Business and Marketing Models for Small Scale Meat Processing and Slaughterhouse Facilities

Deliverables I, II & III

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I. A Compilation, Review and Analysis of Mobile and Fixed Facility Slaughter Houses and Meat Processing Feasibility Studies

Section 1 Introduction

Meat processing in the U.S. has historically been a high risk, low-margin business. Most states have shown trends of plant closures due to the retiring age of owners with no succession plan, aging facilities, and increased government regulation. This reduction of small processors is happening at a time of increasing interest of small farmers and livestock producers desiring to direct market their own meat products or market through a local or regional marketing program featuring locally grown, niche, natural or organically produced products. Thus, a disconnect appears to be occurring between specialty livestock production/marketing and processing with many states interested in helping producers find solutions to this processing gap. In a survey of Oregon and Washington livestock producers in 2005 (Martin and Lawson), 60% said they needed improved access to a USDA-inspected processing facility and 29% claimed this to be a challenge to their business. This report section will review the processing industry in Oregon and the rest of the country and will look at the successes and failures of what other groups have done to help solve processing gaps.

Section 2 Background Information on Meat Inspection

Meat plant inspection requirements for animal and foul species can be somewhat complicated. Currently, statutory and regulatory provisions define the species of animals that are inspected by USDA under mandatory inspection and those that are under voluntary inspection. In certain instances explicit exemptions from inspection exist in addition to exemptions from definitions of products that USDA inspects.

2.1 Federal and State Meat Inspection

The Federal Meat Inspection Act (FMIA) mandates that USDA inspect cattle, sheep, swine, goats, horses, mules, and other equines, and food products thereof, slaughtered and prepared in federal establishments and foreign establishments exporting such products to the US that are intended for distribution in commerce. All federally and state inspected facilities must have a written Hazard Analysis Critical Control Point (HACCP) plan and all HACCP prerequisite plans.

The FMIA provides for exemptions from inspection of the slaughter of animals and preparation of the carcasses when such products are exclusively used by an individual or households and are not sold. This provision is referred to as the “custom operation exemption”. Some states have inspection programs and are permitted to also inspect the slaughter

of animals and the preparation of the meat and poultry products from both amenable and non-amenable species. Currently, state inspected meat from amenable species cannot cross state lines for resale purposes. However, this prohibition is under review by the USDA. The state of Oregon does not have an official state meat inspection program; however, all facilities harvesting and processing animals and those that sell meat retail must be licensed by the Food Safety Division of the Oregon Department of Agriculture. Also, all custom exempt and retail exempt establishments are routinely inspected by this department. Retail exempt are those establishments that have a retail counter and sell meat processed in their facility.

2. 2 Federal and State Poultry Inspection

The Poultry Products Inspection Act (PPIA) mandates that USDA inspects poultry and food products thereof, slaughtered and prepared in federal establishments and foreign establishments for export to the US that are intended for distribution in commerce. The Federal poultry products inspection regulations define poultry as meaning any domesticated bird (chicken, turkeys, ducks, geese, or guineas), whether live or dead. USDA has formerly ruled (April, 2001) that the slaughter and processing of ratites falls under mandated poultry inspection. Ratites include ostrich, emu, and rhea. The custom exempt rules also apply to poultry.

There exist exemptions from USDA inspection to where a poultry grower may slaughter and process up to 20,000 birds in a calendar year for distribution as food within their own state (PPIA Section 464). There are a number of criteria that must be met for this exemption to be valid. Commercial processors do not qualify for this exemption, only producers who have the capability of processing only their own birds.

2. 3 Other Alternate Species Inspection

USDA has published regulations for the voluntary inspection of rabbits (9 CFR Part 354) and the voluntary inspection of exotic animals (9 CFR Part 352). Rabbit is defined as any domesticated rabbit. Exotic animals are defined as any reindeer, elk, deer, antelope, water buffalo, or bison.

Amenable species processed under mandated federal inspection during normal business hours do not require the plant or company paying for inspection services. However, plant slaughtering and processing species under voluntary inspection, are required to pay the hourly rate for USDA meat inspectors.

2.4 Organic Inspection

On December 21, 2000 the final national organic standards were published in the Federal Register. Meat is not considered organic unless the animals are raised on certified farms. The Food Safety and Inspection Service (FSIS) must approve the application for certified organic labeling.

But, it requires that farms should be operating for three years before being certified. Meat plants that process organic certified animals must also be certified. The USDA has published a list of approved organic certifiers. Organic rules for processors include segregation from non-organic products and a list of plant and equipment cleansers, carcass washes, and food ingredients permitted and excluded.

