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Solving Processing Issues a Key to Successful Local Meat Marketing

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In recent decades, consumers have become increasingly interested in local food, including local meat and poultry. To meet this demand, local meat producers need access to appropriately scaled processing facilities with the skills, inspection status, and other attributes to handle these products safely, legally, and to customer specifications. Farmers and others market participants suggest that limited processing infrastructure is a bottleneck restricting the flow of local meat and poultry to market, and they call for more plants to be

built. At the same time, existing small processors often lack the steady, consistent business required for profitability, and new ventures too often struggle or fail for lack of enough livestock to process, enough of the time.

Recent research suggests that expanding the supply of local meats will require improved coordination, commitment, and communication between processors and farmers. Case studies of successful meat and poultry processors demonstrate how farmers and processors can build more established and predictable business relationships for mutual benefit. Central to these successful relationships are farmers' commitments, individually or in coordinated groups or brands, to provide the processor with a sufficient, steady supply of livestock to process; in turn, processors commit to provide consistently high-quality processing services.

Highlights:

- Consumer demand for local food continues to rise, and meat and poultry are part of that trend.
- Farmers and others point to processing as a critical bottleneck limiting the local meat and poultry sector, calling for new processing plants to be built.
- Small and very small processors essential to local meat supply chains often do not have enough steady, consistent business to keep skilled workers and expensive equipment fully utilized, reducing profitability and limiting expansion of services.

What are local meats?

“Local” has no strict geographic definition and can range from a county to a State to a multi-State region. We suggest three basic types of “local meat”—very local, local-independent, and regional-aggregated—that vary not only by geographic scale but also product format, market channel, regulatory requirements, and the structure of the supply chain. In the “very local” supply chain, the farmer sells live animals directly to household buyers before slaughter. Buyers place cutting orders, pay the processor directly, and pick up frozen meat. In the case of poultry, the farmer is also often the processor. In the “local-independent” model, the farmer arranges and pays for processing, picks up the meat, and markets it through a variety of direct and local marketing channels such as farmer’s markets and local retail outlets. In the “regional-aggregated” model, multiple farmers sell finished animals to a branded meat company, which arranges for processing and distribution and handles marketing, largely to wholesale accounts.

Characteristics of the three types of local meat and poultry

Type	Geography	Product	Market	Regulatory*	Roles
Very local	Same or neighboring county	Red meat: frozen meat, whole, half, quarter	Direct pre-sale to consumer. Poultry: sold at the farm	Red meat: Any, but typically CE Poultry: 1,000-bird exemption	Buyer pays for live animal pre-slaughter; pays for processing,

		carcass, paper-wrap; poultry: whole carcass			picks up meat.
Local-independent	Highly variable: from one county to multi- State	Individual cuts & cooked meats vac- packaged or paper wrapped, labeled, fresh or frozen. Poultry: whole carcass, parts.	Retail (farmers markets, farm stands, CSA**, restaurants) & wholesale (e.g., to retailers)	Red meat: SI or FI. Poultry: 20,000 bird exemption, SI, or FI if crosses State lines	Farmer is responsible for marketing and distribution.
Regional- aggregated	State-wide, multi-State	Same as above plus primals, subprimals, fixed weight portion cuts, all usually fresh in formed vacuum packaging	Mostly wholesale (to retail, food service, distributors, schools)	FI SI if all sales within that State	Multiple farmers supply branded meat company, which manages the supply chain and marketing.
*Meat: Custom-exempt (CE), State inspected (SI), or federally inspected (FI). For poultry, 1,000-bird and 20,000-bird refer to 2 exemptions. **Community Supported Agriculture (CSA).					

Within each category, the size of an operation will vary. A farmer selling through the “very local” strategy may sell anywhere from 1 to 100 animals per year. A farmer who is part of a “regional” brand may only raise a few head per year for that brand, selling the rest of the herd into conventional channels. The cost-effectiveness of the various strategies depends on the scale of the operation. For example, a farmer selling only 10-20 head per year by the cut at farmers markets may struggle to sell all parts of each carcass, and higher transaction costs may erase potential profits from premium prices. A profitable marketing strategy on the part of the farmer is critical to the persistence of small processors: otherwise, the farmer will not provide stable business for the processor.

The Processing Problem

Both farmers and processors express frustration with the current situation. Farmers may have to drive several hours or longer to the closest inspected processor or one with the desired certifications, skills, or services. Processors often book up quickly at certain times of year, and there may be few or no alternatives nearby. Processing services from smaller processors may also seem more expensive, especially when compared with lower costs at large-scale, conventional processors. At the same time, processors often experience uneven demand for their services, especially over the course of a year, given the seasonality of livestock production. Without steady throughput to generate continuous revenue, processors cannot cover significant, year-round expenses that include a skilled workforce, costly equipment, utilities, and other costs. Small and very small processors that provide custom cutting for many different independent farmers also lack the economies of scale enjoyed by large processors.

