tiny market segment, with not much room for expansion, though co-ops are increasingly dealing with meat products.

Clearly, if we want to significantly expand our marketing opportunities, we need to go where the red meat eaters are - mainstream grocery stores. We think there is significant growth potential for the combination of product attributes we are suggesting in this consumer segment. There have been a number of TV programs lately which have presented the beef industry in a negative light, and have generally undermined the confidence the public has in eating conventional beef. If a natural beef niche marketer, such as Laura's Lean, can grow quickly in such an atmosphere, we think organic beef also has that potential.

Review of Project Activities / 1st Year

Identification of Producers

The project has built a data base of over 800 beef producers in the region (500 in Wisconsin) who are either organically certified or are self-identified as "sustainable". These producers were surveyed to establish production capacity and practices, and their interest in cooperative marketing. Three informational meetings are being planned in August, 1996 to bring producers together. A steering committee of five producers has provided direction to the project in its first year.

Market Development

An initial marketing effort was completed in cooperation with CROPP. This involved the marketing of 75 head of cattle (primary cull cows) to Earth's Best Baby Food company. At a time when conventional markets were paying 50-60 cents/lb., producers were able to receive \$1.15-\$1.30 per pound for organic product. The project has also develop a working agreement

premium market that would be difficult for either party to reach on their own. This partnership has the potential for significantly improving the profitability and viability of both small and medium sized farmers and local processing businesses.

The project has initiated a significant effort to develop a new grading protocol for meats. This protocol will improve the ability of processors and farmers to identify and provide incentives for targeted carcass characteristics. Because this protocol will be difficult for very large processors to duplicate, it will provide smaller processors with a significant market benefit and improved competitive position.

The project's focus on small and medium-sized farming operations, and on the use of sustainable farming practices, will provide long-term benefits in efficient use of agricultural land and facilities that may otherwise be under utilized. Maintaining a base of diverse livestock production will allow Wisconsin to efficiently use marginal lands without draining soil fertility or causing excessive erosion.

c. Evaluation of results

In general, the project met or exceeded our expectations. We are especially pleased that it has served as a focal point for cooperation between other groups and agencies. For example, the partnership with CROPP allowed us to test an actual marketing effort, and the partnership with Midwest Organic Alliance is allowing us to have an effective entry into discussions with mainstream markets that would otherwise have taken years to develop. The National Farmers Organization meat division was also helpful in this initial marketing.

d. Educational Materials / Forums

The project organized several producer outreach and community education efforts. This included a workshop and display information at the Midwest Organic Farming Conference which was attended by over 700 persons. The project also organized two forums on development of "new generation" cooperatives. These were attended by over 75 persons, and were co-sponsored by the LaCrosse Catholic Rural Life Committee, Wisconsin Farmers Union, and the Wisconsin Rural Development Center. Presenters included E.G. Nadeau from Cooperative Development Services, and Barry Bjornson, from Farmers Union Enterprises.

e. Future Projections

The project has fostered a growing network of producers who are committed to moving ahead with implementation of a marketing effort. The partnership with the Farmland Conservancy, CROPP, Midwest Organics, Cooperative Development Services, and Farmers Union Enterprises, will continue in the next year, and each have committed financial or staff support. We expect that a business and financial plan for a new cooperative or meat pool will be formalized in the Fall of 1996.