



Welcome to the
**Tennessee Value-Added Beef
Webinar Series**

Made Possible By:







Today's Topics & Presenters

- **Begin with the End in Mind**
 - An Introduction to Potential Customers, Opportunities and Challenges of Value-Added Beef (VAB)



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Session Overview

- An Introduction to Value-Added
- How to Begin
- Introducing the Market for Beef
 - Demand/Consumers
 - Supply/Industry
 - Challenges
 - Factors of Success
- Additional Resources

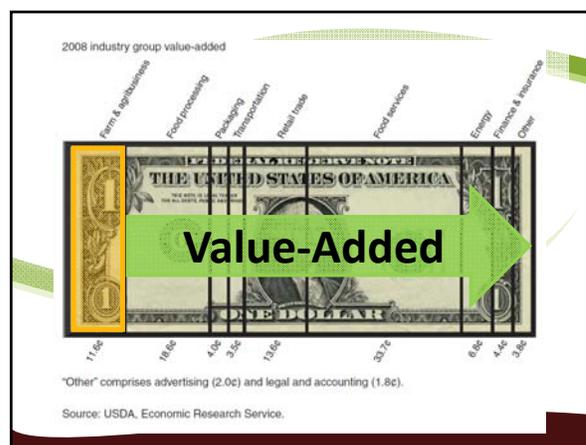
Session Objectives

1. Increase understanding of opportunities and challenges of VAB
2. Increase understanding of the importance of market analysis and planning to reduce risk and increase potential for success

What is value-added?



- Processing, packaging & marketing agricultural commodities and farm resources
- Increasing the farm portion of consumer expenditures



Value-Added Beef



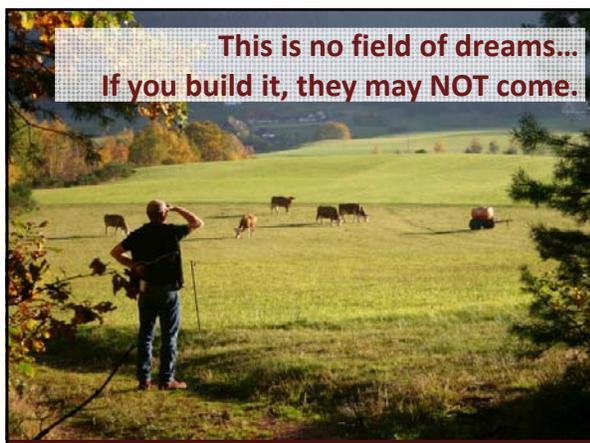

- Marketing live animals for custom processing
- Processing, packaging, labeling and marketing meat

Why value-added?

- Possible producer benefits
 - Increase farm revenue
 - Access a market
 - Diversify product mix
 - Use for product

Value-added and direct marketing are IN but not necessarily EASY.

**This is no field of dreams...
If you build it, they may NOT come.**



There is no guarantee or specific "blueprint" for success.



Each Producer's Situation is Different

- Market situation
 - Customer preferences
 - Quantity demanded
 - Disposable income
 - Willingness to pay
 - Regulations
 - Processing availability
 - Market channel opportunities
 - Ability to reach potential customers
- Goals/Values
- Production
 - Resources available
 - Land, genetics, facilities
 - Costs
- Labor quality and availability
 - Production, management, marketing, customer service skills & experience
 - Time
- Available Capital

You are the...

- Surveyor
- Architect
- Contractor
- Builder
- Marketer



Begin with the End in Mind

1. Set basic goals and explore values
2. Evaluate your resources
3. Study and analyze the market potential
4. Identify target customers
5. Develop a business and marketing plan

Evaluate at each step – Is this right for you?

Ways We Can Help

- Information
- Concepts
- Direction
- Methods
- Skills
- Tools
- Resources
- Experiences
- Assistance

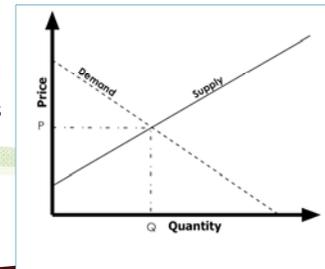


Homework

- Think about goals
 - What do you hope to accomplish with this enterprise?
 - What values will impact this business?
- Inventory your resources
 - What land/facility/production, labor and capital resources are available for this business?

