

ALT LIVESTOCK MARKETS RESEARCH STAGE III: PRELIM RESULTS (MARIN)

Title: Interest in Alternative Production and Marketing Strategies, and Demand for Regional Facilities for Processing and Marketing among Livestock Producers in Marin and Sonoma Counties

Purpose:

The purpose of this study is to learn if there is sufficient interest among Marin and Sonoma livestock producers in regional harvest, processing, distribution, and marketing infrastructure to warrant further research and development. Importantly, is there enough demand for these services (enough animals, year-round) to make such infrastructure cost effective?

A broader goal of this study is to learn how Marin livestock producers are (or are not) planning to alter their operations over the next 5-10 years (especially but not exclusively in the area of new markets), to guide the development of local and regional efforts by private entrepreneurs, concerned support organizations, and county government officials.

Background:

In this report, we present preliminary findings from the third and final stage of research into livestock producer interest in alternative, non-commodity markets and barriers to participation in those markets. The first two stages of the project were a mail survey in spring 2005 and two focus groups later that summer.¹ From these we learned that many producers in our two counties (more than half of respondents to the mail survey and all the focus group participants) are interested in selling to specialty markets, such as 100% grass-fed, organic, and local.

The final stage of our research involved in-depth interviews with a small set of large-scale producers in both counties. To be cost-effective, any local or regional meat market infrastructure (e.g. processing facilities) will need to process more animals, more consistently throughout the year, than small-scale producers can provide. It was important, therefore, to find out if any of our region's larger producers might become involved and to learn their ideas and concerns about such ventures. We conducted individual interviews with large-scale producers with cow-calf and sheep operations (in May and June, we interviewed fourteen producers in Marin County, and Sonoma interviews will be completed later this summer). The interviews addressed current production and marketing practices; future plans, in particular for marketing; and the producer's needs, infrastructure and otherwise, to carry out those plans.²

Our research gained further relevance with the long-awaited announcement that Rancho Veal, the only USDA-inspected beef cattle slaughter facility in our two counties', had been sold and would close in February 2008. Ironically, while regional demand for locally produced, natural, organic, and other non-commodity meats only continues to grow, our region's producers may become less able to meet that demand, with Rancho's closing. At least two efforts are underway to build new slaughter and/or processing facilities, to replace Rancho, in Sonoma and/or

¹ See Gwin, Larson, Rilla, and Bush. 2005. "Alternative Livestock Production and Marketing: A Survey of Marin and Sonoma Livestock Producers."

² Eight of the 14 Marin interviewees did complete the mail survey, but that did not provide the rich data that emerged during the interviews.

Mendocino counties. The complexity and cost of meat production means that regional competitors may benefit from some degree of regional coordination, especially around processing infrastructure. Many small projects may not survive unless they can build economies of scale, in terms of physical facilities, finance capital, and human capital. Our research will serve to inform ongoing efforts by providing critical information on numbers of interested/willing producers and animals, as well as issues such a facility must address.

Summary of findings

Large-scale livestock producers in Marin County are, on the whole, interested in selling to specialty markets, if they are paid a premium that covers all extra production costs. They will wait, however, until such markets are established. They are also skeptical that local marketing is viable beyond very small-scale, direct sales, due to the seasonality of animal production in Marin and the difficulty of maintaining appropriate slaughter and processing facilities.

FINDINGS – Marin analysis

Fourteen interviews with Marin-based ranchers were conducted between May 4 and June 16, 2006. Most (12 of 14) have cow-calf operations, though two of these also have sheep. One (of the 14) is primarily a sheep producer. One (of the 14) is primarily a seedstock (cattle) producer.

All interviewees are owner-managers of their operations.³ Eight ranch only in Marin; three also ranch in Sonoma, and three also ranch in another county. Interviewees are primarily full-time ranchers who derive most of their income from the livestock operation. Three have at least one source of off-ranch income (sometimes a spouse has an off-ranch job).

These fourteen ranchers operate on sizeable operations. Together, they ranch a total of 36,393 acres (owned and leased) in Marin and Sonoma, and the average acreage (owned and leased) per rancher is 2600, with a range of 600 to 8000 acres. Nine of them own land, eleven lease land.⁴

These interviewees combined with Marin-based respondents to the mail survey ranch on a total of 73,298 acres, with 30,168 acres owned and 43,130 acres leased.⁵

Herd sizes

Interviewees not only have some of the county's largest herds but also represent 35% of the county's cattle and 40% of its sheep.⁶ Together, interviewees have more than 4300 beef cows and 1350 sheep. Four of them also run stockers and/or dairy replacement heifers. At least two raise breeding bulls. Of the thirteen cow-calf operations, average herd size is 330. Of the four sheep operations, average herd size is 340.

Annual sales

Together, these ranchers sell 3530 feeder calves and 980 feeder lambs annually. Sales per rancher range from 40 to 680 calves and from 50 to 450 lambs. They also sell bulls, purebred

³ Several are not the sole decision-makers for the ranch, because they are members of a family partnership.

⁴ Own v. lease isn't a critical issue for us, and it's confusing, b/c at least one lease is leased from that rancher's family partnership. Plus, there are the Point leases. And we didn't separate owned v. leased acres by county.

