

*Fact vs Fiction: Niche Marketing of Value-Added Beef in a Profitable and Sustainable Way. Is it possible?*

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The purpose of this paper is to share some of our experiences at Hedgeapple Farm in our 12 years of producing and marketing grass-fed and finished beef in a completely vertically-integrated farming system. This discussion is not meant to discourage other producers from niche or value-added marketing. The variables in any farm business enterprise are so endless that we cannot conclusively pronounce what will or will not work for others. Times change, farming systems and resources differ, and undoubtedly some of the early production and marketing realities we faced may be different for other producers getting started in niche or direct marketing today.

**Background Information**

Our original goal was to produce and direct-market beef products from cattle grown in a way that was profitable and both fiscally and environmentally sustainable, that optimized the use of on-farm resources (pasture/hay/facilities), and that modeled environmental stewardship and conservation practices that would reduce our overall impact on the surrounding ecosystem and ultimately, the Chesapeake Bay. To achieve these goals, we chose to breed and raise purebred Angus cattle that would spend their entire lives on permanent, improved pasture, never in a feedlot/drylot being fed grain, while producing a unique and high quality, grass-fed and grass-finished beef product grown without added hormones, implants, or sub-therapeutic antibiotics. We would endeavor to maintain intricate production records on every animal bred, born, harvested, processed, and marketed including individual carcass data on all cattle processed. In addition, we would monitor and record all on-farm production of forage, both grazed and harvested for winter feed. We are required to farm under an extensive nutrient management plan that accounts for all nutrient flows on and off our farm on a yearly basis. Finally, we would keep accurate and detailed financial records for both the production side of the operation and the marketing side and constantly monitor the fiscal health of the entire farm system.

**Our Marketing Plan**

In 2006 we transitioned from selling sides and quarters of grass-fed beef to the direct retail marketing of grass-fed and finished beef by the cut and by the pound through a newly constructed on-farm retail market. Our market success would be in part tied to the effectiveness with which we could personally market our beef and generate consumer enthusiasm through our on-farm retail outlet, housed in an attractive and historic log cabin in the front of the farm and along a busy highway. We were sure that customers would love to meet and visit with the folks that actually raise, care for, and sell the food they eat. This turned out to be a valid assumption which continues to work itself out in reality each day our market is open. In addition, we discovered that most consumers have very little knowledge of the different beef cuts, where they come from, the taste and tenderness attributes they carry, or even how to correctly select and prepare the different cuts of beef. It was quickly apparent to us that we would have to excel in customer service, spending whatever time was needed to educate the customer, provide cooking and recipe information and help them feel confident that they could have an exceptional eating experience, “just like grandma used to make”. This investment of time and customer care proved to be in our overall best interest both in terms of marketing value-added beef cuts and in achieving higher average retail prices for our beef. Today, we continue to offer a unique, wholesome, healthy, consistently delicious, and environmentally sustainable product to the local consumer generally within a 75-mile radius of our farm. We support our marketing efforts with exceptional customer care and service and we have enjoyed the fruit of that labor through significant word-of-mouth sales growth.



*Hedgeapple Farm Log Cabin Retail Store*

## **Challenges We Faced**

Our expected on-farm market volume (120-150 head per year) was originally planned to be matched to our ability to produce all of the cattle on our existing farm acreage of 380 owned acres and 120 rented hay acres. This quickly turned out to be unrealistic, and an additional supply of feeder calves was secured through cooperative agreements with several local cattle producers who agreed to use our genetic base, our bulls and our management protocols. We in turn agreed to purchase weaned calves at, or slightly above, prevailing local market prices and provide management expertise and assistance as needed. This arrangement has worked well in terms of securing a supply of the right type of cattle that we need to put into our grass-finishing program and ensure a consistent flow of harvest-ready cattle year-round. But this outsourcing of supply has also constrained our ability to control the front-end cost of producing feeder cattle which in some years drives up our overall farm cost of production and reduces our retail margins on the beef we sell.

Further, our cost of processing is very high and our choice in processing plants is very limited. There are fewer and fewer processors available for small to mid-size producers to access in an economically viable way. Our volume is too low to negotiate processing of our product at a more competitive rate, and the lack of adequate competition in the beef processing industry either locally or regionally forces us to accept prevailing rates and sometimes difficult schedules. One of the costliest aspects of the processing situation is ensuring consistent, attractive packaging that offers clear, crisp, clean labeling, cryovac packaging, and flash freezing to extend the freezer life of the product. This factor is especially important in the ground beef packaging so that the customer can see the product they are purchasing, assess the leanness and color, and to ensure consistent package weights that match most recipes.

## **Some Thoughts about Success**

We believe that the fundamentals of profitability and hence system sustainability depends on several key elements including:

First, qualified management, capable of collecting and utilizing detailed records of all aspects of the production and marketing system, is essential for the farm business to succeed. For example, in many cases farmers may know how to produce, but not necessarily market, high-quality products to extract the maximum value of those products from the consumer. Profitability and sustainability are the result of building and properly managing a total system across all aspects of planning, implementation, production, and marketing. Farm management must be willing to quickly and strategically adapt and change as conditions warrant.