Section 3 USDA Inspected Fixed Meat Plants in Oregon

Currently, according to USDA reports there are 10 USDA inspected meat plants that harvest livestock and perform fee-based processing services for livestock producers in the state of Oregon and one inspected facility that only harvests and processes their own livestock. These 11 plants are

- B&D Meat Co., Roseburg
- Carlton Packing, Carlton
- Central Oregon Butcher Boy Meats, Prineville
- Dayton Meat Co., Dayton
- Buxton Meat Company, Sandy
- Marks Meat, Canby
- Mohawk Meat Co., Springfield
- Mt. Angel Meat, Mt. Angel
- Oregon Beef Co., Madras
- Bartel's Meat Packing, Eugene
- Masami Foods, Klamath Falls

There is only one USDA poultry inspected facility in the state. These ten facilities were interviewed by Food and Livestock Planning, Inc. and asked about their processing capacity and fee structure. A majority of these facilities harvest a particular species only one day per week and then perform boning, cutting, further processing, and packaging activities the remainder of the week.

The following information was gathered:

Table 1 Processing information on Oregon's 10 USDA inspected meat plants

	Cattle	**Hogs**	**Lambs**
Capacity for custom work, #/week	735	2,500	1,500
Capacity range for custom work, #/s /day/location	15 - 175	25 – 350	3 - 200
Range in harvest fees, harvest fee, $/hd	$35 - $70	$35 - $70	$35 - $90 (total fees)
Range in processing fees, $/lb	$0.45 - $0.99	$0.45 - $0.99	See above

Another question asked the plant managers was the distance traveled by their customers to deliver animals. The answer was a range from 5 hours away to 1 mile. The closest plant from the Coos: Curry border is 2 hours and the furthest was 7 hours driving distance. Many of the facilities had the capacity to further process (grind, cook, cure, manufacture sausage). Two plants were certified Organic.

There are several small plants licensed by the state of Oregon that process under "custom exempt" status. These companies either harvest livestock on-farm, process meat, or both. Game meat processing is a significant business for these small plants. A partial listing of these companies located in the southwestern corner of Oregon covering the counties of Curry, Coos, Josephine and Jackson include

- Alpine Meat Co., Inc., Grants Pass
- Bussman's Mobile Ranch Butchering and Processing, Inc., Bandon
- Jerry's Custom Meats, Central Point
- Oakland Lockers, Sutherlin
- Oregon Ranch Meats, Coos Bay
- Bert's Custom Butchering, Eagle Point
- Butcher Shop, Eagle Point
- Rogue Meats, Sam's Valley

Section 4 Key Challenges for Small Plants

When asked the above 10 USDA inspected plant owners/managers what their main challenge was, the predominant answer was finding and retaining quality labor. This concern is consistent with other USDA inspected meat plants in the U.S. The authors have conducted similar projects to this in several states in the U.S. and have interviewed both small processors and producers using processing services. The following table depicts composited results:

Table 2 Key challenges for custom processors and their customers (FLPI)

	Meat Processor	**Livestock Producer**
Key challenge #1	Labor	Distance to processing plant
Key challenge #2	Inspection regulatory requirements (time and cost)	Wait times to get animals scheduled for processing
Key challenge #3	Cost of handling and disposal of rendering	High cost of processing
Key challenge #4	Environmental constraints of wastewater	Lack of control over product and packaging specs [a]

[a] A common complaint amongst producers is unattractive packaging from their custom meat processor due to inadequate packaging equipment or workmanship.

Operating plants close down in all states for a multiple of reasons and include such things as

a) Lack of operating capital.
b) Retirement of owner/manager with no succession plan.
c) Aging facilities needing major renovation to remain USDA approved.
d) Difficulties with wastewater system requiring newly engineered strategies and increased investment.
e) Difficulties finding and retaining labor.
f) Inadequate or poor execution of marketing plan resulting in low sales.
g) Plant too small and inefficient resulting in prohibitively high costs.
h) Urban encroachment or town squeezing them out.
i) Competition from lower cost facility in region (not a problem in Oregon but common in upper Midwest).

A few plant closings have also occurred in Oregon and Washington in the last 10 years, which have been investigated. The explanations for these closing include

a) Poor health of plant manager and no succession plan.
b) Lack of operating capital.
c) New plant and player in the marketplace producing a new and different product (hot boned) that customers were not accustomed to. Lost customers and could not modify process.
d) Difficulties in finding qualified workers.
e) High cost of getting raw materials.
f) Urban sprawl. Too close to residents.

These failures and negative experiences with former businesses provide valuable lessons to existing and possibly new entrants in the meat processing business. Some of these lessons include

- Don't start operations unless you have a cash contingency plan that covers cash flow needs during lean months or periods of high raw material costs.
- Develop, adequately train and offer employee incentives designed to keep quality employees. It isn't always straight salary that retains workers.

- Have a succession plan.

- Work with an environmental engineer to properly plan the wastewater treatment and disposal program.

- Be proactive with building and equipment maintenance.

- Be a great neighbor with neighboring businesses or residences. Invite their opinions and criticisms and attempt to comply with concerns promptly.

