Welcome to the Tennessee Value-Added Beef Webinar Series
Made Possible By:

Today’s Topics & Presenters
• What You Need to Know to Market Live Animals for Custom Harvest
  – Navigating Regulations and Analyzing the Potential for Profit
  
  Hal Pepper, Financial Analyst
  Megan Bruch, Marketing Specialist

Session Overview
• An Introduction to Live Animal Sales for Custom-Exempt Harvest and Processing
• Regulations Impacting Custom-Exempt Facilities
• Methods for Farmers to Operate Within Regulatory Environment
• Marketing Considerations
• Evaluating Your Potential
  – An example financial analysis
  – Advantages/Opportunities and Disadvantages/Challenges

Session Objectives
1. Increase awareness and understanding of regulations and provide methods to comply
   – Decrease legal risk
2. Increase understanding of the importance of business planning and financial analysis
   – Decrease financial risk

Live Animal Sales
(for custom-exempt harvest and processing)

Custom-Exempt Harvest & Processing
• Available only for the owner(s) of the animal
• Meat from these facilities
  – Cannot be sold
  – Is for household consumption by the owner of the animal “members of his household and his nonpaying guests and employees”
**Custom-Exempt Harvest & Processing**

- Permitted and occasional inspection by TDA
- Registered with USDA
  - Subject to federal humane slaughter regulations
- Meat from facility cannot involve commerce
- Approximately 150 custom-exempt facilities in Tennessee

**Live Animal Sales**

(for custom-exempt harvest and processing)

- A farmer selling a live animal for harvesting, processing and packaging in a custom-exempt facility . . .
  - Should have a clear and traceable transaction with the buyer of the live animal
- A separate clear and traceable transaction should exist between the buyer of the animal and the custom-exempt facility

**Live Animal Sales Transaction**

(for custom-exempt harvest and processing)

Between farmer and customer

- Farmers should have clear transactions/documentation of a live animal sale to a household consumer
  - Bill of sale
  - Transfer of funds (check payment from consumer)

**Live Animal Sales Transaction**

(for custom-exempt harvest and processing)

- Household consumer must have full knowledge of live animal purchase
  - Bill of sale
  - Transfer of funds (check payment to cattle producer)
  - Visual understanding

**Custom-Exempt Harvest & Processing Transaction**

Between consumer(s) and custom-exempt facility

- Must have clear transactions and documentation
  - Bill of sale
  - Transfer of funds
    - Check payment from consumer to facility
    - Animal/meat in consumer(s) name at facility

**Bill of Sale**

- Purpose is to document
  - The sale of the live animal from farmer to consumer
  - The customer had a visual understanding of live animal purchase
- No single “correct” format
Bill of Sale

• Identify
  – Date and location of transaction
  – Buyer name and address
  – Seller name and address
  – Livestock description
  – Dollar or other value received by seller
  – Payment method (check number, etc.)
  – Delivery service details
• Buyer and seller signatures

Bill of Sale

• Livestock description is key
  – Include as detailed of information as possible
    • Number of head
    • Gender/age (heifer, steer, bull, cow, calf)
    • Color or markings
    • Tag, tattoo or brand description(s)
    • Live weight
• Additional methods to indicate sale of live animal
  – Insert a photo of the live animal
  – Include a silhouette of an animal to draw markings or tags, brands

Bill of Sale

• Multiple Buyers of One Animal
  – Bill of sale for each buyer
  – Designate ⅓ interest or ⅔ interest in the animal
  – Avoid use of “carcass” terms
    – Whole, half, quarter

Bill of Sale

• Buyer receives original
• Seller needs to retain a copy

LIVESTOCK BILL OF SALE

<table>
<thead>
<tr>
<th>SELLER</th>
<th>BUYER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Printed name:</td>
<td>Printed name:</td>
</tr>
<tr>
<td>Address:</td>
<td>Address:</td>
</tr>
<tr>
<td>City:</td>
<td>City:</td>
</tr>
<tr>
<td>State:</td>
<td>State:</td>
</tr>
<tr>
<td>Zip:</td>
<td>Zip:</td>
</tr>
</tbody>
</table>

This is to certify that the undersigned is the seller in consideration of the sum of

<table>
<thead>
<tr>
<th>Live</th>
<th>Breed</th>
<th>Sex</th>
<th>Age</th>
<th>Weight</th>
<th>Brads, Marks &amp; Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[Signature of seller] [Signature of buyer]

http://www.billofsale-template.com/livestock-bill-of-sale

Additional Documentation - Payment

• Farmer should request check memo describe live animal sale
  – Examples
    • Black Steer Tag #543
    • ½ interest in Heifer #278
• Copy check to keep with records unless receive image of checks deposited from bank
Marketing Considerations for Live Animals
Sales for Custom-Exempt Harvest

• Potential Customers
• Promotions
• Pricing

Potential Customers

• Freezer storage
  – Large overlap with hunters
• Rural areas – may shop less often or have fewer shopping options
• Like quality meat
• Like to cook
• Looking for cost savings over buying individual cuts
• Large number of family members to feed


Possible Promotions

• Depends on your goals and target market
  – Business card
  – Flyer
  – Brochure
  – Pick Tennessee Products Listing
  – Tennessee Farm Fresh Program
  – Website
  – Newspaper ads
  – Radio ads
  – E-mail List (of previous customers)
  – Vendor booth – county fair, etc.

