

Lessons in Direct Marketing

As producers look for new avenues to increase their incomes, marketing directly to the retail or restaurant customer is becoming a more popular option.

by *Linda Sleichter*

Just a few years ago, direct marketing was a term foreign to the beef industry. Now, thanks to declining prices and growing niche markets, an increasing number of beef producers are turning to direct marketing to increase their profits and provide new opportunities for selling their products.

Tom and Jim Gamble of Saint Helena, Calif., are leading the way for direct marketing of beef through their company, Napa Grassfed Beef. The beef, which is sold largely to Bay Area restaurants, is grass-fed Angus raised on the Gamble Ranch. The brothers, along with their father, George, manage their 500-head herd and market beef to seven upscale restaurants in their region.

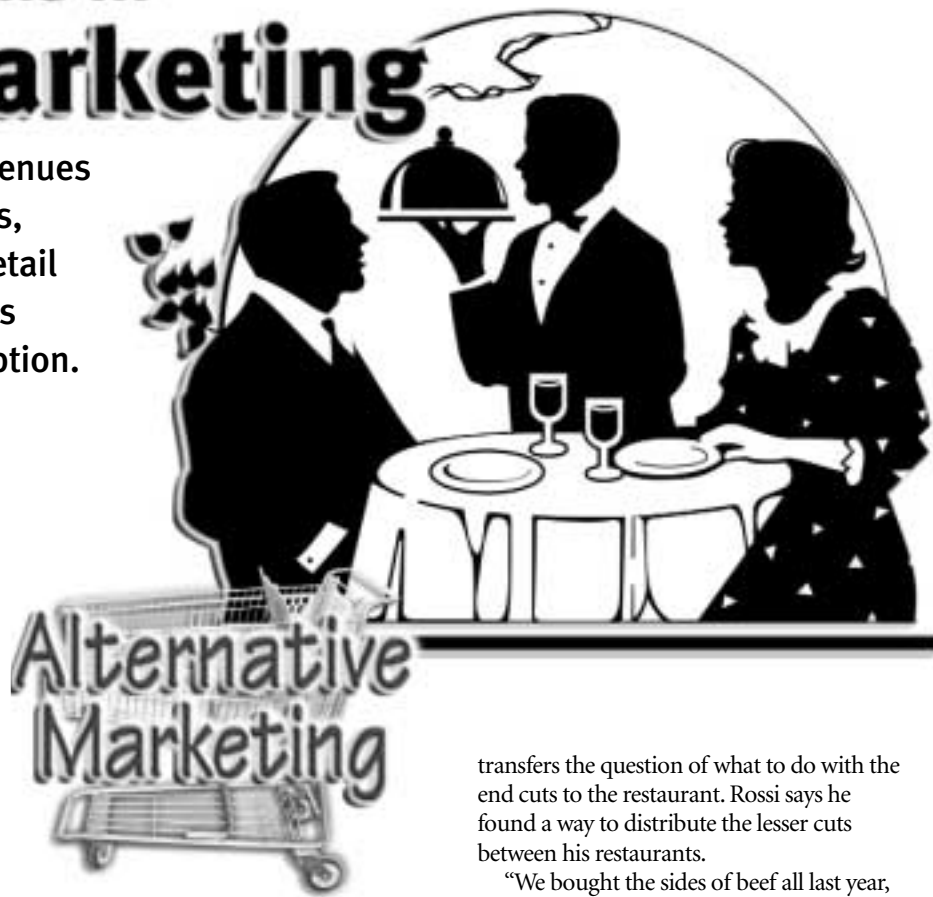
"We began direct marketing our product because we believe the traditional [approach to] raising beef doesn't have much future. We are looking for ways to improve our bottom line and make our operation sustainable," Tom Gamble says.

Gamble adds that their proximity to a highly urban area and Jim's marketing background gave them an advantage in marketing their product.

"We took stock of what people were charging at some of the upscale restaurants in the Bay Area and saw an opportunity for our product," Gamble says. "Also, my brother is able to bring his professional experience to the project."

Napa Grassfed Beef is marketed to restaurants as "tender, flavorful, 100% grass-fed, Argentine-style black Angus beef." Gamble says one reason restaurants purchase the meat directly from them, instead of going through traditional channels, is that they offer farm-fresh products.