- Continually plan and improve your business.

Section 5 Failed New Plant Launches or Start-ups

There may be several failed new plant launches or start ups in the state of Oregon that are not widely known. One such start-up in Morrow County Oregon in the late 1990's and early 2000's was initiated by Western Meat Processors, Inc. There was a great deal of money spent for feasibility studies, business planning, plant design, and waste/energy design (J. Gardner, 2011). This project was quite aggressive and expensive ($82 million) and in the end could not get financed.

Food and Livestock Planning, Inc. is aware of similar attempts to build packing plants in Oklahoma, Montana, North Dakota, South Dakota, and New York. In each case there was failure to raise the minimum capital required to launch construction. Also, in these cases, farmers were the main targeted investors. The launch of the producer-owned US Premium Beef, based in Kansas City, MO in the late 1990's was successful largely because the targeted investors were large financially-sound feedlot owners and the purchase was actually a partnership with an on-going successful packing company. Starting a new company and building a new plant is a much more difficult strategy from which to sell an investment.

Section 6 Mobile Harvest Units

Mobile Harvest Units (MHU) has received a lot of publicity as potential solutions to the lack of slaughter facilities. These mobile facilities' main function is harvest, not processing; and therefore, are not called processing units.

6.1 Perceived Benefits to MHU

- Mobile Harvest Floors are low cost, in comparison to stationary slaughter facilities.

- Stress is reduced on animals. It is conceivable that the animals could be born, raised and slaughtered in the same pasture or in the same location.

- Local slaughter on farm saves transport costs of the live animal.

- Wastes from mobile processing can be composted and are recycled on the farm (composting is not permitted in California).

- Small numbers of livestock are processed in any one location; thereby reducing regulatory and processing waste concerns.

- Market appeal opportunities with meat from the MHU.

6.2 Utilization in U.S.

For large species, Bruce Dunlap is the best known designer of MHUs. His original-designed unit has been the "poster child" of MHUs and was built for the Island Grown Cooperative of Bow, WA. This slaughter-only facility is custom made by using a 32 ft. long, 8.5 ft. wide and 13.5 ft. high aluminum gooseneck trailer. The MHU travels throughout the San Juan Islands of Washington. Carcasses are then taken to the mainland for fabrication in a newly built plant. USDA inspection was granted in January 2003. At the time this was built the cost was estimated between $110,000-$120,000. The price is now approximately $175,000, which does not include the truck to pull the trailer (B. Dunlap, 2011). Additional costs for a vehicle to pull the trailer, storage, and the stationary plant for processing were not figured into these costs. Set up time for the MHF runs around 30 to 45 minutes. Animals are slaughtered and bled outdoors on the ground and then brought into the trailer for dressing procedures. Wastewater is also run on the ground at the location of harvest. The MHF can also slaughter hogs and lambs.

This cooperative charges harvest and processing fees to their own members as well as some individual livestock producers that are not members of their cooperative. Currently, the processing fees are

Beef - $105 harvest fee, $0.77/lb cut and wrap
Pork - $55 harvest fee, $0.66/lb cut and wrap
Lamb - $40 harvest fee, $1.00/lb cut and wrap

This cooperative harvested and processed 800 lambs, 600 cattle, and 228 hogs in 2010.

Mr. Dunlap has since designed and built 6 more mobile trailers and 2 mobile trailers that have become stationary. Trailers have been sent to South Dakota, California, Alaska, Alberta, Canada, as well as another

trailer in Washington state. Mr. Dunlap claims only the California unit is not currently operational.

Utilizing Mr. Dunlap's concept, Laura Krebsbach from Nebraska has designed and organized the building of a MHU using a 53 ft. refrigerated trailer (L. Krebsbach, 2011). Added features of this MHU include a filtration system for wastewater, an ozone treatment of water, a 3-phase electric adapter, and capacity to hold 20 beef carcass halves in its refrigerated compartment. Ms. Krebsbach claims her MHU will cost $165,000 including the filtration system. The original trailer was built as a template and she claims there are three more being planned.

6.3 MHU Manning

The number of animals harvested per day in a MHU is dependent on skill level of the butchers and the amount of help from the local producer in capturing of the animal and stunning assistance. For cattle utilizing a cradle system to remove the hides, skilled butchers have throughputs rated at 0.5 to 0.6 animals per butcher man-hour, which equates to approximately 4 to 5 cattle for 1 butcher and 8 to 10 head for two butchers in an 8-hour day. As a comparison to a stationary harvest floor, this rate would typically increase to 0.8 head per man-hour. With an on-rail hide puller in a stationary facility and adequate stands and lifts, this rate could approach 1 head per man-hour (FLPI).

