

**FSMIP Final Report**  
**Submitted by the Kentucky Department of Agriculture, University of**  
**Kentucky, and Partners for Family Farms**  
**Agreement Number 12-25-G-0262**

**Meat processing and Marketing Techniques for Local and Direct Markets**

Buying local meat is something more Kentucky consumers have had the opportunity to do since the beginning of Kentucky's Direct and Local Meat Marketing project. You can currently find local meats in farmers' markets, health food stores, supermarkets and on the menus of fine dining establishments. That, in itself, speaks for the overall success of the Direct and Local Meat Marketing project.

In writing this final report, the administrators of this project would like to take this opportunity to review the past two and a half years. Our successes, of which there are many, should be highlighted. Our not so successful moments should and will be documented so as to guide others who may find themselves exploring similar opportunities.

The format of this report will concentrate on the goals and objectives that have been met, how they have been met and the lessons we have learned throughout this project. Previous reports have been focused in such a way as to identify the workshops we have hosted, the events we have been involved with or the surveys we have conducted. In contrast, we would like for this to be an all-encompassing document to summarize the achievements of this project.

**Goals and Objectives:**

The objective of Kentucky's Direct and Local Meat Marketing project was to increase the profitability and therefore sustainability of Kentucky livestock producers. For many of the participants in this project this objective has been accomplished. Unfortunately, a direct meat marketing system simply cannot work for everyone. Factors that can affect the success of a meat marketing enterprise include drive of the producer, access to resources, location, and quality of product. However, for those individuals with abundant drive and entrepreneurial spirit, direct and local meat marketing can be a profitable venture.

**Goals:**

1. To provide assistance to producers in the development and coordination of product consistency and flow that is required for access to local markets.

Assistance to producers in having their animals processed under USDA inspection has been a major step in reaching this goal. In the early stages of this project, the University of Kentucky Meats Lab provided this service to producers at a reduced cost allowing them to test a direct marketing system with a reduced risk. We worked with producers on an individual basis to identify their target market and determine if the products they were producing fit the quality and quantity needs of that market. By working through the Meats Lab, we have been able to educate

producers on what they are producing by bringing them in and showing them the products on the rail. This has been an eye opener of many of our participants.

Education has also played a major part in reaching this goal. We have had the fortunate opportunity to work with several chefs and supermarket owners who have provided insight on what it takes to supply their needs. For the most part, the participants in this project truly understand the difficulties involved in providing products for these markets. They understand that these businesses may only need specific cuts at specific times and that they will need to be creative in order to market the less desirable cuts of meat. Some have been successful upon this realization and some have not.

As the project has progressed we have attempted to build relationships between participants and local processing facilities in their area. Of the 30 participants in this project, approximately half have made the transition and are operating successful direct meat marketing enterprises.

## 2. Provide educational and assistance programs for the development of business plans.

Farmers, in general, are not very interested in developing business plans. We encouraged producers to develop business plans through workshops that allowed individual planning opportunities. Still, this has been one of the most difficult goals of this project. We have been successful, however, in at least increasing the understanding that a direct marketing system is a time consuming and expensive business. Yes, a side of beef can be sold at higher prices than the live animal, but there are costs associated with additional feeding, processing, delivery, and advertising.

The majority of participants involved in this project may not have drafted a formal business plan for their operation, but at least they understand the basic principles involved in business planning.

## 3. Conduct consumer research on the acceptability of Kentucky raised and processed products, including purchasing habits and promotional logo acceptance.

Almost all of the consumers we have talked with and surveyed throughout this project would actively purchase local meat products if the product were sitting next to what they normally purchase and the price was the same. Unfortunately, this situation is not the reality. It is quite clear that Kentucky livestock producers will never be able to compete with large packing firms on the basis of price, and most direct meat marketers will never occupy space in large chain supermarkets.

However, there are consumers who are willing to go out of their way and pay premiums for locally produced meat products even though our research has shown that there is little taste difference between local and commodity products (attachment #1). For the most part, it appears that these consumers are older individuals with more disposable income who remember what it was like to purchase meat before the inventions of boxed beef and case ready packaging. Our consumer research seems to indicate that there are significant numbers of these consumers willing to pay moderate premiums (20%) for local products (attachment #2).

The development of a Kentucky product's logo is in the final stages. This has proved to be a more complicated task than originally expected, and will hopefully be launched by the summer of 2002.

4. Educate local processors in proper breaking and cutting of carcasses to insure uniformity, value-added processing, and food safety management under HACCP.

Rural Kentucky is dotted with small custom and USDA inspected processing plants. Most are individually owned and have few, if any, employees trained in the area of meat cutting. Working with this situation is difficult for farmers and confusing for consumers. Carcass cutting varies greatly from plant to plant and can even vary within a plant from day to day. In an attempt to overcome this, we have held meat processor workshops to help provide a uniform standard for cutting beef, pork, lamb and goat. It has been a challenge to find processors willing to change the way they have been operating for years. However, some success has been achieved and there has been recent interest in forming a Kentucky meat processor's association to foster the connections that have been made between processors.