Chris Rossi is one of Napa Grassfed Beef's



customers. Rossi owns and is the head chef for Citron and A Côté, two upscale restaurants in Oakland, Calif. He says one benefit of purchasing direct is knowing the source of the food and the quality of the source.

"I certainly do see a difference in the quality with Napa Grassfed Beef, especially in flavor," Rossi says. "Through traditional methods, the product tends to get beat up in transport, and the quality is not the same. The only way to get the unique, organic product we seek out is to go directly to the source."

Challenges to direct marketing

There is a long list of challenges producers must overcome to be successful in direct marketing their beef. Paul Swanson, University of Nebraska Cooperative Extension beef specialist, lists selling the many cuts of beef at the top of that list.

"If the beef is not sold either as whole halves or half of a half, getting the various meat products to come out even is certainly one of the challenges," Swanson says.

The Gambles and their customers have come face-to-face with this obstacle. Last year, they sold the beef as whole sides, which

transfers the question of what to do with the end cuts to the restaurant. Rossi says he found a way to distribute the lesser cuts between his restaurants.

"We bought the sides of beef all last year, and the only problem was that the prime cuts, which I use mostly at Citron, are more useful. We were able to use the lesser cuts by making stews and such at A Côté, our other restaurant," Rossi says. "Now they are offering some of the prime cuts alone, and that's how we will be purchasing the meat this year."

And so, by the Gambles' offering the beef as individual cuts, they transfer the challenge of what to do with the lesser cuts back to themselves.

"We have to find other outlets for products the restaurants cannot take," Gamble says.

Another challenge to direct marketing is establishing a customer base. In this area, Napa Grassfed Beef has two advantages — its proximity to its customers and the in-house marketing expertise.

"Developing a customer base takes time, and different people have different abilities to do it," Swanson says. "The direct marketing producer needs to understand what type of market they are targeting and what size that market is. The closer they can merchandise the product to their operation, the more advantage they will have over the current system."

Another challenge Swanson lists for

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producers is learning the technology used in meat processing and sales.

"The meat business is a whole new area that most farmers and ranchers have not been directly involved in," Swanson says. Direct marketers need to know things like how many pounds of beef to expect from an animal and how many pounds of final meat cuts that will equal.

Swanson says the best sources of information and education for pioneering producers are experienced direct marketers. "I think learning together with other groups that are doing the same thing, people who have experience and are successful, is probably one of the best sources."

Another challenge to direct sales is pricing the product. Often, beef sold directly will have a higher price tag, partially due to the higher cost of processing individual animals. (Typically, the cost of processing cattle at a small-scale, custom plant averages \$250/head. This compares to \$85-\$90/head in a larger corporate processing plant.) However, customers like Rossi are often willing to pay the extra

money for the benefit they receive in direct sales.

"The meat is more expensive, but you partly expect that, buying directly from the source and buying from a small, family-run operation," Rossi says. "However, I am willing to pay extra to know the quality. You get what you pay for. Mass-produced beef is cheaper, but knowing that this is grass-fed or organic and knowing where it comes from is worth the extra money. It is what the consumer is putting in his or her body, and the customers are willing to pay more for quality."

Benefits to direct sales

Despite the obstacles to direct marketing, more and more producers are pursuing this avenue for their product. Why? It all comes down to dollars.

"We get to keep the margin. As we grow our sales, our margins are better than just selling calves or putting weight on stockers," Gamble says.

"The producers will get a greater share of the agricultural dollar, once they achieve

enough sales to cover the added costs," Swanson says.

Direct marketing allows producers to sell directly to customers. It requires a different mind-set than traditional beef sales, but it also provides new opportunities for the beef producer, according to Swanson.

"The much closer relationship of the producer to the actual consumer creates many opportunities to provide more income from each individual animal and for the consumer to receive a product that is generally not available in the store," Swanson says.

While it is a relatively new approach to beef production, direct sales have the opportunity to substantially affect the beef industry.

"It could be something that at some point could really take off. It has possibilities that are great ... but it also has the opportunity to fail," Swanson says. "It could be something that people get discouraged doing."

Gamble says that, although it has been challenging, if given the chance, they would do it all again.

“We would absolutely do it again. There is definitely a steep learning curve, and we are learning as we go,” he says. “Has it been profitable in regards to cash flow? Yes. Have we recouped our capital investment? We are still working on that, but there is light at the end of the tunnel, if our projections are correct.”