The butchers are also due travel time pay (reduced rate compared to processing time to and from the harvest site). This is hard to estimate but could range from $16 to $32 ($8/h x 2 people x range of 1 to 2 hours). Besides travel time, the butchers are due overtime if processing extends beyond an 8-hour day. Overtime is typically 1.5 times the hourly rate.

The daily processing cost depends on skill level but is estimated to be approximately $13 per hour and labor fringes of approximately 30%. Therefore, a full 8-hour day would cost 8 (hrs) x $13/hr = $104 + 30% (fringe) = $135.20 / day / butcher used plus an additional $16 to $32 depending on travel time.

6.4 Boning and Further Processing

Obviously, there is not enough room in the MHU to conduct boning and further processing activities for beef. Therefore, the trailer must be driven to a stationary licensed meat processing plant capable of receiving carcasses; or, the carcasses must be shuttled from the MHU to the stationary boning plant via a refrigerated tram or truck capable of handling quarters. The carcasses are then transferred to processing plant's coolers for weighing and to await boning and further processing. Offal such as tongue, hearts, oxtails, which were removed and washed in the MHU, will also need to be transferred to the stationary plant.

6.5 Example Start-up Capital Expense Budget

The following table is an example of what the capital and start-up costs of a MHU could be:

Table 3 MHU capital and start-up cost example

Capital Ex.	
MHU trailer	$ 175,000
Truck (used)	$ 50,000
Equipment	$ 5,000
Working capital	
Fuel for truck (1 mo)	$ 500
Labor, 2 butchers (1 mo.)	$ 4,800
Supplies	$ 5,000
Insurance prepay	$ 1,000
Total	$ 241,300

6.6 Regulatory requirements with the MHU

i. Food safety inspection

The USDA or state inspection authority has not developed any food safety regulations or requirements specific to a MHU. All current and normal regulations are enforced. These regulations are vast and are beyond the scope of this study but can be accessed through USDA Food Safety Inspection System (FSIS). There are certain requirements necessary in order to be granted the stamp of inspection (USDA and state), which are important to understand. There are seven steps required (www.fsis.usda.gov/Regulations_&_Policies/Grant_of_inspection_Guidelines/index):

a) File an application for inspection

b) Facilities must meet regulatory performance standards

c) Obtain approved labels or brands

d) Obtain approved water source letter

e) Obtain approved sewage system letter

f) Provide written Standard Operating Procedure for Sanitation

g) Proved written Hazard Analysis Critical control Point (HACCP) plan

The district FSIS office (DO) will assign an inspector to be present at the slaughter site to conduct ante mortem inspection, pre-operational

facility inspection, humane handling and stunning inspection, and post mortem inspection of the carcass. Every time the MHU moves to a different location, and before conducting any slaughter operations, the respective DO must be notified. An operations schedule must be sent to the DO with a lead-time of at least two to four weeks in advance.

ii. Waste management

Any water used for rinsing/washing must be collected and properly disposed. According to most states, if the producer owns the animal where it was raised and the waste was generated on that property, the land owner can usually dispose of his own waste on his property as long as it doesn't cause an environmental concern. Nevertheless, there must be in the MHU's possession, a letter from the local health authority relating to wastewater handling at any specific site. Processing on public lands or tribal lands may require solid waste permits. Disposal of the wastewater could also occur at a municipal wastewater treatment facility or carried back to the cooperating stationary plant and included in the stationary plant's waste stream.

iii. Water

Any process water used for washing down carcasses and sterilizing equipment must be potable and the MHU must have a letter certifying this. The MHU may operate at a location where it can directly utilize a municipal water supply or private well as long as there is a water report certifying the potability of the water source. Most MHUs are equipped with a tank on-board in which potable water can be transported and available at the harvest site.

6.7 Hurdles to overcome with MHUs

- High costs
  - Low animal unit numbers able to be processed at one time thereby increasing the cost per animal processed.

- Complication
  - De-boning activities must be accomplished in another plant.
  - Scheduling processing and inspection may be difficult.

- Very limited storage.

- Weather restrictions - Harvest in a MHU may be prohibitory during extremely cold, wet, and muddy conditions.

- Regulatory issues involving waste disposal could be big problem if there were complaints issued to state regulatory agencies.

Section 7 Producer Marketing Groups with Processing Partnerships

There are two well-known and successful producer-owned beef marketing efforts based in Oregon. Neither of these projects own meat processing facilities but rather have developed processing partnerships with established packers.

Country Natural Beef has been in existence since the 1980's started by Doc and Connie Hatfield in Southeastern, OR. They established a cooperative which now involves more than 100 beef producers in many states. They have a cattle feeding partnership with Beef Northwest (feedlots in Northern OR and Southern WA) and processing relationship with AB Foods of Washington. They sell their beef in many Whole Food Stores (California, Washington, Oregon, Texas), PCC Natural Markets in Washington (www.countrynaturalbeef.com). Ownership of the cattle changes hands at the packing plant. The cooperative is a marketing agent for its members with the check for its member's cattle issued to the cooperative. The cooperative, in turn, compensates its members for the live cattle plus any carcass premium earned.

