

Romance Vs. Reality: Hard Lessons Learned in a Grassfed Beef Marketing Cooperative

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Editor's Note: Tallgrass Prairie Producers Co-op operated from 1995 to 2000, raising and marketing grassfed 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.

Elmdale, Ks. - 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 grassfed beef. The variables in any business effort are so endless that we cannot conclusively pronounce what will or won't work for others. Also, 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 in our time, 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), and finally, we will provide some observations, including the contradictions and ironies we discovered in our strange adventures in the food marketing wonderland, where all is not as it seems.

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, "grassfed" 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, markets and distribution strategies. We received some grant assistance. But all our operating capital was generated from investment in coop 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 coop members on a volunteer basis.

Early on we did nutritional testing on our grassfed 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 one very 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 when given the opportunity. 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 very time-consuming and expensive us. At first we assembled our own promotional material, but later hired professional graphic designers who produced award-winning labels and promotional materials for us. 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 foods distributors. From the very beginning we also direct marketed some beef in our local area. But, our local markets were so low in volume and high cost in service that they were never profitable. The markets that worked the best economically for us 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. Plus 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 utilized our now considerable experience to produce a thorough business plan.

Using this plan, we looked everywhere we could 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 capitalization 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 extremely risky enterprise, to compete in an absolutely 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 at least 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 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, which didn't work. In retrospect, though, we also learned that even larger specialty meat companies we had thought were very successful are also struggling. The phenomena of concentration both within the processing industry and retail arena is so intense that the profit margins are very 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 extremely committed, active members. We still feel the co-op model is an excellent one, except that the Board of Directors shouldn't actually run the business. A professional manager should. 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). You may be able to break the paradigm of huge scale production and survive on lower volume, but in so doing you must practice honest accounting for personal time and you must reach a volume that covers these true overheads.
* Cost-effective operations are necessary to realistically price your 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.

1) Supply. An adequate supply is critical to access cost-efficient processing

The smaller your volume, the more expensive your processing. Only higher volume, highly efficient processing operations can turn your commodity into a safe product and keep your direct costs within reason. Unless you can offer a significant supply on a regular basis, these operations will not bother with you. *The ability to access volume markets depends on an adequate supply. Buyers won't even talk to you unless you 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.

2) 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 your operation. The basic Formula Summary for Economic Sustainability: Supply + Capital = Lower-cost processing + Volume markets + Professional Management.

Further lessons learned

1. The emperor may have no clothes. Don't automatically believe everything you read and hear about marketing projects. Any new business makes understandable attempts to project confidence in its enterprise, but saying it doesn't make it so. In addition, the ag media and some food reformers have a desperate need for attention-getting success stories and role models.

The result of these two tendencies was that our little struggling cooperative was touted as an inspiration and example to others. We know of many other similar operations that are not yet profitable, but are nonetheless presented as successful models in marketing. This misrepresentation is not only unrealistic but also possibly 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 into similar projects at great personal risk. Producers who hear about these projects need to be extremely skeptical and find out the details before accepting the stories at face value. Also, especially in direct marketing enterprises, ask if the project is honestly accounting for all administrative time, delivery costs, etc.?

2. It may actually take a "rocket scientist." Having farmers manage their own food processing and

marketing cooperative is risky. Just as we ranchers wouldn't want a heart surgeon to run our ranch, we should not presume to perform heart surgery. Nor should we pretend we know how to survive in the very technical food industry. Getting food to the consumer today safely, legally, and at a competitive price is an overwhelmingly difficult and high risk task, challenging even for experienced experts. The idea of exorbitant profits earned easily by lazy middlemen is an out-dated myth.

In reality, most companies' profits are generated only at high risk in tiny margins per unit on huge volume, capital-intensive, highly technical operations. Survival as a niche company in such a climate takes a specialized expert. So, our advice is to raise the capital to hire a trained, experienced professional. Don't "do-it-yourself" on this one. By the time you learn your lesson, you may have run out of capital and energy and missed critical early opportunities a professional would have seen.