Expense models for meat plants operating in the three local meat categories suggest that in order to break even, even a very small processing plant requires an annual volume of approximately 400 beef cattle per year, or the revenue equivalent in combinations of other livestock. Because the average farmer participating in local meat production and marketing produces far fewer than 400 head per year, such a plant would need at least 40 farmers to each bring at least 10 head per year of beef or equivalent.

Expense models for three scales of local processing

Expenses	Very small	Small	Regional
Raw materials/ingredients/packaging	\$50,000	\$120,000	\$700,000.
Labor (all inclusive)	\$110,000	\$300,000	\$2,800,000
Office-related overhead ^a	\$1,000	\$4,000	\$25,000
Processing-related overhead ^b	\$30,000	\$61,000	\$450,000
Other overhead ^c	\$20,000	\$32,000	\$150,000
Local interest	\$10,000	\$25,000	\$165,000
Depreciation	\$10,000	\$23,000	\$152,000
Total expenses	\$231,000	\$565,000	\$4,442,000
# Beef rev. equiv./yr for break even ^d	462	1,130	8,884
# Beef rev. equiv./yr for cash flow ^e	442	1,084	8,580

^aE.g., office supplies and equipment, advertising, phone/postage.

^bE.g., utilities, small tools, supplies, repairs/maintenance, vehicle expense, laundry.

^cE.g., insurance, license, property taxes, legal/accounting services, donations, dues, travel, misc.

^dAssumes average revenue for all plants of \$500 per beef, \$150 per hog, \$150 per sheep or goat.

^eCash flow does not include depreciation.

Expense model features and assumptions

Very small custom-exempt	Small inspected	Regional inspected
2,000 sq. ft. facility	4,000 sq. ft. facility	15,000 sq. ft. facility
Slaughters/fabricates beef, pork, sheep, goats	USDA or State-inspected; may still do custom-exempt work	All product USDA inspected
Limited sausage making, smoking, curing services	Slaughters/fabricates beef, pork, sheep, and goats	Regular 3rd-party audits (good mfg. practices, food safety, animal welfare, certified organic)
All raw meats packaged in butcher paper and frozen	Sausage making, smoking, and curing services	Quality assurance department monitors sanitation, product safety, quality, shelf life via microbial testing, sensory evaluation
Option for some vacuum packaging for cooked sausages	All raw meats packaged in butcher paper and frozen	Slaughters/fabricates beef, pork
No scale labeling (applying labels with actual, "catch" weight to individual packages or cases)	Vacuum-pack cooked sausage, boneless cured meats	Sausage making, smoking, and curing services, exact weight retail portions
4 full-time equivalent employees	Very basic scale labeling	Exact weight portion cutting of steaks and roasts offered
	10 full-time equivalent employees	All raw and cooked meats are vacuum packaged fresh or frozen, usually. Thermoformed roll stock for retail sale
		Complex scale labeling for pieces, cases
		4-color preprinted labels applied uniformly to packages
		Most product boxed, palletized to ship

		60 FTE employees
		Offers health insurance and retirement matching benefits

These expense models show that a new processing facility cannot be built without commitments of significant livestock volume and a large capital investment, especially when more sophisticated services and certifications—such as those listed in the table above—are needed. Farmers cannot grow because processing capacity is limited, but processors cannot grow or provide certain services or availability because they do not have enough steady work to provide steady revenue. This lack of throughput is likely a more limiting factor for local meats than a lack of processing capacity.

Case Studies Demonstrate Importance of Committed Farmer-Processor Relationships

To investigate this issue, ERS and university researchers conducted indepth case studies of seven meat and poultry processors located across the country via site visits and phone interviews during 2011-12. The seven case studies profile USDA-inspected meat or poultry processors that process for local markets. The table below provides basic data about the processors profiled. The selected processors were different sizes and from different geographic regions.

Basic data about the case studies

Name	Species	Employees	Head/yr	Location
Lorentz Meats	Beef/bison	70	8,000 beef/bison	Cannon Falls, MN
Smucker's Meats	Red meat	30-35	3,000 beef/bison 1,000 hogs	Mt. Joy, PA
Heritage Meats ^a	Red meat	7	1,000 beef 1,000 hogs 270 other	Rochester, WA
TFC Poultry	Poultry	50	1.4 million birds	Ashby, MN
White Oak Pastures	Beef, poultry	55	6,700 beef 200,000 poultry	Bluffton, GA
Ranch Foods Direct	Red meat	25-30	4,000 beef	Colorado Springs, CO

Island Grown Farmers Cooperative	Red meat	6-8	300,000 lb meat ^b	San Juan County, WA
^a Heritage Meats is the only plant profiled that does not have its own slaughter floor, fixed or mobile. ^b Retail yield. Annual capacity was not available in number of head.				