What's Next

- Begin to develop knowledge of the market
 - Demand
 - Supply
 - Challenges
 - Factors of Success



Major Marketing Mistake

- Producing a product and then trying to find a profitable market for it

Produce Products with Market Potential



- Need for product & characteristics
- Excess demand for product (not enough available currently)
- Ability to overcome any barriers to producing and marketing product
- Determine if a reasonable profit can be generated
 - Cost of production, expected price, expected number of units sold, willingness and ability of customers to purchase
- May not be what you already produce
- May be different than what others are producing

Value-Added Beef Demand

- Quantity of beef demanded is a function of
 - Price of Beef
 - Price of Complements or Substitutes
 - Number of customers
 - Income and expectations of income
 - Tastes and preferences

Figure 2. U.S. Average Annual Per Capita Consumption of Leading Meats (Boneless Weight), 1909-2009.

Source: USDA/ERS, 2011

Factors Impacting Demand

Factors	Impact on Quantity Demand
<ul style="list-style-type: none"> Beef prices <ul style="list-style-type: none"> May decrease as 2012 ends Will be higher in 2013 – as much as 5% 	<ul style="list-style-type: none"> Beef prices (inverse impact) <ul style="list-style-type: none"> May be slight + quantity demanded Decrease in quantity demanded

<http://www.bloomberg.com/news/2012-08-22/beef-herd-tumbles-to-40-year-low-on-feed-cost-surge-commodities.html>

Factors Impacting Demand

Factors	Impact on Quantity Demand
<ul style="list-style-type: none"> Prices of substitutes <ul style="list-style-type: none"> Likely to increase as well 	<ul style="list-style-type: none"> Prices of substitutes (+ impact) <ul style="list-style-type: none"> As prices of substitutes increase should positively impact demand on beef

Figure 3. U.S. Average Annual Per Capita Expenditures for Leading Meats, 1980-2009.

Source: USDA/Cattle-Fax/National Cattlemen's Beef Association, 2012

Factors Impacting Demand

Factors	Impact on Demand
<ul style="list-style-type: none"> Population increasing Income <ul style="list-style-type: none"> May be suffering due to economic conditions and high unemployment <ul style="list-style-type: none"> Uncertainty, fear 	<ul style="list-style-type: none"> Population (+ demand) Income (+ demand) <ul style="list-style-type: none"> Decrease in income or pessimistic view of future may negatively impact demand

Factors Impacting Demand

- People with higher incomes
 - Eat more meat
 - Demand convenience
 - Eat away from home more often
 - Vote on social concerns with dollars

- Umberger, W., et al. "Consumer Tastes & Preferences." Colorado State University Accessed September 28, 2012. <http://dare.colostate.edu/tools/Nichebeef/3.1.pdf>

Factors Impacting Demand

Factors	Impact on Demand
<ul style="list-style-type: none"> • Consumer Tastes and Preferences 	<ul style="list-style-type: none"> • It Depends

Consumer Tastes & Preferences

- Market transitioning to consumer-oriented vs. commodity
 - Consumers seeking and willing-to-pay for specific characteristics
 - Different consumers seeking different characteristics
 - Different consumers value characteristics differently

Why value-added?

- Consumers seeking benefits such as:
 - Health/wellness
 - Pleasure/enjoyment
 - Intellectual stimulation
 - High level experiences



Consumer Perceptions of Local Products

• High quality	• Supports community
• Fresh	• Preserves values
• Ripe	• Helps the "little guy"
• "Close to organic"	• Environmentally-friendly
• Harvested nearby	• The story adds value
• Direct from producer	• Experience
• Authentic	

Consumer Tastes and Preferences

- Segmented market
- Depends on consumer values and **perceptions** of various production systems and sources
- What benefit(s) do they want?
 - Health
 - Quality – flavor, juiciness, tenderness
 - Nutrition
 - Safety
 - Animal welfare
 - Environmental impacts

Example - Flavor

- Taste panel study
 - Overall most people prefer corn-fed over grass-fed
 - Corn-fed ranked higher in flavor, juiciness and tenderness
 - Niche market for grass-fed exists
 - Willing to pay premium for preferred product
- Source: Wendy Umberger, Chris Calkins, Dillon Feuz, & Bethany Sitz. "Consumers' Preferences and Willingness-to-Pay for Beef Originating from the U.S., Canada, and Australia". Paper presented at the 2003 Western Ag Econ Assoc Meetings.

