

Final Report on The FSMIP Pasturelands Grant

Summary of the final quarter – August through October 2002

The final three months of the grant was spent planning a final direct marketing meat workshop and developing a direct meat marketing manual. The workshop was held on September 26, 2002 and was attended by 55 producers (see attached agenda and evaluations).

The remainder of the quarter and calendar year was spent compiling data for the direct marketing manual. The Emerging Agricultural Market Team (EAM Team), the University of Wisconsin Center for Cooperatives (UWCC), University of Wisconsin Extension, and Department of Agriculture, Trade and Consumer Protection staff have contributed to this project. The manual is coming together and we hope to have it printed by the end of January 2003 (see attached table of contents).

The manual will cover the following topics:

- Production issues related to marketing
- Food Safety and Regulations
- Processing Issues
- Marketing the Product
- Contacts in the Industry

This publication will be sent out to all the participants that attended the four meat marketing workshops and other interested parties. We will keep a number of these on hand to send out to producers that are interested in doing direct meat marketing.

Summary of the FSMIP Pasturelands Grant

The FSMIP Pasturelands' Grant was initiated to address problems and impediments to existing trade between farmers and consumers of their meats. The FSMIP project was to devise improved marketing practices and systems to address these problems by strengthening Pasturelands' independent meat marketing efforts. Pasturelands targeted direct, retail and wholesale marketing of meats from hormone- and antibiotic-free livestock, raised according to humane and sustainable agricultural practices. The FSMIP project was to develop an efficient business structure; accounting procedures; automated and computer support; strategic planning; and ongoing research mechanisms for the meat marketing service. It was to mold the Pasturelands marketing program into an effective business structure for a core group of farmers and an expanding circle of Wisconsin livestock producers. The FSMIP project was also designed to explore other premium and marketing strategies for these farmers, such as the possibility of developing U.S. and international markets for meats from livestock that are fed GMO-free grains. Working with the UW Extension Resources Emerging Markets Team, this project was also intended to strengthen the networking and cooperation of Wisconsin livestock producers; local, community-based meat processors; and the Pasturelands meat marketing program. To enhance the cooperation, four meat-marketing workshops for small-scale livestock producers around the state were held.

When the FSMIP grant was initiated, Wisconsin Pasturelands' had been in existence for several years. The group was a loosely organized collection of producers involved in direct marketing of chicken, lamb, pork and beef. Some of these producers sold directly to consumers, some had restaurant and store accounts, and other did a combination of all three. There were producers that were organic, some sold "pasture raised" meats, while others produced "conventional" products. Organizing this diverse group into a meat marketing cooperative was one of the biggest challenges confronting the participants.

After some discussion with the Pasturelands' group, it was decided in early 2001 to concentrate the meat marketing efforts on beef and poultry. The reasons were mainly due to the number of producers of each already involved and the customer base they had established.

Through surveys and consumer contacts, the Pasturelands' group discovered that consumers had preferences for buying meat based on convenience and last-minute meal planning; a preference for "conventional" packaging and not white paper-wrapped meat; an uncomfortable feeling about asking a farmer the price of the meat he or she was selling; and the fact that, unlike vegetables, the closer many consumers got to the source of their meat, the less appealing it became. These factors made it difficult for the group to direct market the volume of meat they had desired. They decided to concentrate more on the restaurant and retail markets where they saw a better opportunity.

The group discovered that restaurants had a great desire for their farm-raised meat products, but found less enthusiasm from retail food stores. The restaurants, however, demanded a higher degree of processing and more uniformity of product than the producers were accustomed to providing. The group also found the marketing poultry, especially whole chickens, was significantly easier than beef.

It was during this time, April 2001, that the Pasturelands' beef producers began the task of forming a meat marketing cooperative. The group decided they needed to enhance their business plan in order to raise the much needed equity capital. Dr. Keith DeHaan, a consultant with Food & Livestock Planning, Inc. was hired to assist with this project. A business plan was developed and the group began looking for capital and a company to process and package their beef. Derek Lee, project coordinator, was able to find a processor that fit their needs very well. Unfortunately, this processor was located in Omaha, NE, several hundred miles from the majority of producers.

The business planning process also showed them that the business wouldn't generate the profits they were seeking. There was one other major obstacle to be addressed before the beef producers could be organized into a cooperative. This was the need to decide what type of beef to produce. Some of the producers desired an organic grass-fed animal, some wanted a pasture raised animal that was finished on grain in a feedlot, other producers had different ideas. The beef producers couldn't agree on these key issues and finally decided to not form the cooperative. This segment of the Pasturelands' project was discontinued in the fall of 2001.

About the same time as the beef producers were disbanding, Pasturelands' largest chicken producer decided to leave the project. His decision was based on family considerations as well as a change to more egg production. Fortunately, Derek Lee was meeting with a group of Amish farmers who showed interest in the project. While the other poultry producers were not satisfied with the profit level of the proposed marketing plan, the Amish farmers were willing to produce chickens at that level.

At the end of 2001, the Pasturelands' poultry producer group had grown to 12 Amish farmers. The project director, Derek Lee, had found a processor in Iowa that could package whole frozen chickens as well as frozen chicken breasts, wings, thighs, and drumsticks. Derek had also worked out an agreement with Northland Foods a food distributor located in Minnesota to distribute the chicken to retail outlets across Wisconsin and the Midwest. The poultry business continued to grow, but not without problems. The producers still needed to find markets for some of the less desirable cuts of chicken and Northland Foods was slow in paying for product. A Company in Wisconsin developed the chicken sausage product that utilized the less desirable cuts, but approval for the labeling was held up at USDA making it impossible to sell the product.