Findings from the case studies reveal that despite significant challenges, some meat and poultry processors are successfully helping farmers bring local meat and poultry to market. Underlying their success are committed business relationships and a long-run interdependence between processors and farmers. Each party promises to deliver for the other and consistently follows through. This commitment requires communication about needs, roles, and abilities, along with ways to measure whether promises are met.

Commitment can take different forms in practice. A common and valuable strategy among the processors profiled is to have “anchor” customers that provide a steady volume and consistent flow of business. Some processors are their own anchors, providing some or all of the livestock processed and selling through a mix of wholesale and retail marketing channels, nationally and regionally. Alternatively, small brands, cooperatives, or other “aggregators” that source livestock from multiple farmers and coordinate the rest of the supply chain can be valuable partners for processors. Aggregation provides a steady flow of animals because of access to multiple farmers and allows coordination with processors for more consistent scheduling.

Successful processors have developed a number of management tools to ensure adequate throughput and customer commitment. These tools include active scheduling systems, variable pricing, and even no-show penalties to ensure that throughput is steady, week by week and over the year. These systems also provide predictability for farmers, who can be more certain that they will have processing dates for their livestock. Processors also go beyond the cutting floor, helping their farmer-customers with marketing and distribution. This approach helps processors work more effectively with their farmer-customers, build loyalty, and ultimately enhance demand for their services. In other successful case studies, farmers invested time and money into the processing business through loans, stock purchases, equipment financing, or hours of expertise and effort. This investment deepened the mutual commitments between farmers and processor.

Communication is key for all forms of farmer-processor commitments. Each of the successful processors profiled appears to communicate effectively with farmers about scheduling and services, costs and pricing, meat quality, and market conditions to develop and maintain strong business partnerships. Interestingly, processors did not voice strong opinions about a number of local meat processing and marketing challenges commonly cited, such as regulatory compliance, finding and keeping skilled workers, and the cost of byproduct disposal. Processors were asked about all of these topics, but none saw these issues as more than the expected tasks and

costs of doing business. When processors have committed business (i.e., a steady volume of livestock to process) they have a steady revenue stream that enables them to hire and retain skilled staff and, once scale becomes sufficient, to pay for indirect labor, including staff to ensure regulatory compliance and quality assurance.

Private and Public Resources Support Local Meat Processing

Farmers and processors engaged in local marketing of meat products derive support from a number of public and private organizations that work regionally and nationally to maintain, support, and in some cases create processing for local meat and poultry. These collaborations and networks can harness the experience and expertise of a variety of partners, public sector and private, to provide information, guidance, and direct technical assistance. Such efforts are underway around the country.

Conclusions

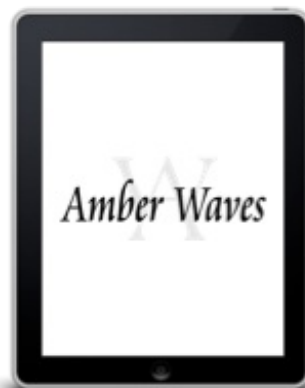
The case studies demonstrate that success in meat and poultry processing for local markets entails the formation of mutually beneficial business relationships between producers and processors. Limited access to slaughter and processing facilities, especially those with Federal or State inspection, continues to be challenging for farmers seeking to satisfy consumer demand for local meat and poultry products. Small-scale facilities serving local markets benefit from a commitment by farmers to provide steady and sufficient quantities of livestock to process, as well as their willingness to pay fees for the services that make such facilities economically viable.

Farmers have a clear motivation to commit to their processors. To satisfy and grow their customer base, long-term access to quality processing of their meat and poultry products is necessary. Small meat processors also have an incentive; local meats represent a potentially valuable market as consumer demand grows. Local needs and conditions will influence which business models work best for farmers, processors, buyers, and others involved with local meats.

This article is drawn from...

Local Meat and Poultry Processing: The Importance of Business Commitments for Long-Term Viability, by Lauren Gwin, Arion Thiboumery, and Richard Stillman, USDA, Economic Research Service, June 2013

Slaughter and Processing Options and Issues for Locally Sourced Meat, by Rachel Johnson, Daniel Marti, and Lauren Gwin,



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