3. Honest accounting or is your time really worthless?"Do-it-yourself" 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 in planning meetings, in product and label development, record-keeping, generating advertising, taking orders, packaging and delivering orders, and collecting monies and bookkeeping. Also time spent in talking to customers must be accounted for. "Getting close to the customer" is a nice goal for direct marketers, but this can be extremely time-consuming.

Working for free or failing to account for every bit of this time leads to unrealistic, unsustainable business practices that are too labor-intensive and inefficient. A realistic "opportunity cost" of your time in production, delivery, etc., must be honestly accounted for, not only to determine accurate costs of doing business, but also to be sure you adequately value your own quality of life. An advantage of hiring professional managers is they will insist on being paid for their time, which results in honest accounting for administrative and other labor costs.

4. Are grants the answer? We had the sincere and valuable support of some wonderful organizations when we started, and we will always appreciate what they did for us. But we must point out that most public agencies and private foundations give grants only for research and education, not for operating capital to actually implement research. Grants can be helpful in limited areas. For example, we received wonderful assistance in doing nutritional research that we were able to use in product development and labeling. However, some grants are also very time-consuming and may unintentionally divert energy away from business development, subverting the business mission from profit to education. They can also mask the real need for hard capital and a solid business plan.

Be wary of outside sources of nonprofit income and focus efforts on private investors who don't just want to learn about change but want to implement change. Your mission must first be to make the business profitable for your producers; then if possible later, educate others.

5. Follow the rules - every time. We always maintained the highest ethical level regarding our production claims and following the USDA rules on labeling. This was a real hassle, but we always felt that our product's credibility depended on following the letter of the law. This was especially frustrating when we knew other products on the shelf were ignoring the rules. We often felt we were not competing on a level playing field. Nevertheless, we refused to compromise our principles just because we knew we could probably get away with it. We often said that if "60 Minutes" ever interviewed us, we wanted to be able to look straight into the camera and tell the whole truth with nothing to hide.

6. Do price and convenience matter? Some claim that price and convenience are not that important to the new ethical consumer; yet the economic and time pressures these consumers face are just as real as for anyone. People are all strapped for time, so convenience matters a lot. Be wary of "field of dreams" food distribution schemes which depend on people going out of their way to get your product. This reduces your market potential to an infinitesimal percentage and will eventually burn out both you and your customers. Also, our customers tended to be well-educated but not necessarily terribly affluent. They can pay some extra for special food, but must be fiscally responsible and definitely have a "choke level."

Marketing techniques which ignore price and convenience issues are doomed, reflecting a lack of understanding of economic realities of food marketing and distribution. 7. Are "natural foods" markets the answer? The main market we discovered for our beef was the natural products market. However, we discovered several contradictions in dealing with that market sector. One of the largest sectors of the natural products market is not foods, but pills consumed by people who seem to have abandoned the concept of eating actual foods as the key to good health. Following the trend in conventional foods, the most profitable food products in the natural foods industry are not whole foods such as produce and grain, but heavily processed, packaged items. Again following the trend in conventional foods, the natural foods industry is becoming highly concentrated with little room for small suppliers. The beef that was most popular in natural foods markets was grain-finished, higher fat beef, and very few natural foods consumers were knowledgeable enough to make any distinction between grainfed and grassfed.

8. Are conscientious chefs the answer? The food service industry including hotels, restaurants and institutions is extremely competitive, and very cost-conscious. There is a growing movement of sustainable-minded chefs, but they are few and far between, may be very demanding and may not order on a consistent basis. Participation in food service requires a very sophisticated level of operations that provides a high volume of certain specialty cuts, so you must complement this market with other substantial markets for low end cuts and hope they balance out. If you run out of supply for this market, you are dead.