Gamble says his advice to anyone interested in direct marketing is the same advice he gives anyone interested in working in agriculture: Have your head examined. But, he adds, “Once you make the decision that you want to be in agriculture, if you’re not the biggest, then you’ve got to find your niche.”

How to get started

According to Arizona Cooperative Extension’s *Direct Farm Marketing and Tourism Handbook*, producers should answer the following questions before attempting to directly market their product:

1. What investment will I need to make?

Do I have a large enough herd to sustain inventory? Are my facilities sufficient to handle the herd?

2. How will I cover liability concerns? What insurance should I purchase? How can I protect myself and my family from liability concerns? What is our quality guarantee? How will we stand by it?

3. What other costs will I incur? Where will I get the meat processed, and how much will it cost? What advertising and marketing expenses will I incur? How will I ship the orders?

4. What will I need to charge to cover my costs? When taking into consideration all the costs, what will I need to charge to turn a profit? Is this a reasonable price for the meat?

5. How can I maintain the quality? What will be my quality standards? Will I have carcass requirements for the meat? Do I require the beef to be from a specific genetic pool?

6. What barriers will I need to overcome to sell my product?

7. What special advantages do I have over my competition? Organic? Family-owned? Environmentally-friendly? Humanely raised? What is my niche?

8. What advantages does my competition have over me, and how can I overcome those? How can I compete with the multi-billion dollar companies? How can I overcome the higher processing fee?

Selecting a processor is one of the first steps a producer must take when direct-selling beef.

“Quality processing for a reasonable cost will be vital to your overall success,” Swanson says. “Determine what kind of processing facility you want to work with. When you select a processor, be sure to visit with him or her about the quantity of salable meat to expect from a market beef.”

For example, a 1,100-pound (lb.) live beef animal is likely to produce 440 lb. of processed weight. This can vary due to how it is processed or due to the animal itself. Swanson recommends producers track the take-home weight processed from their animals and use that information in their decision-making process.

Pricing the product is another step

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producers must tackle. It is important to price the meat high enough to cover costs of production, processing and distribution, as well as calculating a profit. Still, producers should avoid pricing the product so high as to discourage potential customers.

Most direct-sale beef has attributes not generally available in retail stores, such as being organic or grass-fed; for that reason, its price should be higher than retail cuts.

“It is a good idea to determine the profit

you need by adding the cost of producing the animal and all costs associated with processing and selling the product, as well as your profit,” Swanson says. “Including your profit first helps keep that important item at the highest priority. If you are not profitable, there will be no need to incur the extra work and expense required for direct marketing.”

Another vital step to successful direct marketing is establishing a customer base. This is a long-term challenge that can be approached from many different angles. Swanson suggests giving samples; promoting your animal management system, such as “grass-fed” or “family-farm

produced”; or promoting the product as organic, humanely produced, or produced without hormones or antibiotics, if applicable.

Other suggestions include providing a newsletter, brochure, or Web site where customers and potential customers can get more information about your operation and your product.

Swanson’s publication entitled “Direct Sales of Beef” (available online at www.ianr.unl.edu/pubs/beef/g1420.htm) lists estimated start-up costs for direct marketing as \$950 to \$2,700 and 58 to 78 hours. These numbers are broken down in Table 1.

Table 1: Estimated start-up costs for direct marketing

Developing a plan, including research	15-30 hours	
Choosing a processor	10-15 hours	
Creating a brand and logo	5 hours	\$250 to \$750
Legal and accounting advice	10 hours	\$500 to \$1,250
Producing sales materials and order forms	15 hours	\$100 to \$500
Establishing a communication network	3 hours	\$100 to \$200

Source: *Direct Sales of Beef*, available online at www.ianr.unl.edu/pubs/beef/g1420.htm

The essentials

According to Swanson, viable direct marketing businesses need seven essential characteristics:

1. A strong belief that they produce a

superior product, based on quality, convenience, service or methods of production.

2. A commitment to customers' needs and a response to them.

3. A willingness to proactively plan how to connect with customers.
4. An openness to learn from other producers, processors or even people outside agriculture.
5. A goal that reflects their personal priorities.
6. A balance of pride in the product and humility in responding to customer ideas.
7. An acceptance of risk as part of life and agribusiness.