Early in 2002 the project focused on transitioning the chicken business from Michael Fields Agricultural Institute to Wisconsin Pasturelands, a farmer-owned cooperative. The process was difficult given the farmers were all Amish and had several moral problems with various business arrangements. However, the difficulties were resolved and the farmers filed for incorporation. They also arranged financing for the cooperative. At the same time Wisconsin Pasturelands" was moving the distribution to mainline distributors to create more efficiencies and sales volume.

In June 2002, the transition of the business from Michael Fields Agricultural Institute to Wisconsin Pasturelands, a farmer-owned cooperative was completed. The incorporation went smoothly and financing was secured for start-up of the business. The farmers, however, did not think it necessary to fund a position for a marketing director, thus eliminating Derek Lee's position and the relationship with the FSMIP grant.

Lessons Learned

- 1) Differentiation of Product: In the world of "natural" chicken it is a challenge to differentiate Pasturelands' product from the other industrial chicken suppliers such as Shelton's, Miller's, and Bell & Evans. The group worked hard and invested considerable resources in creating great marketing materials. Derek tried hard to get the farmers to promotional events but they were not very interested in participating and felt that it was the manager's job to market their chicken.
- 2) Fresh vs. Frozen: The business planning warned Pasturelands' that the demand for poultry was in the fresh market not frozen. Pasturelands' applied a supply side marketing mentality and thought if they grew it and packaged it, people would buy it. The frozen chicken business is a low-volume, high-cost venture due to the stiff competition and high costs of processing. A diversified frozen product line that enhances profitability can require tremendous capital, efficient and responsive processing, and a research and development team.
- 3) Processing: When Pasturelands" did their market study, they looked at what others were doing in the marketplace. They discovered that nearly all of the successful poultry operations that sell into the larger retail and food sectors are vertically integrated. This model allows them to capture the margin that Pasturelands' cannot when using an independent processor. It also allows them to control the quality and size of their product, which is crucial when marketing into food service and retail. Experience also showed that restaurants and retailers want a uniform product (usually white meat) and expect an endless and uninterrupted supply. Pasturelands' processor provided a good product, but compared to the rest of the industry they were paying three times more than other poultry companies. In addition, finding processors to handle the limited number of birds and

- cattle, package the product in an attractive and saleable form, and do this at a reasonable cost was a major problem. The limited number of Federally inspected plants that could meet the needs of a small business like Pasturelands' is a major hurdle in this type of venture.
- 4) Distribution: In the market study and business plan Pasturelands' calculated distribution costs would be close to 12%. This was true with mainline, conventional distributors. However, the natural food distributors marked the product up a full 40% to 50%. After the retailer marked the product up an additional 40% to 50%, a 4.5 LB chicken retailed for almost \$15. At that price, the chickens were not being sold resulting in bad cash flow. This experience furthers the argument for the fresh model, which would lower the ultimate retail price of the product. Given most natural food distributors sell frozen, it is difficult to market the volume of fresh chicken needed to provide adequate cash flow.
 - 5) Quality: Pasturelands' discovered that quality isn't just about raising free-range, antibiotic free chicken and putting it in the marketplace in attractive packaging and expecting to make a profit. They discovered that quality is whatever the marketplace says it is. Quality can mean portion control, color, taste, etc. Quality of processing and raw materials is also important. Pasturelands' had problems with its chicken sausage product. The processing technique used was not the same as other products on the market. This resulted in a product that was less desirable to the consumer and was hard to market to retailers.
 - 6) Capital: Adequate capital is vital for a successful business. It is needed to hire a manager, build facilities, purchase equipment, and supplies. It is necessary to purchase the initial product for processing and to carry on the day-to-day operations of the business through the start-up process. Pasturelands' began operation with a large sum of grant money. This allowed the farmers to put off capitalization of the business for several years. The farmers never really took ownership of the project in that time period. This is not a good model to follow, because without ownership or financial risk, the participants do not have the drive or the need to succeed. When the Amish capitalized the business, they did not have the financial foresight to hire a full-time manager. The best they could do was to hire a part-time manager on a commission only basis. Consequently, Derek Lee had to seek other employment. By doing this, the Amish lost a lot of Derek's experience and contacts in the meat industry.

Wisconsin Pasturelands' continues to sell frozen chicken products in Wisconsin and the Upper Midwest. In that, the FSMIP project was a success. The project helped with the business planning process, provided a source of funds to support a manager that essentially pushed the plan into existence, and found the farmers to produce the chicken.

The FSMIP project could not, however, develop the direct beef marketing business. The reasons for this were mainly because there was a very diverse group of producers with different goals and objectives in mind. A major reason the poultry business worked is because Pasturelands' was able to find a homogeneous group of producers, the Amish that had the same goals and objectives for the business. The Amish farmers were also willing to produce with a smaller profit margin than the non-Amish producers.

The meat marketing workshops that the UW-Extension and the UW Center for Cooperatives did were very well received by producers. Attendance for the meetings included experienced direct marketers and people interested in adding value to their livestock enterprises. The follow-up to

these workshops will be the meat-marketing manual that producers can use to help make decisions about direct marketing ventures.

A special thank you goes to Greg Lawless, University of Wisconsin Center for Cooperatives, Paul Dietmann, University of Wisconsin Extension's Emerging Markets Team, and Will Hughes, Wisconsin Department of Agriculture, Trade and Consumer Protection for all the hard work they did to make this project run smoothly. They also worked very hard in organizing and doing the four Meat Marketing Workshops.