Painted Hills Natural Beef was started in 1996 by Mehrten Homer in north central Oregon. It remains family-owned but has supply agreements with approximately 80 beef producers who sell finished cattle to them. They have a processing relationship with Tyson's in Pasco, WA and a marketing relationship with Unified Western Grocers in Seattle, Portland, and Stockton, CA. They are now processing and marketing approximately 2,000 cattle per month (Homer, 2011).

In both of these cases, the processing relationship is such that the processor keeps possession of all beef items the marketing company either cannot sell or does not want to sell. This removes a large burden from the marketing company to profitably get rid of all parts of the animal. Both marketing companies only have to sell what they want and get at-market credit for the items they don't.

In both of these cases, the marketing company has expanded beyond a small local company into having more of an expanded multi-state marketing presence. This has resulted in more credibility and clout with their meat packing relationship. A small start-up company would have a difficult time negotiating custom processing time with Washington Beef or the Tyson Foods plant in Washington.

II. Assessment of Local Food System Needs and Challenges

Section 1 Introduction

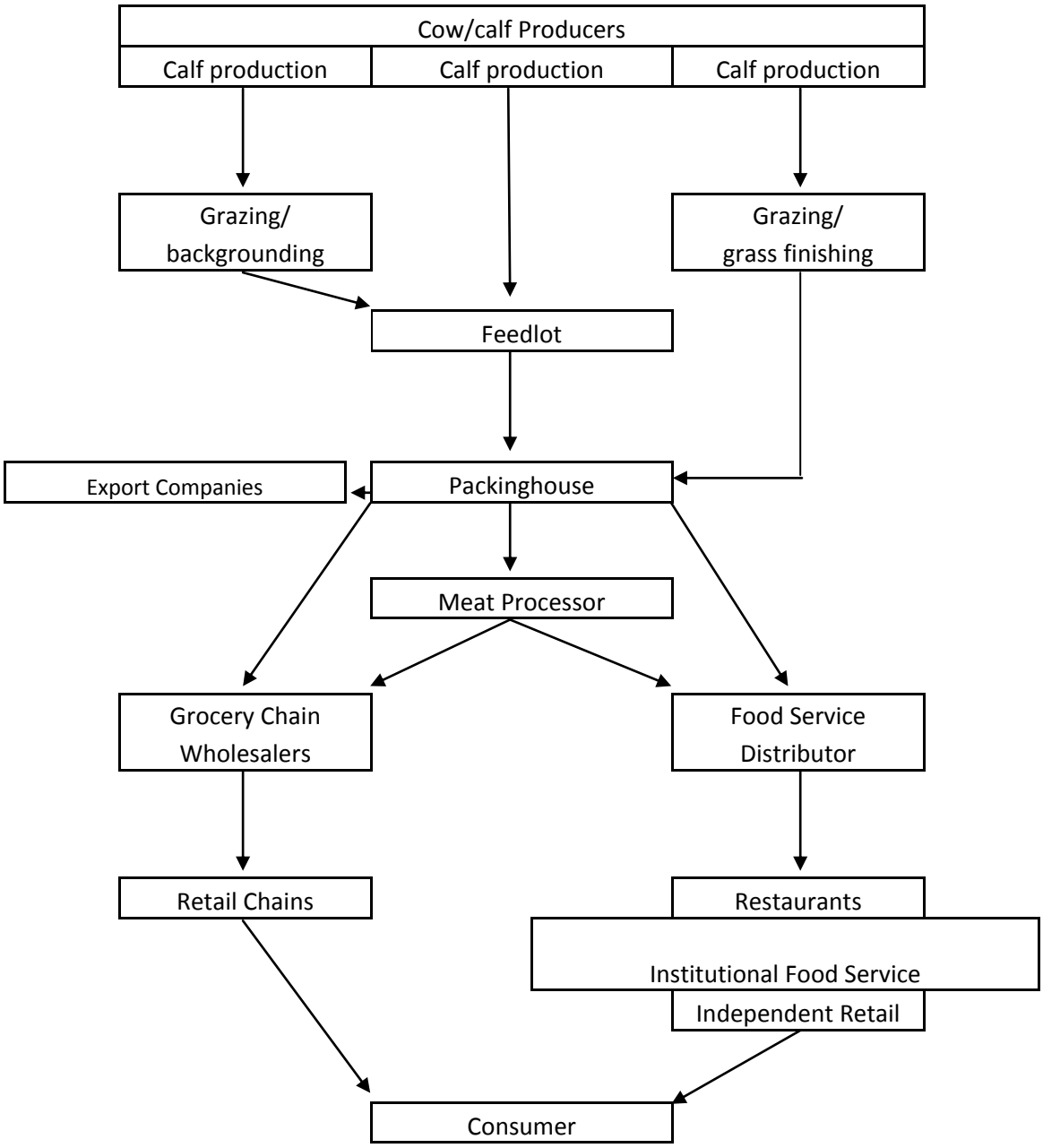
The local food movement in the U.S. is growing fairly rapidly. It is estimated at a $7 billion business today, up from $5 billion in 2007 because of the growth in farmer's markets and retail and food service initiatives to add more local products to their merchandise mix (Montuori, 2007). However, before detailing locally produced food, let's examine how meat is traditionally produced and transported in the U.S.

