Marketing “Natural” Beef

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In the fall of 1995, many cow-calf producers from the Tri River area in western Colorado attended a grazing conference in Delta, Colorado. The featured speakers were Oregonians Doc and Connie Hattfield, who discussed how they and approximately 10 other ranchers from Oregon were marketing their beef directly to restaurants, health food stores, and other retail outlets in the Northwest. They also talked about a contract they had to export beef to Japan.

The Hattfields’ presentation stirred interest in developing the same type of markets in Colorado. Over 50 western Colorado ranchers began attending Cooperative Extension-facilitated monthly meetings to explore opportunities to enhance their profitability. Discussions at the initial meetings centered around ways for the group of producers to set an asking price for their beef products instead of taking what the market was offering. They were very frustrated with the commodity market prices of beef and live cattle and wanted to investigate using an integrated approach to direct market their beef. In fact, they wanted to position themselves so they could guarantee a price to the rancher based on $85 per hundredweight live weight for a market-ready steer.

To develop the market, they knew they had to generate and sell a differentiated product. Early on they decided to capitalize on “natural” beef products that are grown without hormones or feed additives. They also hoped to market the fact that the cattle were born and raised on high mountain pastures in western Colorado since many of the ranchers practice Holistic Resource Management (HRM) and wanted to sell the principles of HRM through their products.

These meetings continued for about a year and a half before a group of 23 ranchers officially formed the Rocky Mountain Beef (RMB) Cooperative. Before deciding to be a cooperative, they explored the pros and cons of four different business organizations (partnerships, limited partnerships, corporations, and cooperatives). Based on their business goals, they determined that a cooperative made the most sense. Some of its characteristics that appealed to the group included member ownership and control, return of profits to the members, and voluntary membership.

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From there, the ranchers contacted the Rocky Mountain Farmers Union Cooperative Development Center in Denver for financial and technical assistance. With the Center's help, their papers were filed with the secretary of state to form a legally functioning, agricultural marketing cooperative. The Center also assisted the group in developing their first application for membership and their disclosure statement.

To be a part of the Cooperative, a rancher had to pay an initial fee of $250 and be willing to follow some agreed upon policies. Each member had to (1) designate animals for common feedlot every month to guarantee year-round supplies, (2) raise animals according to the "Natural Beef" guidelines, (3) insure animals had 0.3 to 0.35 inches of fat thickness, (4) keep animals on feed at least 90 days, and (5) make certain animals were not more than two years old. To ensure freshness and better control of supplies, members also agreed to sell everything frozen.

About half of the original group dropped out for various reasons. Four ranchers left very early and formed their own cooperative known as Homestead Natural Beef. Homestead had run cattle together before in a common grazing pool and had a long history of cooperation. Several other producers were not willing to keep attending all the meetings. Others were not willing to put in the time, effort, and money the Cooperative needed to get started because until markets were established, very few animals would be affected. These ranchers felt the benefits would not justify their participation in the Cooperative.

Threats to the Business

The biggest threat, both short- and long-term, to the Cooperative is the high cost of processing. Local processors are small and concentrate primarily on small-scale custom processing of domestic animals and wild game. Typically, the cost to have cattle processed in these small plants averages about $250 per head compared with $85 to $90 per head in an Exel or IBP plant. This large difference in processing costs makes it difficult to compete even when premiums are available. Larger plants also have the advantage of selling their by-products (hides, offal, etc.) to established markets to help cover the costs of processing.

Forming alliances with some of the local processors may help mitigate this threat. RMB wants to show the small-scale processor that working together will ensure volume throughout the year to help offset some of the ups and downs in custom and game processing.

Another threat to the success of the Cooperative is their problem with inventory management. RMB producers have always had good demand and contracts for the higher-quality cuts. However, they have had difficulty selling hamburger and other lower-quality products at the price necessary to meet profit goals. Inventory of these cuts builds up over time and they are forced to sell at a discounted price, thus reducing the total value of the animal.

RMB is working to establish contracts with food distributors to sell whole carcasses. Another strategy to help with inventory control is to sell lower-end cuts on the open commodity market and establish a higher price on the other cuts, especially the medium-range cuts.