We have also had some successes in the area of value-added processing. We currently have producers working on various types of jerky's, sausages, and country hams. These value-added products are providing direct marketers with market outlets for the cuts less desired by restaurant and retail markets.

5. Assistance in compliance with state and federal requirements for the labeling and sale of meat products.

In general, government regulations are not small farm friendly. USDA processing and labeling regulations serve as major stumbling blocks for many producers. In this type of marketing system, many producers are attempting to target niche markets and therefore need to make specific production claims about their products. This is not a simple process and requires prior approval by the USDA Food Safety Inspection Service. In an effort to make this process as simple as possible, we have compiled information into a handbook entitled, "Labeling Meat in Kentucky: a farmer's guide to labeling USDA inspected meat products for direct sale" (attachment #3). If nothing more, this resource provides contacts for farmers to use during the difficult process of label development.

6. Evaluate and develop local markets, including direct sales to consumers, restaurants and stores.

This group has been extremely instrumental in the development of markets for local meat products. While it is difficult to measure increases in direct sales, more local products can now be found in farmers markets, grocery stores, health food stores and on the menus of fine dining establishments. These successes have been accomplished through individual work with chefs and store owners, a chef's focus group, restaurant survey (attachment #4), and participation in the Central Kentucky Harvest Festival, not to mention the hard work and determination of our direct meat marketers. We have also created a direct marketing directory (attachment #5) to help link producers of local meats to restaurants and retail outlets looking for these products.

7. Assimilate all marketing, processing, and production information into an educational/training program.

The work we have conducted on this project is currently being assimilated into a Direct Meat Marketing Handbook. Additionally, much of the information can be accessed on the project's web site at [www.uky.edu/ag/kymeat](http://www.uky.edu/ag/kymeat). Some project results were also presented at the 2002 Southern Agricultural Economics Association meetings in February.

8. Conduct economic analysis of whole system profitability.

By working closely with the participants of this project, we have had the ability to follow each sale and evaluate the profitability of local meat marketing at the farm level. We have been fortunate to work with livestock producers willing to share with us their production and management costs. From this information we have been able to create computerized enterprise budgets for the direct marketing of beef, pork, and lamb (attachment #6, 7, & 8). Farmers can input their production and price information to help determine at what level their direct marketing system can be profitable. Carcass yield worksheets have also been developed to help farmers determine what percentage of marketable product they should receive from a beef animal or hog (attachment # 9 & 10). Both the budgets and the carcass yield worksheets are available on our web site so that producers can adapt them to their operations.

Additionally, we have worked with small meat processors to develop enterprise budgets for small processing plants operating on a custom basis (attachment #11). A value chain analysis has been developed to show the inequalities of small scale processing verses commodity processing and the necessary margins needed to sustain different direct meat marketing systems (attachment # 12).

### **Implications:**

This project has helped gather much needed information on the environment surrounding direct and local meat marketing in Kentucky. We have learned valuable lessons about the amount of work that is needed on the part of the producer to make a direct meat marketing enterprise succeed. We have learned that consumers and chefs want local products, but sometimes not enough to absorb the extra costs or the lack of convenience that can be involved. However, there are those special individuals that feel local products are worth the extra money and energy it takes to purchase them and these are the individuals that make these systems work.

From the producer's perspective there are several issues that require thought prior to developing a direct marketing system. These issues are not much different than those involved in the development of any business plan, but should be considered a necessity. The most critical key to a successful direct meat marketing business is understanding your market and more specifically the market demands. Direct meat marketers are typically dealing with a consumer who demands a higher level of personal service. Quality is important to them but they typically buy on the non-sensory attributes of the product, such as, no added antibiotics, no added hormones, organic,

or simply farm fresh. These markets typically require a stronger relationship with the consumer than is required by a commodity product.

Producers must make sound business decisions regarding the marketing avenues they will pursue. The basic marketing options are to market freezer meat (typically a whole, half, or quarter carcass) directly to the consumer, to market individual cuts directly to the consumer, or market wholesale products through a restaurant, distributor, or other retail outlet. Some producers find a combination of these methods works best as each segment of the market has a varying degree of risk and profitability. The ultimate marketing decision usually comes down to the amount of product the producer has to market, the amount of time available to market, and the infrastructure available for storage and distribution.

Once a target market or markets are established, regulations regarding meat processing and labeling must be addressed. Regulations will differ based on the end market and producers must be aware of the requirements in order to locate the best and most cost-effective avenue. Likewise, laws regarding meat labeling must be understood, as there are strict guidelines as to what claims can or cannot be made about meat products. A producer who does not understand these guidelines has little chance of operating a successful meat marketing business. Issues as simple as handling the product from the processing facility to the outlet point, such as a farmers market, requires knowing the pertinent regulations as defined by the public health officials.

