Creating a Dynamic Kentucky Meat Industry - An intervention strategy[1]

Definition: By a Kentucky meat industry, I mean an industry which utilizes local resources and enhances farmer incomes, to deliver meat products processed in Kentucky. We don't yet know how much of the production should be done in Kentucky. That will depend on consumer preferences and the practicalities of production costs.

Goals: Our goal is to identify what do we need to do to stimulate the meat processing industry to develop products and increase retail and food service sales to provide income opportunities for entrepreneurial farmers and processors.

Because of the complexity of profitably engaging in the local/direct meat system, this enterprise is not for everyone. It is suited for the more innovative and creative farmers and processors. However, if it is fully developed, there will be an increased demand for livestock from the more traditional producers.

Background: An existing industry of about 20 federally inspected processors, about 40 custom exempt processors; a handful of entrepreneurial processor managers; high logistical costs (sales/delivery, etc.)

We have a large beef industry, but one which is focused on feeder cattle; a declining hog industry which is looking for alternatives; an existing direct lamb market; a quickly growing goat industry; unproven interest in a range poultry

A consumer base focused on commodity meat products, but enough consumers to support a much larger niche meat industry; extensive population centers bordering Kentucky;

Vision: A network of processors and producers who have developed a mix of niche markets and cooperate to supply larger markets; a logistical system which makes it convenient for consumers and food service users to buy locally produced and processed meat products; interaction between buyers and producers which communicates buyer preferences to producers/processors;

Products: While almost any meat product can be produced and processed in Kentucky, it has a comparative advantage in smaller scale and high end products targeted toward speciality markets. The high cost of delivering commodity products reduces Kentucky's competitiveness. Products which exploit small/family farm flexibility, and are crafted to build on this image and its environmental attributes are most likely to be generate the price premiums needed to offset higher costs and reduce the likelihood replication and of external competition. Eating quality is an essential attribute. Humane standards, environmental stewardship, process verification, use of implants/antibiotics are production components which need to be assessed in the market.

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[1] A brief summary of lessons learned from several projects during the past three years and ideas for using this information in policy decisions. Lee Meyer, Extension Livestock/Meat Marketing Specialist, Univ. of Kentucky Cooperative Extension Service, July 18, 2002.

Processing: The small scale processors in Kentucky have much higher costs than the large commercial plants operated by the major meat packers. For example, it costs about $80 per head to harvest/fabricate cattle in the large plants compared to $150 to $200 per head at the scale of most of Kentucky's processors. In addition, offal is cost concern as opposed to valuable product. However, some producers/ processors are profitable even under this situation. Processors see slaughter as a necessary losing enterprise in order to have the raw product available for profitable further processing/direct marketing. This suggests that the industry could be much more successful if the costs of slaughter/initial fabrication could be lowered.

Interventions: Nurture **entrepreneurial** processors and producers by sharing in costs and risks through co-funding selected and unique investments;

Create the knowledge which is useful beyond the individual business, for example by funding research projects focused on product development, market preferences and market strategies;

Reduce the costs of logistics (delivery, sales, merchandising) by an experimental partnership with existing distributors;

Evaluate means of reducing harvest/fabrication costs through new facility design and shared facilities.

The ADB Board has received a diverse range of proposals to improve meat processing. Funding should be contingent on contribution of the project to the industry and benefits to producers. An experimental model would be useful because we do not have a clear understanding of costs and opportunities. In other words, it is not a matter of adopting a successful model, but learning what a successful model is. The best way to do this is by experimenting/testing alternatives. With its funding, the ADB can partner with producer/processor entrepreneurs to try various systems. The greatest need is to assist smaller processors to expand to a size and level of expertise to lower their per pound costs and to generate enough income to cover fixed and management costs.

Finally, it is critical to support and enhance existing processors. This would eliminate the key leaders who have made tremendous progress in the past five years. The wrong funding approach could force unproductive competition. For example, if a large meat processor was brought into Kentucky, it could bankrupt the existing enterprises. However, a model in which some of the needed services are economically provided could enhance the existing base of business leaders.

Several entrepreneurs have interacted with the ADB by submitting proposals/concepts related to meat marketing. It seems that the goal of any funded projects should be to stimulate creative approaches to market development with potential for expansion or replication. Potential networks of livestock producers and processors would allow this to occur while maintaining the advantages of moderate scale business.