The inventory problem of lower-valued cuts has also resulted in increasing debt to the members. A member delivers an animal to the Cooperative with expectations of a certain return on that animal. But selling the lower-end cuts at a substantial discount or keeping the cuts in cold storage has substantially affected the returns to the producers. With some of the members, this has taken some of the luster off the project, and it makes it difficult to get members to designate cattle for the feedlot to ensure a consistent year-round supply of product. The Cooperative is bringing in new members from other adjacent counties to increase volume and expand markets. By working cooperatively with other Western Slope ranches, RMB hopes to increase profits and reduce debt to members.

Another concern or possible longer-term threat is the rumor that Exel is attempting to purchase Coleman Meats, the primary "natural" meat company in the region and a direct competitor with RMB. The RMB membership feels it would be difficult to compete with the larger, more efficient processors.

There is a potential trend for each small geographic area to organize its own small group of producers to direct market beef. The possibility of several small groups competing with each other is another possible threat to RMB. Members of the Cooperative and others are encouraging these groups to work together rather than compete for the same markets.

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Product Pricing

Originally, the members wanted to establish a price for the live animal at $85 per hundredweight and then calculate backwards to price the individual cuts. Based on the yield of live to carcass and carcass to products, the price per pound of individual cuts was set. Cooperative members chose $85 per hundredweight because they knew it would cost more to feed cattle naturally and the $85 figure would provide the profit margin to stay in business and generate a fair return on their investment.

They soon realized that the retail outlets they were selling to were uncomfortable paying a fixed price for beef. These outlets expected the price to fluctuate based on the commodity price. So, RMB started pricing their beef based on a $0.12 to $0.15 per pound premium over published commodity market prices.

They even had some problems with the premium pricing. RMB dry ages their beef for 14 days before delivery. It was a struggle determining what the yield was on dry-aged beef because all the yield literature is based on beef that is not aged. The industry yield information is also based on an industry average and RMB producers felt that their cattle performed better than the average. Using their own records, they calculated their actual yield to set the price.

Competitive Edge

Several factors were identified that provide RMB members a competitive edge. The first is that they produce a “natural” product and have an official USDA Certified Natural label. Growing concerns by consumers about health and food safety have increased demand for natural and organic products, so positioning themselves for this expanding market is a real advantage.

RMB is also doing a good job promoting how and where animals are raised. Marketing to local retail outlets has also been an advantage. These buyers like to support local agriculture to preserve open space and the ranching landscape that communities value.

A consistent high-quality product is another advantage of the Cooperative. They have a very good feeding program and being small, they are able to select cattle out of the feedlot in optimum condition for slaughter. Many consumers also prefer the tenderness and flavor of beef that has been dry aged.

Marketing Research

RMB has been involved with both formal and informal marketing research. With the Rocky Mountain Farmers Union and Colorado State University Cooperative Extension, they have conducted formal research on (1) consumer interest and acceptance of natural beef products, (2) willingness to pay a premium for these products, (3) the feasibility of larger-scale processing plants including a multispecies plant, and (4) the feasibility of outsourcing the processing to larger plants outside the local area.

Informally, RMB continually compares its products with its competitors'. They focus primarily on the types of natural beef products being offered and their pricing.

Changes for the Future

RMB is working to develop hamburger markets in the region's ski resorts. They are looking at selling their cull cows through this market. The network and cooperation developed by being members of the Cooperative has also encouraged pool marketing of other animals not sold through RMB (culls, rejects, etc.), shared purchase of inputs (feed, for example), and other opportunities to work together for the benefit of all. In fact, these relationships may eventually have a bigger impact in generating profits for the individual producers than will their cooperative marketing of natural beef.

Some Things Learned

- Always make sure the product being sold is of the highest quality.
- Look for growing markets (natural, lean, dry-aged, locally grown, etc.) based on consumer demand and long-range outlook.
- Be aware that the cost of production and efficiency are still important in generating profits.
- Be flexible enough to make changes in the business as the environment changes.
- A cooperative takes a lot of time and effort by everyone, but this is especially true for key members that provide leadership for the group.
- Generating enough seed money to get a cooperative going is critical. The most common reason for failure is the lack of capital.
- The meat business is not easy. It is highly competitive and retail outlets and other businesses are not always loyal or reliable.
- It is important to involve agencies such as Cooperative Extension that can provide technical assistance along the way.

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