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Ag Decision Maker

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Romance vs. reality: Hard lessons learned in grass-fed beef marketing cooperative—Part one

by Annie Wilson, member and former business manager, Tallgrass Prairie Producers Co-op, Rural Papers Newsletter, Kansas Rural Center, October 2001

Editor's Note: Tallgrass Prairie Producers Co-op operated from 1995 to 2000, raising and marketing grass-fed beef from ten Kansas ranches. It ceased active operation in 2000. Below is the story of why and how. While the cluster continues to explore ways to work together, former business manager Annie Wilson offers the following as their lessons learned in the hopes that others will benefit from what they've learned.

The purpose of this article is not to discourage other producers from niche marketing, but to share our experiences in our five years of marketing grass-fed beef. The variables in any business effort are so endless that we cannot conclusively pronounce what will or won't work for others. Times change and undoubtedly some of the production and marketing realities we faced are different now. A new and different formula may work today. We only know what happened to us, and will try to communicate our perspective here.

First we will give a general overview of our history, followed by what we see as the critical elements of success, (some of which we unfortunately lacked).

Business history

Tallgrass Beef is a product produced by ten ranch families in a marketing cooperative called Tallgrass Prairie Producers Co-op. Our original mission was "to produce and market meat products from livestock raised in a way to maximize conservation of natural resources and minimize use of fossil fuels and farm chemicals." We decided to raise cattle that spent their entire lives on the pasture, never in the feedlot, avoiding the grain and feedlot production model and producing a unique lean, grass-fed beef product raised without hormones or sub-therapeutic antibiotics.

To do this, we organized ourselves into a formal marketing cooperative in 1995 to develop our product, market, and distribution strategies. We received some grant assistance. But all our operating capital was generated

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Handbook Updates

For those of you subscribing to the *Ag Decision Maker Handbook*, the following updates are included.

Historic Cash Corn and Soybean Prices—File A2-11 (2 pages)

2002 Iowa Farm Custom Rate Survey—File A3-10 (4 pages)

Historic Hog and Lamb Prices—File B2-10 (2 pages)

Historic Cattle Prices—File B2-12 (2 pages)

Please add these files to your handbook and remove the out-of-date material.

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from investment in co-op stock by the ten ranch families.

The organizational structure was member-based, with someone from each ranch serving either individually or as husband-wife teams on our Board of Directors which met monthly. All ranches also had to serve on either our Marketing or Production Committees which also met monthly, and our officers had an additional monthly meeting as our Executive Committee.

We had one non-member employee who provided part-time marketing and operations management services; and one member who served as business manager, taking orders, doing billing, handling communications; and another member who worked part-time at our storage unit assembling large orders for out-of-state shipment. All other jobs were performed by co-op members on a volunteer basis.

Early on we did nutritional testing on our grass-fed beef, discovering that it had an extraordinary nutritional profile, even better than we had thought, with a very low fat content and high nutrient content. We went through the onerous process of obtaining USDA approval for Nutrition Facts labels for all our products, as well as unique special label claims including natural, free range, grassfed, (to our knowledge, the first beef product in the nation to obtain this designation), raised without hormones, etc. We maintained intricate documentation on every animal processed, and recorded carcass data for all beef processed. (The advantages of CLA and Omega-3 fatty acids were an area we had only begun to explore toward the end of our production.)

Market successes

One of our great market successes was the effectiveness with which our members could personally market our beef. We attended promotions and trade shows in which our passionate, western-clad ranchers were popular attractions and generated great consumer enthusiasm. People loved to meet and visit with the actual producers. The only problem was this was time-consuming and expensive.

At first we assembled our own promotional material, but later hired professional graphic designers who produced award-winning labels and promotional materials. We were fortunate to receive attention from local and national media, and won Best of Show awards in our state food exhibition. It is our strong opinion that we had one of the most healthy, delicious and environmentally sustainable food products ever offered to the American consumer.

At our peak, we were marketing our beef in 23 states through three large natural food distributors. From the beginning, we also direct marketed some beef in our local area. However, our local markets were so low in volume and high cost in service that they were never profitable. The markets that worked best economically were the large distributor markets.