Demand for Local Beef in Colorado

- Trust quality, flavor, freshness and safety
- Support local agriculture and small business
- Most interested in
 - Quality, freshness, convenience, juiciness, leanness
- Moderately interested in
 - Source assurance, grass-fed, natural and premium brand
- Least interest in
 - Frozen and organic
- Source: Kamina Rosenstiel, Dawn Thilmany, Wendy Umberger, and Marcia Bugbee. 2002. "Colorado Homestead Ranches: Value Added Beef Products and the Local Commodity Market".

Top 20 Hot Menu Trends for 2012

- 1 Locally sourced meats and seafood
- 2 Locally grown produce
- 3 Healthful kids' meals
- 4 Hyper-local
- 5 Sustainability as a culinary theme
- 8 Locally produced wine and beer
- 12 Farm/estate branded items

National Restaurant Association

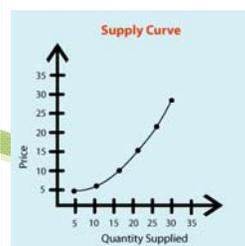
Opportunities Exist

- Consumer-oriented, segmented market has potential for specialized, niche products

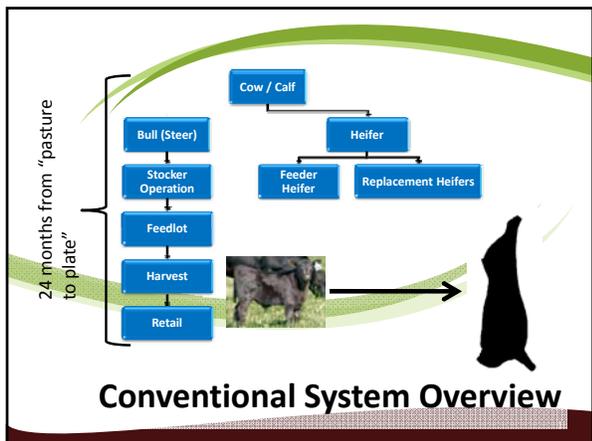
More Work to Do

- Continue analyzing the market and developing business and marketing plans
 - What market segments exist and where?
 - What market segments need additional supply?
 - Who are the consumers demanding the product and can I reach them?
 - Are there enough target consumers or will they buy enough product?
 - What should I produce? How much? When?

Value-Added Beef and the Beef Industry (Supply)

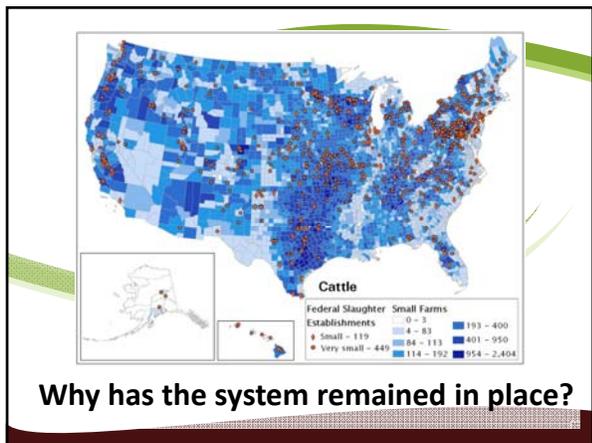


- Quantity of beef supplied is a function of
 - Price of beef
 - Number of suppliers
 - Prices of inputs
 - Expectations of future market
 - Production Conditions (Technology, Weather)
 - Government policies and regulations



Why is this system in place?

