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# Growing Naturally: Challenges Faced by a Small, Vertically Integrated Natural Beef Producer

Aaron J. Johnson and Heather C. Johnson

Today's consumer is more consciousness about food safety and health as it relates to diet. This trend partially explains the growth in natural food products. Natural product sales in all channels reached \$42.8 billion in 2003, an 8.1% increase over 2002 (Spencer and Rea 2004). While the natural and organic food market is still only 1%–2% of the overall food market, the National Marketing Institute reports that 63% of consumers use natural foods/beverages (NMI 2004). NMI cites that 42% of consumers have a greater interest in natural beef and 35% are more concerned about the safety of the meat supply. As a result, the natural beef-products category has grown 23 percent since 1990 (Rose 2004), and this growth is expected to continue as the BSE concern increases in the U.S. This situation provides great opportunity for beef producers, but with opportunity come challenges.

With the growing demand for natural beef products, small natural beef producers have entered the market. These smaller producers face several difficult challenges in managing the value chain. This case explores the marketing-management issues, production and processing challenges, and other supply-chain-management problems faced by Lonely Lane Farms (LLF)—a small, nascent, natural beef company in Oregon.

While the two larger natural beef producers in Oregon marketed between 10,000–16,000 head in 2003, LLF marketed only 135 head. Given the limited amount of beef it has to sell, LLF cannot ensure larger retailers (Whole Foods, Wild Oats, etc.) a consistent and ample supply of product. LLF is left to seek out smaller alternative markets that they are able to service.

Another marketing challenge facing the company is its pricing strategy. To differentiate their products from other natural beef suppliers and discourage other entrants, LLF sets its prices lower than other natural beef products in the market. LLF also hopes

their pricing strategy will maintain some level of profit margin while allowing LLF to grow market share. Their challenge is to accurately measure cost and to price their product to maintain profitability.

Another marketing challenge faced by LLF is finding a market for less-valuable cuts. LLF wrestles with how to sell products with low demand while maintaining a respectable profit margin. While 16% of a carcass (by weight) is higher-valued, more-marketable center cuts (ribeye, tenderloin, etc.), more than 50% is lower-valued, less-marketable cuts from the shoulder and rump. The retail establishments carrying LLF products mainly want the higher-valued cuts, so LLF is challenged with how to sell the less-desirable products.

LLF also manages challenges related to the small processing and fabrication plant it uses. The high costs and labor intensiveness of the small plant makes this a less-desirable long-run option. Additionally, poor plant management increases the likelihood of the plant facing serious inspection violations and bankruptcy. These issues leave LLF vulnerable to a supply-chain-management crisis.

This case study identifies the specific challenges faced by LLF and highlights the company's response to these myriad challenges.

## References

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