Section 2 Production, Handling, and Transportation of Meat

In the U.S., most food travel great distances, change ownership, and are handled a multiple of times thus adding to the overall carbon footprint of food. It is possible that beef can be produced, fed, harvested, and processed all in Oregon and Washington even though the most significant part of the beef feeding and processing industry is in the Midwest. In the case with pork, most of the production and processing is in the Midwest and Southeast.

The following figure represents the typical production, processing, and distribution channel of meat using beef as an example:

Figure 1 Typical production and market channel for beef



In the U.S., meat can travel to two to four warehouses by two to four refrigerated carriers before it lands in a grocer's retail case or a food service cooler. This production and distribution system in the U.S. developed because of the efficiency of scale and relatively inexpensive energy costs of transportation.

This project's goal is to develop a plan to merchandise locally produced meat products through local and regional markets and minimize the ownership transactions. Obviously, there is inefficiency due to likely small size and scale. However, some of the inefficiencies can be overcome by coordinated efforts

of production, elimination of multiple margins from multiple transactions, and reduction of expensive transportation costs.

The following section will review the current meat sales and distribution reality in southwestern Oregon.

Section 3 Meat Distribution in Oregon

3.1 Oregon Companies

Oregon is home to several national and regional meat distribution companies that service the state. Also, the large retail grocery chains, Safeway, Fred Meyers, and Albertsons have warehouses in Oregon as well. Food service distribution companies are listed below:

National

Sysco. Sysco is the largest food service distributor in the U.S. Their regional warehouse and steak cutting operation (Fulton Provisions) are in Portland.

Food Services of America (FSA). FSA is based in Seattle and have a warehouse service center in Portland.

Regional

Pacific Food Distributors, Clackamas, OR
Services Oregon, Washington, Idaho, California and Alaska.

Western Box Meats, Portland, OR
Western Box is owned by Harvest Meat Co. and services Oregon, Washington and Northern California.

McDonald Wholesale Co., Eugene, OR
McDonald Wholesale services Washington, Oregon, and Idaho.

All the above-listed companies service accounts in Curry and Coos County and have trucks in the area on specific days of the week.

Food distributors typically take ownership of food products and resale them to their customers and manage the accounts receivables. Infrequently, these companies will pick up and deliver for a fee and not take ownership. Nevertheless, a fee could consist of pick-up and drop-off charge plus mileage.

3. 2 Delivering and Storing Own Products

Sometimes using the services of existing distribution companies to transfer products from the processing plant to the grocery store or restaurant is not possible due to the small size of deliveries, the inflexibility of altering routes or deliveries for small accounts, or unwillingness of a distribution company to handle new small accounts. In these situations, a small marketing company, producer, or group of producers selling locally produced foods must examine the costs of being their own distribution company. The requirements, expense and estimated cost of distribution will be detailed in Chapter VI, Section 7 of this project.

Section 4 Consumer Behavior with Local Foods

The North Central Initiative for Small Farm Profitability Partners, which covers land grant universities and non-profit groups in Missouri, Wisconsin, Iowa and Nebraska attempted to understand what was driving local food purchases and what could make them grow (Zumwalt, 2003). This group's work included interviews with consumers across the states they serve. When consumers were asked what influenced them to purchase locally grown or produced food, their responses were

- Freshness – 30%
- Tastes better - 21%
- Support local farmers – 20%
- Availability – 13%
- Help local economy – 11%
- Know where the food comes from – 10%
- Reasonable/comparable prices – 10%

When the questions were specific to meat, the answers included

- Know who raised it – 47%
- Price was right/reasonable – 25%
- Tastes better – 14%
- Fresh – 14%
- Availability – 10%
- Support the local farmer – 6%
- Better product than in store – 3%

When consumers were asked what would influence them to buy more locally grown or produced food, the top four responses were

- Available/More available in the area – 63%
- Prices reasonable/competitive – 35%
- Available at the grocery store – 15%
- Advertise/Advertise more – 12%

The results of this work are valuable to this particular project because regardless of the reasons consumer's demands, there is the major challenge of availability (creating more product and venues from which it can be purchased).

Another powerful incentive for increasing local food availability is the impact it has on the local economy. Spending money at a locally based business has a greater multiplier effect because locally owned businesses are more likely to re-spend their money locally. As shown in the previous report, local economic benefits are not significant reasons why consumers purchase local foods, but this is an important secondary outcome.