Marketing Considerations for Live Animals
Sales for Custom-Exempt Harvest

• Need to avoid impression that you are selling meat
• Avoid using “carcass” terms
  – Whole, side, half, quarter, etc.
• Consumer education will be important
  – Information sheets may be helpful

Pricing

• Consider
  – Cost of production
  – Competitor prices
  – Product characteristics
  – Customer willingness to pay
• Be careful not to under price
• Publication on pricing

Can I Make A Profit Doing This?

Income
  – Expenses
  Profit (Loss)

• Income — money that is generated by the operation (sales of live animals)
• Expense — money that is spent in the operation
• Profit (Loss) is what remains after expenses have been subtracted from income.
Income

Quantity Sold x Price per Unit = Income

How many animals will you sell to customers?
What price per head will you get for them?

Income Example

• Delivery Fees
  - Hauling calf to processor
  - Picking up meat
  - Delivering meat

Income

• Sales of Live Animals to Customers
• Delivery Fees

Note that all the numbers used in this presentation are examples for educational purposes only. You should conduct an analysis with numbers specific to your situation.

Income Assumptions for Example

• How many animals will you sell?
• Assume 1 animal per month = 12 head per yr

Income Example

<table>
<thead>
<tr>
<th></th>
<th>Quantity</th>
<th>Price</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Live Animals</td>
<td>12</td>
<td>$1,400</td>
<td>$16,800</td>
</tr>
<tr>
<td>Delivery Fees</td>
<td>12</td>
<td>$80</td>
<td>$960</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$17,760</td>
</tr>
</tbody>
</table>
Expense Example

<table>
<thead>
<tr>
<th>Expense</th>
<th>Descript.</th>
<th>Range</th>
<th>Assumed Value</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs of Finished Cattle</td>
<td>32 hd @ 1,000 lbs</td>
<td>$1.19/lb</td>
<td>$1.26/lb</td>
<td>$15,120</td>
</tr>
<tr>
<td>Mileage-delliveries</td>
<td>24 trips @ 63 mi.</td>
<td>$1.70/lb</td>
<td></td>
<td>$771</td>
</tr>
<tr>
<td>Marketing Materials</td>
<td>Business cards, brochures, simple website</td>
<td></td>
<td>$600</td>
<td></td>
</tr>
<tr>
<td>Labor for marketing &amp; deliveries</td>
<td>48 hours @ $10</td>
<td></td>
<td></td>
<td>$480</td>
</tr>
<tr>
<td>Total Variable Expenses</td>
<td></td>
<td></td>
<td></td>
<td>$16,971</td>
</tr>
</tbody>
</table>

Profit/Loss Calculation Example

Income $17,760
- Expenses $16,971
Profit (Loss) $789

Sensitivity Analysis Example

• What happens to profit if your expenses change by 10% or 20%?

<table>
<thead>
<tr>
<th>Variable Expenses</th>
<th>Profit (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>↓ by 20%</td>
<td>$4,183</td>
</tr>
<tr>
<td>↓ by 10%</td>
<td>$2,486</td>
</tr>
<tr>
<td>↑ by 10%</td>
<td>-$908</td>
</tr>
<tr>
<td>↑ by 20%</td>
<td>-$2,605</td>
</tr>
</tbody>
</table>

Sale of Live Animals for Custom Exempt Harvest

• Advantages/Opportunities
  – Likely fewer financial transactions
  – Less regulation
  – No inventory to manage or store
  – Lower capital investment
  – Product liability may be covered by farm owners insurance policy

• Disadvantages/Challenges
  – Target market may be small
  – Difficulty matching up customers with whole animals and division of meat
  – Getting customers to carry through with purchase commitments
  – Customers may lack ability to communicate with processor
Sale of Live Animals for Custom Exempt Harvest

- Other Considerations
  - Accounting and legal costs
  - Franchise and excise taxes
  - Producer’s role as educator
  - Difficulty promoting “live animals for custom harvest” without sounding like you are selling meat

Analyzing the Potential for Profit

- What will it cost to finish the animals? Will you be able to recoup all the costs and make a profit?
- What opportunity costs and risks are associated with carrying these animals through the finishing process?

Take Home Messages

- Opportunities exist to market live animals to consumers for custom exempt harvest
- Regulations prohibit the sale of meat from custom harvest facilities
- Farmers must carefully market and document live animal sale to reduce legal risk
- Farmers should analyze the potential profit/loss and additional risks for their specific situation to reduce financial risk

Evaluate Today’s Webinar

- Please take a few minutes to complete the short online survey at http://www.surveymonkey.com/s/Z6CXS2H

Special thanks again to our funding partners:

Additional Resources

Online Discussion Forum

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

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

Join Us for the Next Webinar

- November 13, 2012
- 6:30 pm Central/7:30 pm Eastern

- Basic Regulations for Marketing Beef to Consumers and Wholesale (Retail Meat Sales Permit, Weights and Measures, Nutritional Labeling, Wholesale Registration
- Rob Holland and Megan Bruch
- Slides and archived versions of all webinars will be made available on http://cpa.utk.edu