Catch-22 or barriers

Barriers we encountered were numerous. Many we were able to overcome through hard work and determination. Others had become insurmountable by the time we perceived them clearly, and we found ourselves caught in a vicious cycle.

Our volume was too low to obtain processing of our product at an economically viable, competitive rate (our costs were triple those of other high volume suppliers). Yet even managing the volume of orders we had was exhausting our members and employees. We lacked adequate supply to access the markets we needed to reach the volume we needed to obtain affordable processing and transportation. Additionally, we did not have the capital to acquire professional management to guide our company in these directions.

Despite painstaking monthly analysis of our gross margin and exploring every cost-cutting measure we could think of, including heroic subsidization of our business with free labor from our members, we were consistently losing equity. We could not see any improvement in sight within the economic structure in which we were trapped. At that point, we used our now considerable experience to produce a thorough business plan.

Using this plan, we looked for outside help including private investors, financial institutions, government agencies, foundations, and other rancher alliances. However, we could not find the help we needed. Ultimately, we lacked the capital to escape our quandary. Our members, who had already made significant financial investments in the co-op, faced the prospect of mortgaging their family ranches to back what we knew was a worthy but risky enterprise, to compete in a cut-throat and volatile commercial arena.

In 2000, after five years of intense struggle, we made the painful decision to terminate our sales and stem our loss of equity, so that we would be able to pay all of our co-op's bills and would not cause financial injury to others. In hindsight, we realize that we should have initially leveraged our investments and borrowed heavily from a financial institution, based on a sound business plan developed by professionals

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that would have established a larger, viable scale, professionally managed operation.

Instead we tried to avoid co-op debt and do it all ourselves, learning as we went. In retrospect, we also learned that even larger specialty meat companies we had thought were very successful also are struggling. The phenomena of concentration both within the processing industry and retail arena is so intense that the profit margins are slim for everyone. There are fewer and fewer processors available for mid-size companies. The expense and burden of service and promotion are almost entirely passed on to the supplier by retailers. We wonder now if it would even be possible to survive as a "mid-size" company, with volume of around 30,000 head a year, which was what we were considering as our expansion level goal, an astronomical increase from our peak of 400 head a year.

Our co-op is made up of committed, active members. We feel the co-op model is an excellent one, except a professional manager should run the business and not the Board of Directors. We attribute our remarkable level of progress on so little capital and without professional guidance to the sheer commitment of our member families.

As we see it

The fundamentals of success profitability depends on three elements:

- Professional management of operations and marketing to establish and manage legal, safe operations, to penetrate the market and to navigate the complex food distribution system. This is essential for the business to succeed and to allow producers the time to do what they know how to do, which is to produce high quality products.

- A successful business needs access to volume markets to reach breakeven (when gross profit on sales exceeds overheads). A business may be able to break the paradigm of huge scale production and survive on lower volume, but in so doing it must practice honest accounting for personal time and must reach a volume that covers these overheads.

- Cost-effective operations are necessary to realistically price the product and reach the volume needed to be profitable.

The two keys to acquiring the above three elements are a critical mass of supply and capital.

Supply

- An adequate supply is critical to access cost-efficient processing. The smaller the volume, the more expensive the processing. Only high volume, highly-efficient processing operations can turn commodity into a safe product and keep direct costs within reason. Unless a business can offer a significant supply on a regular basis, these operations will not bother with it.

- The ability to access volume markets depends on an adequate supply. Buyers won't even talk to a business unless it can consistently deliver a quality product with no interruptions in supply.

- On a related note: adequate supply is a prerequisite to offering fresh product, which has significant market advantages over frozen beef. We found consumers really wanted fresh beef, and that frozen product severely limited our marketability, except in very low volume, tiny outlets. But since a fresh product has such a short shelf life, it requires a steady, consistent volume of product turnover.

Capital

- Adequate capital is necessary to acquire expertise and information to develop a feasible business plan, to acquire competent management to run the business, and to cash flow the operation. The basic formula summary for economic sustainability: supply + capital = Lower-cost processing + volume markets + professional management.

Next month—further lessons learned by Tallgrass Prairie Producers Coop.