Section 5 Local Meat Offering Venues

If the definition of local meats is that produced and processed in Curry or Coos County, the product offering only consists of producers who sell live animals to their customers and have them harvested and processed at a custom-exempt plant for a fee. There are several beef producers in these two counties that do this.

At this point, there are limited venues for selling local foods in both Curry and Coos County. The Coos Health Food Store in North Bend is a natural foods store that is transitioning into a foods cooperative. Also, there are seasonal farmer's markets in several communities where local food is sold. These include a couple of markets in Brookings and a farmer's market in Coos Bay during summer months (Brown, 2011). The website www.curryfoods.org is a local site that connects farmers and consumers. A consumer can access farmers and their products through this site.

Section 6 Local Meat Value

All the attributes perceived by consumers of local foods listed in the previous Section 4 directly impacts these product's value. An interesting experiment was conducted at Pennsylvania State University in 2010 (Sharma) where researchers initially priced menu items with local food offerings at the same price as non-local food items. There was no preference for the menu items containing local food items by restaurant patrons. Then, they increased the price of menu items containing local food items by 18 percent; the restaurant patrons preferred those items containing local food items. Even though comparable prices was one of the items listed in the survey report in Section 4 of why consumers purchased local food items, a premium over non-local food items is apparently expected.

The amount of premium demanded and received by local foods is diffuse. Confounded in this value determination is that local meats often have specialty or niche attributes beyond just being locally produced. Often, local beef offerings are labeled as "natural" or "grass-fed" and pork is "natural" and/or a unique specialty heritage breed. All of these attributes, plus being a

locally produced product, demand premiums; but they are not necessarily additive.

Food and Livestock Planning Inc. (FLPI) have studied premiums offered for branded meat programs and specialty produced programs for many years. Premiums for these items range all over the board from 10 percent to; in some cases, 100% but the median values are around 18%. Specialty pork has lower premiums than specialty beef (typical range of 10 to 20%). The standard for branded beef is Certified Angus Beef (CAB), which has a 12% (end cuts) to 20% (middle cuts) premium to a non-branded beef item of the same quality grade. Grass-fed labels have been offered in Bay Area California retail markets for as high as 100% premiums over similar non-grass-fed labels but the median result throughout the U.S. is similar to that of natural labels (18 – 20% premiums).

Therefore, the value is determined by the demand, perceived attributes or benefits, and consumer price threshold. For the purposes of financial modeling and business planning, the value of locally produced meats in the Siskiyou Coastal region of Oregon and California will be product-dependent but assumed to be in range between 20 and 40 percent greater than non-locally produced comparable products.

III Market Assessment of the Region.

Section 1 Interview Strategy

To fully understand a particular marketplace it is often necessary to ask specific questions of those who are participating in this market. Mostly face-to-face interviews were conducted with owners, managers, and meat buyers for three groups of markets in Coos and Curry Counties. Interviews accomplish two main important goals:

a. To understand what that market is selling, problems and opportunities, and what their expectations are for a new customer.
b. To introduce the idea of a possible new product line coming and gauge their interest and possible support.

Additionally, some markets outside these two counties were interviewed by phone. Exact replies specific to a particular business will not be disclosed for confidentiality purposes but collective responses will be reported. It was not possible to interview all potential markets in this region, but the intent was to interview those marketing venues where a locally produced meat program would have a potential natural fit.

Section 2 Interview Results with Food Service Distributors

Three food service distributors were interviewed who service customers in Coos and Curry Counties. These include

McDonald Wholesale Co., Eugene, OR
Pacific Food Distributors, Clackamas, OR
Fulton Provisions, Portland, OR (Sysco-owned meat company supplying 12 Sysco warehouses in western U.S.)

The first two companies represent regional companies servicing restaurants and retail stores in their home and neighboring states. Fulton Provisions is owned by Sysco representing the largest national food distributor in the U.S. but one that advertises offerings of local food to their customers.

One of the regional companies was very excited to hear about the potential for a new locally produced and processed meat program that could be made available for them to resell to their customers. Their largest customer base is south of Eugene, OR and would fit nicely into their deliveries and sales. They have been looking for some meat program of a specialty nature that the large distributors don't already have and control. They currently do not have a grass-fed or natural beef line but do carry some natural pork products. This company is not asking for any special monetary incentives to carry a new product line and do not require volume minimums per customer delivery. They just request time by the marketing company to spend with them to educate their sales team. The other regional distributor has a policy of a 1,500 lb minimum drop per customer. This distributor does not carry a grass-fed beef line but has received requests to do so from their customers. Both distributors

would like exclusivity for a new product line but realize the difficulty in achieving this.