⁵ Not all of these acres are in Marin County.

⁶ When compared to county-wide figures from Marin County Crop Report 2004.

heifers, dairy replacement heifers, and stockers. In addition, all sell cull animals (young and old), roughly 15 to 30 per 300 head, per year.⁷

Calf and lamb production is quite seasonal in Marin County. All cow-calf producers calve in the fall (typically September through November) and sell the calves in July. Lambing happens in December and January, and lambs are sold in June.

Of the cow-calf producers, five sell weaned calves, while six “wean them on the truck.” Of the five who wean, four sell to a branded or purebred program, and the fifth retains ownership through a feedlot.⁸

Market channels

Marin ranchers use a mix of market channels and may vary year by year or even use several in a given year. Most cow-calf producers (7 of 12) use local brokers, while fewer (4 of 12) sell via auction (typically 101 Livestock, in Aromas, CA). Four sell directly to a feedlot (i.e., without a middleman), and one of these retains ownership of more than half his calf crop.

All the sheep producers sell their lambs to Superior, the only commercial buyer.⁹

Most cull cattle go to Rancho or BPI,¹⁰ either directly or through a broker, but some go to 101. Cull sheep are sold at the Petaluma Auction or to BPI through a broker. Certain brokers specialize in cull animals, putting together truckloads to take to a slaughter plant.

In the course of our interviews, it became clear that local cattle brokers and auctions are a primary way that producers learn about market opportunities, especially branded programs, which suggests that they may have an important role to play in local/regional markets.¹¹

Branded programs

Fewer than half (5 of 14) of interviewees sell “natural” calves (which receive no hormone implants or antibiotics) to a “branded” marketing program, including Harris Ranch, Coleman, Western Grasslands, and Marin Sun Farms.¹²

Those who do not sell to a branded program give a mix of reasons, primarily that branded programs want only weaned, Black Angus calves, which those ranchers do not have. Others said that branded programs’ requirements were more trouble (and expensive) than they were worth.

⁷ We do not know when culls are sold. Culls could be a way to spread out harvest over the year. But ranchers will need to get paid the extra costs of maintaining culls. And experiences elsewhere suggest that a meat business can’t be built on burger from culls (see Yampa’s actuals, High Sierra Beef’s estimates).

⁸ Anecdotally, it appears that branded, specialty, or other non-commodity markets prefer or require weaned calves.

⁹ One interviewee said that he sells via the local auction yard, but Superior is very likely the buyer.

¹⁰ BPI, in Fresno, was purchased by Cargill in March 2006.

¹¹ E.g. 101 sells to Coleman; Gary Denise has been talking to producers about branded programs; Al Kuck buys e-tagged cattle for McDonalds.

¹² One of these five does not do the deal himself but through 101. A sixth interviewee once had his own branded program, back in the 1980s.

Several interviewees pointed to other practices for which they would like credit with consumers. For example, cattle range freely and “cows were actually walking 5 or 10 miles a day. Like range chickens... even if they weren’t organic, they were at least out there in the open.”

Use of local slaughter/processing facilities

Most interviewees do not themselves take or send any animals to local slaughter or processing facilities, except occasional culls to Rancho. Only a few contract with custom butchers for on-ranch kill and local, custom-exempt processing for home use, both lamb and beef.

There are two exceptions. Two ranchers (one sheep, one cattle) sell ten to fifteen animals per year direct to individuals. Some of these animals are killed at the ranch by the custom butcher, while others are bought live. However, one explained that demand for such direct sales has not been high enough to make the process very worthwhile: “It’s a pain to have them killed privately. ... One or two people, and they want one or two lambs, the logistics, it’s a real pain. If you could sell 40 or 50 at a pop, you’d definitely explore it.”

Satisfaction

When asked if they were satisfied or not with their current production and marketing practices, interviewees were evenly split: seven said yes, seven said no. Several were dissatisfied because they lacked market control: “I don’t have any marketing tools. All I can do is produce my livestock as best I can, hope for a good year, breed them the best I can, to have a quality product.” This seemed particularly true for lamb producers: “It’s pretty sad. You call up your local slaughter plant or buyer and ask well, what’s the market this year? It’s more of a question than demanding a price.”

Future plans (relevant to our study)

Only one of the fourteen planned to sell meat, and only on a minimal basis as a sideline to his primary operation. The other thirteen prefer to continue selling live animals and focus on what they do best, especially in improving their production practices and herd genetics.

Regarding local markets, most of the fourteen were interested in such markets if selling locally would be more profitable. However, many were skeptical that local or regional production and marketing could be effective on more than a very small scale if at all.

It was fairly clear that as long as conventional market prices are high, the ranchers we interviewed would rather sell into conventional markets rather than to change their production practices to sell into specialty (branded) markets, such as organic, 100% grass-fed, natural, and local. This is especially true because branded programs appear to have difficulty paying much of a price premium while conventional prices remain high. However, when conventional prices fall, branded programs, including local and regional options, may become more attractive.

THEMES

Several themes particularly relevant to our research questions emerged from these interviews.