Dealing directly with restaurants, instead of going through a food service distributor, can also lead to freight/distribution problems when their order sizes vary. Chefs often have very little understanding of these obstacles for the supplier. Finally, food service is a tough business and most restaurants are short-lived. Getting stuck with a large accounts receivable from a failed restaurant customer can be fatal. Stay on a cash-only basis.

9. Seasonality is a terrible handicap. We did not encounter any markets willing to accept only a seasonal supply. Our on-ranch costs for producing off-season grassfed beef in attempting to keep up our supply for existing customers were extremely expensive and unprofitable for producers a production issue we never solved. Had our volume increased substantially, this would have been a crippling problem.

10. How different can you afford to be? Your product must have attractive features that differentiate it from others. This may be simply a claim of quality. Or it can be a different way of producing the product that results in unique features. In any event, this differentiation must be carefully approached, answering two questions: (1) how does it affect your cost of production and long-term profit potential, and (2) what marketing benefits do you gain by doing it?

Our main differentiation was based on a very technical production model, grass-finishing, which it turns out was very expensive and significantly increased our on-ranch cost of production. Furthermore, most consumers did not begin to understand or appreciate the concept of grass-finishing. In fact, we learned that most customers understand very little about livestock production in general, often not knowing enough to support sustainability even if they want to.

This all raises the issue: How much education of the consumer can you afford to do? Consumers generally recognize and trust the term "organic" without understanding all the complexities of production it requires. If your product feature is actually beyond or different from the definition "organic," you have to independently translate your technical production model into understandable consumer benefits, such as improved nutritional value and supporting the environment.

Differentiating our product by its reliance on grass-finishing meant consumers needed to first understand that most cattle are grain-finished which they do not. Further, they needed to understand the nutritional differences of marbled, grain-fed beef and grassfed. This goes completely against the government-sanctioned USDA beef quality grading system that is the basis of conventional consumer wisdom on beef quality.

Moreover, dwelling too closely on the environmental problems of grain-feeding may cause a strong backlash from the conventional beef industry. Furthermore, even the word "grain" is a very attractive word, especially to natural foods customers, who of course associate it positively with human consumption and transfer this to cattle without realizing the differences in cattle nutritional requirements. In summary, despite our strong commitment to the concept of grassfed beef, we wonder if some lessons may just be too hard and expensive to teach, at least at this point of consumer consciousness.

11. Quality of life and sustainability on a personal level. We wanted to start a marketing cooperative to preserve our way of life, but the time and pressure of running our own beef operation, and our financial losses, actually detracted dangerously from family life and our farm operations. Ironically, while trying to devise a way to produce beef in an environmentally sustainable way, we accidentally fell into a pressured schedule that was destructive of the values of family we were trying to preserve, and that was unsustainable on a personal level. Thus our business risk also became a very real personal risk. Agriculture is already hard enough. We strongly believe that supplemental enterprises must be consistently operated at a personal cost that will be compatible with farmers' values and way of life.

Summary.

The Tallgrass Prairie Producers Co-op recommends that projects to market added-value beef be developed with a sound business plan, adequate capital, professional management, cost- effective operations, consistent supply, compliance with legal standards and access to low-cost processing and volume markets. All the costs of the business must be accounted for in order to protect the core values and goals of the farmers.

Many have described our odyssey as a remarkably successful effort that took us much farther than most groups of this type ever get. One expert characterized our activities as a "successful test market" of a product that could someday be taken to the commercial level with adequate capital and professional guidance.

In recent months, our co-op has been exploring the possibility of joining together to develop a cooperative tourism enterprise in which we would host guests on our ranches and offer authentic experiences in ranch daily life and prairie ecology. We are also considering remaining as a ranching cluster that shares production ideas and economic information in an effort to assist and advise each other on economically and ecologically successful ranching strategies. We don't know where all this will lead us. What we do know is that we have been fortunate to know each other and have developed tremendous loyalty, respect and affection for one another. No matter what happens, we have been through an adventure together that we will never forget, and we will always be friends. #

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