Second, the planning, implementation, and ongoing management of a year-round forage and grazing system capable of providing all the nutrition necessary to consistently produce a high-quality beef product is a monumental challenge. This fact has proven to be a significant obstacle in fostering the development of similar production systems on other farms around our region. The knowledge and experience base of an individual farmer

must include at least: animal selection, breeding and genetics, nutritional management, animal health, grazing system and forage management, nutrient flow across the farming system, carcass quality and processing and all aspects of product marketing.

For example, the goal of forage management at Hedgeapple Farm is to keep a daily supply of high-quality pasture and forages in front of the feeders to achieve a rate of gain at, or slightly above, 2.0 pounds per day from birth to one year of age and from 1.8 to 2.2 pounds per day from yearling age until harvest at 22-24 months of age. Our growing and finishing pastures consist primarily of pure stands of alfalfa which are interseeded with orchardgrass in the third year of production to maintain stand density as the alfalfa stand begins to thin out. We are also experimenting with a mixture of alfalfa and a blend of high-sugar ryegrasses in our finishing pastures to increase available dietary energy for the older and heavier cattle.



Hedgeapple Farm Angus feeders on lush, high-quality pasture.

Finally, a small to mid-sized farm business may be able to break the paradigm of large-scale production and achieve profitability on lower volume, but in so doing must practice honest accounting for all costs and must reach a volume that covers these costs. Cost-effective operations are necessary to realistically price the retail product and reach the volume needed to be profitable. An adequate supply of cattle and finished beef is critical to establish a reliable market flow and also to work toward cost-efficient processing. Unless a producer can guarantee a significant supply of harvest-ready cattle on a regular basis, cost effective processing may be impossible to find. Further, customer interest in your product will be significantly undermined if you market only seasonally, or if you are constantly out of stock on the products the customer wants or needs.

## Some Practical Advice from Our Experience

1.) Don't automatically believe everything you read and hear about marketing projects, sales volume, product quality, or profitability. Any new business makes understandable attempts to project confidence in its enterprise, but saying it, doesn't make it so. In addition, the Ag and local media and some food system reformers have a desperate need for attention-getting success stories and role models. There are many operations that are not truly profitable, but are nonetheless presented as successful models in production and marketing. This representation is unrealistic and potentially 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 similar projects at great personal risk. Producers who hear about these projects need to be extremely skeptical and find out the real details before accepting the stories at face value. Also, especially in direct marketing enterprises, it is important to ask if the producer/marketer is honestly accounting for all true costs.

2.) Understand up-front that managing your own food production and marketing system is risky. Consistently producing a high-quality product and getting that product into the hands of the consumer today safely, legally, and at a competitive price that will result in true net profit is a complicated and high-risk task. **The idea of exorbitant profits earned easily by simply offering a run-of-the-mill but locally produced product is a myth.** In reality, profits are generated with relatively small margins per unit in capital-intensive, highly technical operations. Survival as a small to mid-sized niche marketer is a huge challenge.

3.) 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 across all aspects of the business such as planning meetings, product and label development, recordkeeping, advertising, packaging, and all aspects of the actual marketing process. In addition, time spent servicing customers must be accounted for as it can be very time-consuming. For example, Hedgeapple Farm currently charges \$312.00 to labor and management per head. With feed costs, processing costs, and retail outlet and marketing costs added in, we must retail our meat well above \$8.00/pound across all cuts to recover expenses and make a reasonable rate of return.

Working for "free" or failing to realistically account for all invested time leads to unrealistic, unsustainable business practices that are labor-intensive and inefficient. A realistic opportunity cost of your time invested in production, marketing, etc., must be accounted for, not only to determine the accurate cost of doing business, but also to be sure you present an honest accounting for administrative and other labor costs. Your mission must be to make the business truly sustainable, which at the end of the day, means truly profitable.

4.) You will likely encounter **"marketing experts"** who will claim that price and convenience are not important to the new socially conscious/local/informed consumer demographic but our experience does not bear this out. The economic and time pressures our customers face are generally just the same as for other consumers. People are strapped

for time, so convenience matters a lot. As a result, be cautious about creating a marketing system which depends on people going far out of their way to get your product. This reduces your market potential and will eventually weary your customers to the point of abandoning your product.

**Our customers tend to be well-educated, but not necessarily overly affluent.** They can pay something extra for food that they perceive to have a specific added value as they define it, such as locally produced, raised in a specific way, etc., but also appear to be fiscally responsible and definitely have a measurable degree of price sensitivity. Our customers tend also to lack overall knowledge in the selection and correct preparation of beef cuts. Providing a high level of informed customer service toward the selection and preparation of the cuts you sell will reap dividends in the form of enjoyable eating experiences and loyal customers who will share their positive experience in multiple ways, building a larger customer base for your operation. Marketing efforts which ignore price, customer service, and convenience issues are doomed as they reflect a lack of understanding of the economic and time/schedule realities individuals and families face every single day.