Interested in specialty markets, if proven profitable, but only as suppliers

Most interviewees (10 of 14) said that they were willing to sell into specialty markets, including local, if they were adequately compensated. “If the demand is there, and I’m shown I can make a profit, I’ll produce for it.” This was true even for styles of production that interviewees did not personally prefer, for example, 100% grass-fed. Most interviewees do not like 100% grass-fed beef, though a few do. However, they would sell to a grass-fed marketer that could pay a premium for calves.

Among those interested in specialty markets, levels of interest ranged widely. Some are eager to find such options, while others were highly skeptical but keeping one eye open for opportunities. Said one, “I’m interested in all these new ideas. I’m just laying back, watching.”

In addition, interviewees did not want to be “pioneers.” Said one, “Let these guys pioneer the market and get it going, and I’ll get in...I would love to be a producer for a guy who wants to go market, because that takes so much time and coordination. ... There are guys doing it who I respect, and I’d jump in in a minute.”

Others expressed aversion to involvement further down the meat supply chain: “For me to go out and start soliciting people, I’m not so prone to do that. I hate doing that. I hate chasing people down and begging for money. Other people are exploring it, taking the initiative. I’m letting other people test the water. If it looks like the water’s warm, maybe I’ll come jump in.”

Nearly all interviewees want to continue raise and sell animals, rather than produce and sell meat. As one explained, “I am not a marketer... I’m not going to become a marketer. I want to produce cattle. If I can produce cattle for someone who wants to market locally, and we can both make extra money doing it... our eyes and ears are open to that.”

However, at least two cattle producers are exploring ethnic (particularly Hispanic) markets: one is aiming at both individuals and restaurants. However, because this is a sideline to his primary livestock operation, he is not likely to pursue direct sales if processing is not easily accessible.

Top concern about local markets: seasonality

Regarding local and regional markets, half of all interviewees were concerned about the seasonality of Marin livestock production: all of Marin County’s calves are ready for market at the same time of year: “I don’t think anyone would want 800 calves in a 3 day period. I don’t see that in my future.” Holding calves over, while technically possible, can be costly in feed, care, and labor. Ranchers who incurred such costs would, interviewees said, need to be financially compensated. This concern emerged especially regarding 100% grass-fed beef: “they’re feeding [cattle] hay for a couple of years, maybe through the winter. And when you figure it all out, they’re not making any money at all!” Another said, “You can economically produce a grass-fat animal 6 weeks out of the year in this area. So are you going to kill all the cattle July to August?”

Some interviewees suggested ways to solve the seasonality problem. For example, a group of producers could coordinate finishing cattle for local slaughter by feeding (on grass or grain) for shorter or longer periods. Those who had to feed more would get a higher price per pound.¹³

¹³ While spring calving was suggested by one interviewee, most others said that spring calving would not work in Marin.

Other concerns about local/regional markets

Other concerns expressed about local or regional marketing included the idea that local slaughter and processing facilities would be too expensive to build and operate, too controversial given local environmental and other planning regulations, too small to properly manage offal and other waste, and too prone to take non-local business to stay afloat.

Several pointed to the complexity of meat production, as opposed to other foods: “It’s a meat product, and meat is just a nightmare to market, because it has to be inspected. Farmers market with vegetables, it’s so easy, it’s a snap. But not meat. A strawberry’s a strawberry. A lamb has all these different parts to it. That’s what makes marketing a product like that so damn difficult.”

A few interviewees with experience with direct marketing, either themselves or as suppliers, pointed out significant challenges, especially having enough financial capital to pay suppliers regularly for their animals. Said one, “Niche markets are cool, but chasing money is no fun. When you know the big dog is going to pay you right away, there’s a little temptation to go that route. No matter what people say, they’ve gotta be paid.”

In addition, several producers expressed mistrust of those further down the supply chain, especially processors and marketers. Said one, “In the livestock industry, you’d better watch every move you make, or somebody will take advantage.” They had heard “too many nightmare stories about these start-up deals,” and worried that ranchers would not be compensated fairly or at all. As one explained, “This killing plant could work, but you’d better have somebody who knows the business inside and out, and if they are, you probably can’t trust ‘em, because they were a coyote to make money to start with!”

Finally, several interviewees who said new markets were a good idea were looking to the younger generation to build them: “I don’t want to make it too complicated for me, because I’m old. But one of the grandchildren, they may change the whole procedure, who knows?” Another said, “It takes a young guy to stick his neck out a little bit.”

Conclusion

Our interviews suggest that Marin cow-calf and sheep producers could be a valuable source of animals for branded/specialty markets, such as grass-fed, natural, and possibly organic, whether these markets were local/regional or not. However, if such markets *are* local, seasonality of calf and lamb production may be difficult to overcome, especially for 100% grass-fed meat production. The natural seasonality of animals does not easily match up to the needs of processing and marketing facilities to run year-round. There may be ways to reconcile the two, but most large-scale ranchers in Marin County are as yet unlikely to alter their production practices without adequate and assured financial compensation.

In addition, while some ranchers are quite willing to sell to specialty markets, including local, they want to continue raising and selling live animals to a marketer rather than sell meat themselves.