- **Cheap corn**
 - Low-cost energy to fatten
- **Geography**
 - Take the cattle to the corn
 - Cheap transportation
- **Efficiencies of scale**
 - Concentrates similar nutrient & management requirements



Factors Impacting Supply

- Number of farmers supplying local beef increasing
- 83 = Number of farms listed on Pick TN Products as offering "Freezer Beef"
 - Increase of 6 from 2/2011 to 10/11 and decrease 3 to 9/12
 - East = 22, Middle = 55, West = 6
- 54 = Number of farms listed on Pick TN Products as offering "Retail Cuts"
 - Increase of 5 from 2/2011 to 10/11 and increase 6 to 9/12
 - East = 14, Middle = 36, West = 4
- But remember...just because they exist does not mean they are profitable
- (As of September 2012)

Factors Impacting Supply

- **Harvest and Processing Facilities**
 - Custom Exempt (~150)
 - USDA-inspected (~13)
- Lists available on <http://cpa.utk.edu>
 - Educational Materials/Resources
 - Information Sheets

Factors Impacting Supply

- Costs of inputs increasing
- Cattle prices increasing as cattle inventory decreases
 - Opportunity costs higher

Factors Impacting Supply

- **Regulations**
 - May create barriers to entry
 - Legal risk



Challenges

Start-up vs. Longer Term Challenges

<p>Regulations</p> <p>Labeling</p> <ul style="list-style-type: none"> – Minimum – Special Claims <p>Production</p> <ul style="list-style-type: none"> – Cycle – Pounds (Yield) – Quality <p>Processing</p> <ul style="list-style-type: none"> - Harvesting - Cuts - Packaging 	<p>Product Issues</p> <ul style="list-style-type: none"> - Storage - Transportation/Handling - Product Mix <ul style="list-style-type: none"> - Steaks – Roasts – Ground Beef <p>Other Issues</p> <ul style="list-style-type: none"> - Sales Tax - Pricing - Retail Sales - Wholesale Sales - Product Liability Insurance - Labor <p style="text-align: center;">Sales</p>
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Factors of Success

- **Well-defined Target Audience**
 - Close relationship with customers
- **Complete System**
 - Production → Market
- **System Matched with Resources**
- **Cost Management**
- **Continually Cultivating Customers**
- **Balanced Marketing**
 - Farmers Markets, On-farm Sales, Delivery...
- **Product Differentiation**
 - Pet treats
 - Flat-Iron Steaks...

Pitfalls

<p>Not good with numbers</p> <ul style="list-style-type: none"> – 720 pounds * \$9.00 = \$6,480 – Fixed costs divided by sales – Volume vs. margin <p>People Skills</p> <ul style="list-style-type: none"> – Regulatory Compliance – Marketing – Labor 	<p>Marketing Blinders</p> <ul style="list-style-type: none"> – Farmers Market Fatigue – Farmers Market Resistance – Others <p>Volume</p> <ul style="list-style-type: none"> – 2 head per year verses 2 head per week
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Additional Resources Tennessee Value-Added Beef Program

- Multi-year educational program
- 18-member, multi-discipline team
 - Production-Processing-Marketing-Financial
- **Educational and Outreach**
 - Case studies/demonstrations
 - Workshops, tours, seminars/conferences
 - Publications
 - Webinars



Additional Resources Online Discussion Forum

- TN Value-Added Beef Google Group
 - To join, send e-mail to...

TN-Value-Added-Beef
+subscribe@googlegroups.com



Take Home Messages

- Opportunities exist for some farmers with the skills, resources and market potential for VAB
- Significant challenges exist for all VAB marketers
- Analyzing the market and developing business and marketing plans will reduce risk by
 - Helping you determine if VAB is for you
 - Helping you understand and effectively reach a specific market

Evaluate Today's Webinar

- Please take a few minutes to complete the short online survey at

<http://www.surveymonkey.com/s/KY36MJY>

Special thanks again to our funding partners:



Join Us for the Next Webinar

- October 23, 2012
- 6:30 pm Central/ 7:30 pm Eastern
- What You Need to Know to Market Live Animals for Custom Harvest: Navigating Regulations and Analyzing Potential for Profit
- Rob Holland, Hal Pepper and Megan Bruch, Center for Profitable Agriculture
- Slides and archived versions of all webinars will be made available on <http://cpa.utk.edu>