5.) Many farmers have been led to believe that local restaurants and chefs are the answer to making **“real money”**. This could not be further from the truth. The food service industry including hotels, restaurants, and institutions is extremely competitive, and cost-conscious. There is a small, but possibly growing, segment of sustainable-minded chefs who desire to promote **“locally grown”** on their menus. However, these same chefs are faced with the economic realities of operating a consistently profitable eating establishment in a fiercely competitive environment.

For example, most restaurants we have worked with generally operate under the “30% Rule”. What this means is that the chef/operator will not pay more than 30% of the menu price for the center-of-the-plate protein. So, if a restaurant has a 16-ounce New York Strip Steak on their menu for \$20, they seek to pay no more than \$6.00 for that item. Can you produce a 16-ounce New York Strip steak for under \$6.00/pound or at a large enough margin to be profitable selling in that environment? We sure cannot. In addition, chefs are demanding and may not order on a consistent or predictable basis. Working with local restaurants requires a willingness to provide an adequate volume of specific specialty cuts, generally the higher-end cuts, which are easily sold in other ways at greater profit. The promise of **“we will note you on our menu and that will drive customers to your farm”** is a pipe dream at best.

Finally, you will be hard-pressed to find any markets/chefs willing to accept only a seasonal supply of your products. The real costs for producing “off-season” grass-fed and -finished beef are extremely high and generally unprofitable for producers unless adequate high-quality, stored forage can be produced on-farm in a cost-effective manner. Most small to mid-sized producers are incapable of this if the true cost is understood.

6.) Defining the product that you wish to produce and communicating its attributes is essential. Your product must have unique features that truly differentiate it from others.

This may be simply a proven claim of quality or may be tied to a specific breed or type of animal. Or, it may be related to the way it is raised or cared for or even a different way of producing the product that results in unique features. In any event, this differentiation must be carefully approached, answering two key questions:

- How does your specific system or production choice affect your cost of production and long-term profit potential?
- What marketing benefits do you gain by your system or production choice?

Our main differentiation was based on a very specific production model, grass-finishing, which requires a very high-quality supply of forage year-round. Early on, it became apparent that most consumers did not understand or appreciate the difference between the claims of “grass-fed” and “grass-fed and -finished”. The term “finished” was confusing to customers who generally assumed that “grass-fed” was the same as “no grain fed”. In fact, we learned that most of our customers understood very little about livestock production in general and often made false assumptions about animal health, animal care, and environmental impact.

7.) Transparency, honesty, and openness are vital to your success. Consumers need and want you to explain your technical production model in a simple and straightforward way. They want to understand the benefits of purchasing your specific product, such as improved nutritional value, better taste and tenderness, greater food safety and traceability, humane animal care, respect for the environment and surrounding ecosystems, improving the local farm economy, and/or the subsequent maintenance of desirable undeveloped “open space”.

As we set out to differentiate our product, we focused on the terms “natural, local, grass-fed and finished, Angus beef, raised without hormone implants or antibiotics”. We learned quickly that our target customers needed to understand that most cattle are grain-finished, are raised using available technology such as growth promoting hormone implants, and do not spend their entire lives on pasture. Further, they needed to understand the nutritional differences between grass-finished beef and grain-finished beef, even if that grain-finished beef was fed on pasture/grass at some point in its growing cycle. And, they needed to understand how those differences related to human health and well-being. We also constantly reinforce to our customers that our overarching goal is to produce safe, delicious, and nutritious beef as we balance environmental stewardship, social responsibility, and economic viability across our farming system. This, in a nutshell, describes our market niche.

So, we return to where we started, considering the question: Niche Marketing of Value-Added Beef in a Profitable and Sustainable Way. Is it possible? The short answer is, “**It depends.**” It depends on your level of expectation in terms of your return to your labor and management. It depends on how much marketable product that you can produce cost-effectively within your farming system (such as feeder calves). It depends on the level of management that you put into the overall production efficiency of the system. This

would include such factors as the type and intensity of the rotational grazing system, the number of animal units managed per acre, the availability of on-farm feed for the nongrazing months, and the cost of supplemental feed to achieve desired production goals. It depends on what it costs you to get a live animal fully harvested, processed, cut, wrapped, and labeled as legally marketable meat. It depends on what it costs you to transport and store your market-ready meat. It depends on your market outlets, and how, where, and how frequently you sell your meat. It depends on the margin between your true, total cost of production and your realized return on the products that you sell. It depends on your willingness to invest the time and resources to build and position your “brand” into a niche that is measurably different from what others produce and your ability to use that niche to extract the maximum value out of every animal you sell. Finally, it depends on the weather, the wants and the desires of an often-fickle consumer, your ability to win and keep customers, and to consistently align your production and marketing business plan with your available resources and control the variables inherent in all agricultural enterprises.

**Is it possible? Yes. Is it easy? What do you think?**