The national distributor has one grass-fed beef program to meet regional demand and would consider additional suppliers in this area but only after a thorough business review of the supplying company. This company is very sensitive to sustainability of their suppliers and wants to be confident that the supplying company can market the entire carcass. A marketing assist program is required of suppliers by hold-backs of $0.05 - $0.10/lb that would be used by the distribution company for marketing purposes. Other supplier requirements would be the signing of a “Hold Harmless” agreement and the approval and auditing of the harvest meat plant.

The standard mode of operation is for a distribution company to purchase products from the marketing company and resell to their customers. In this way they can cover the overhead costs and control the margins. But, it also means they are responsible for the accounts receivables to their customers. When asked of the two regional companies if they would consider just a pick up and drop off fee to deliver the products to restaurants and retail stores and not take ownership of the products, they both said yes. When the national distributor was asked the same question, their response was no.

Section 3 Interview Results with Restaurants in Coos and Curry County

Often restaurants have the power to dictate what their distributors carry; so it was felt important to interview a sampling of the type of restaurant that would be interested in a locally produced meat line of products. Therefore, restaurants chosen to interview include

Spinner’s, Gold Beach
Lord Bennett’s, Bandon
Redfish, Port Orford
Benetti’s, Coos Bay

All four restaurants claim that locally produced meats would go over well with their customers and say it is a national trend and healthier. Three of these restaurants would like to see a specific local branded program on the menu. All four felt that there would be latitude to raise prices on these items.

Three of these restaurants are supplied by Sysco (Portland) and one by Food Services of America (Portland). They all claim they have flexibility to purchase local foods outside of their distributor business relationship. All four restaurants offered lamb ribs, loins, or shanks along with traditional beef and pork cuts. Three restaurants purchased subprimals and cut their own steaks and one purchased all portion-cut steaks. The amount of beef used per week ranged from 100 to 250 pounds per store.

Section 4 Interview Results with Retail Grocers in Coos and Curry County

Two categories of retail groceries were interviewed: small one-store local grocery; and company headquarters of a regional multiple-store chain. These included

Neiska Beach Market, Neiska
Langlois Market, Langlois
C&K's Market (Ray's Food Place), Brookings
KE McKays, Coos Bay

All stores and companies anticipated that locally produced food items would go over well in their stores because consumers perceive them as fresher, the meat would come from known sources, and would be healthier.

Both small stores currently offered grass-fed beef (came from a local ranch). When asked if customers had requested grass-fed beef products, one of the regional chains said yes and the other said no.

All stores and companies interviewed purchased subprimals and cut their own meat in the store including grinding beef and the two regional chains also made fresh sausage. Several interviewees want to continue cutting and grinding meat in their own stores. Only a few items were sold that were purchased as a case-ready product from their suppliers (chicken products, ground beef chubs, pork loins, and beef bacon-wrapped tenderloins). All chain stores carried branded meat lines such as National Beef's "Naturewell", Excel's "Blackwell Angus", Certified Angus Beef, Iowa Gold Pork, Hills NW Natural Pork, and Superior Lamb as well as store brands whose source comes from the major packers.

Distributors delivering meat products to the stores include Western Box (Portland), Unified Western Grocers (Portland), and Food Services of America (Portland).

Section 5 Summary of Interviews

There are a number of main points to come out of the market interviews, which can be applied to the development of new business opportunities. These include

- All market venues interviewed had resounding interest in locally grown meats.

- The two small retail markets were the main marketing venues to successfully accomplish the marketing of grass-fed beef and other locally produced items to consumers in southwestern Oregon. Obviously, the sales volume for these stores is small thereby handling supply easier than a larger market.

- Two regional grocery chains and two regional food service distributors' service area fit nicely into the potential livestock production region of the Siskiyou Coast.

- Fresh beef and pork subprimals are the main product interests of the retail chains and restaurants interviewed. Many of the retail grocers grind their own beef for a significant percent of their ground beef sales and many of the restaurants cut their own steaks.

- Not much was learned about the demand or need for valued-added further processed items such as precooked roasts, cooked sausages, hams or bacon. However, it is assumed that if these products are locally produced and processed, the demand for these products will also be significant.

- The two regional chains have approximately 14 retail stores in Coos and Curry Counties. Using a very conservative volume of beef sold per week of 1,000 lbs (several will be closer to 2,000 lb in volume), these stores will require 1,618 cattle per year to supply them.

- A single restaurant uses approximately 200 lbs of beef per week. In a year's time, they would use the equivalent of 23 beef carcasses.

- The demand and use of lamb in the restaurant markets appear greater than retail markets but the total volume would be small for the region.

- A blend of restaurants and retail stores will be required for proper whole carcass utilization of cattle, hogs, and lambs.

- A distribution partner to deliver to customers in the Siskiyou Coast Region is achievable. The option will exist whether to sell directly to the regional distribution companies or pay for pick-up and drop off services.

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