Once a producer has a market plan in mind and a product that meets all the necessary requirements, they are face with the most often overlooked component of direct meat marketing, product distribution. Distributing meat products to customers is extremely challenging for the direct meat marketer. Product flow, storage space and delivery are critical components of this system. Here again, certain regulations for handling and storage apply. The most common challenge for a new meat marketing enterprise occurs when the whole animal is not marketed at once and the producer has to deal with marketing and balancing individual cuts. When the freezer is full of hams or hamburger, what are the options? Conversely, when the restaurant calls at 8:00 a.m. and wants 50 t-bone steaks by 3:00 p.m. who is going to deliver it and how? This level of direct marketing requires a serious commitment and needs careful consideration by anyone wishing to enter into this venture.

The question still remains as to the profitability of producing local meat products. In general, any direct marketing enterprise can be profitable as long as products are priced above production costs and consumers are willing to pay that price. There are two key points to this statement. The first is that producers must know their production costs. Whether or not they take the time to develop a formal business plan is up to the individual producer, but at a minimum producers must have adequate records to at least determine their costs in producing that animal from farm to plate. Only if production costs are known can a producer price his or her products at a profitable level. The second key point in the above statement is that the producer must locate consumers that are willing to pay the price they have set for the product. For some producers this is a simple task. They are excellent marketers and can convince their customers that their ground beef is actually worth \$3.00 a pound. Others are not successful at this stage and therefore will not succeed in a direct marketing enterprise.

## **Conclusions:**

Direct meat marketing has proven to be an opportunity for many producers in Kentucky. By servicing a unique clientele and supplying a specialized product, the profitability of livestock producers can be dramatically enhanced. It takes a major commitment on the part of the producer to be involved in this type of marketing system and thus will not work for everyone. Just like any business opportunity there are risks and opportunities that must be carefully researched by the producer before they enter into a direct meat marketing enterprise.

The work on direct meat marketing in Kentucky will continue long after the submittal of this final report. We currently have plans this spring to reprint the direct marketing directory that was originally initiated out of this project. Other plans include a restaurant and food service survey to help us determine the demand for locally produced small livestock products such as range chicken, turkey, quail, pheasant, freshwater shrimp, fish, and rabbit. We are also planning a large-scale advertising campaign to identify the Kentucky restaurants that make it a practice to purchase local products from Kentucky farmers.

Hopefully our work over the past two and a half years has increased opportunities for farmers in the area of direct marketing. We have enjoyed the chance to work closely with producers and will continue to foster the development of local markets in the future.

## **Budget Overview**

The vision of this project was to be a cooperative effort between the University of Kentucky (UK), Partners for Family Farms (PFF), and the Kentucky Department of Agriculture (KDA). Since KDA was the recipient of the Federal Funds, cooperators were awarded operational dollars via Memorandum of Agreements. The Agreements have been included in this section for your reference. If signed executable copies are necessary, they are in the master files at KDA. The UK portion of the project accounted for \$131,000 of project costs while the PFF component accounted for \$29,000 of total project budget. The remaining \$36,000 was the KDA portion.

Expenditures are reported based on accounting from each entity and may be found in the following table. Total project expenditures were \$204,705.44. It does vary slightly from the budgeted dollars as it relates to expenditure category. This was due to a significant overrun on personnel from the UK component.

A copy of the Standard Form –270 has been included as a reference document with the original being enclosed with this final report. All budget accountability is available on request and includes an accounting of all related expenses.

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### Reported Expenditures From Each Cooperator

<b><u>Expenses</u></b>	<b>University of Kentucky</b>	<b>Kentucky Department of Ag</b>	<b>Partners for Family Farms</b>	<b>Total Spent</b>	<b>Budgeted</b>
<b>Personnel:</b>	\$130,025.04	\$17,273.46	\$16,500.00	<b>\$163,798.50</b>	<b>\$135,000.00</b>
<b>Travel:</b>	\$3,734.12	\$939.92	\$209.60	<b>\$4,883.64</b>	<b>\$8,000.00</b>
<b>Supplies:</b>	\$4,888.19	\$2,306.79	394.66	<b>\$7,589.64</b>	<b>\$9,000.00</b>
<b>Contractual:</b>		\$1,703.35	\$9,233.64	<b>\$10,936.99</b>	<b>\$14,000.00</b>
<b>Other:</b>	\$4,258.49	\$10,563.26	\$2,674.92	<b>\$17,496.67</b>	<b>\$30,000.00</b>
<b>Grand Total</b>	<b>\$142,905.84</b>	<b>\$32,786.78</b>	<b>\$29,012.82</b>	<b>\$204,705.44</b>	<b>\$196,000.00</b>