

To Build or Not to Build

NMPAN Webinar

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Assuming those making the decision to build or not to build are:

1. Livestock producers who currently are having difficulty finding or working with existing processors.
2. Existing small processors who need to expand.

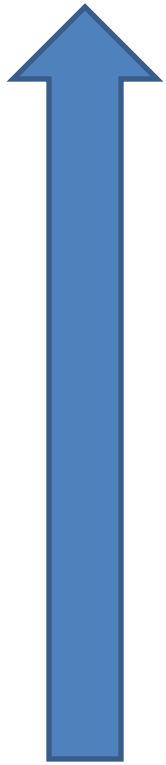
Existing custom plants

Typical complaints from customers

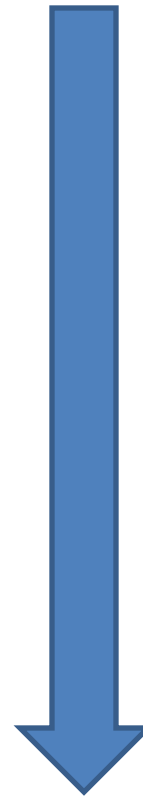


Too small.
Too far away.
Too costly.
Too antiquated.
Too busy.

National Trend



Increasing number of producers desiring to market meat from their own livestock.



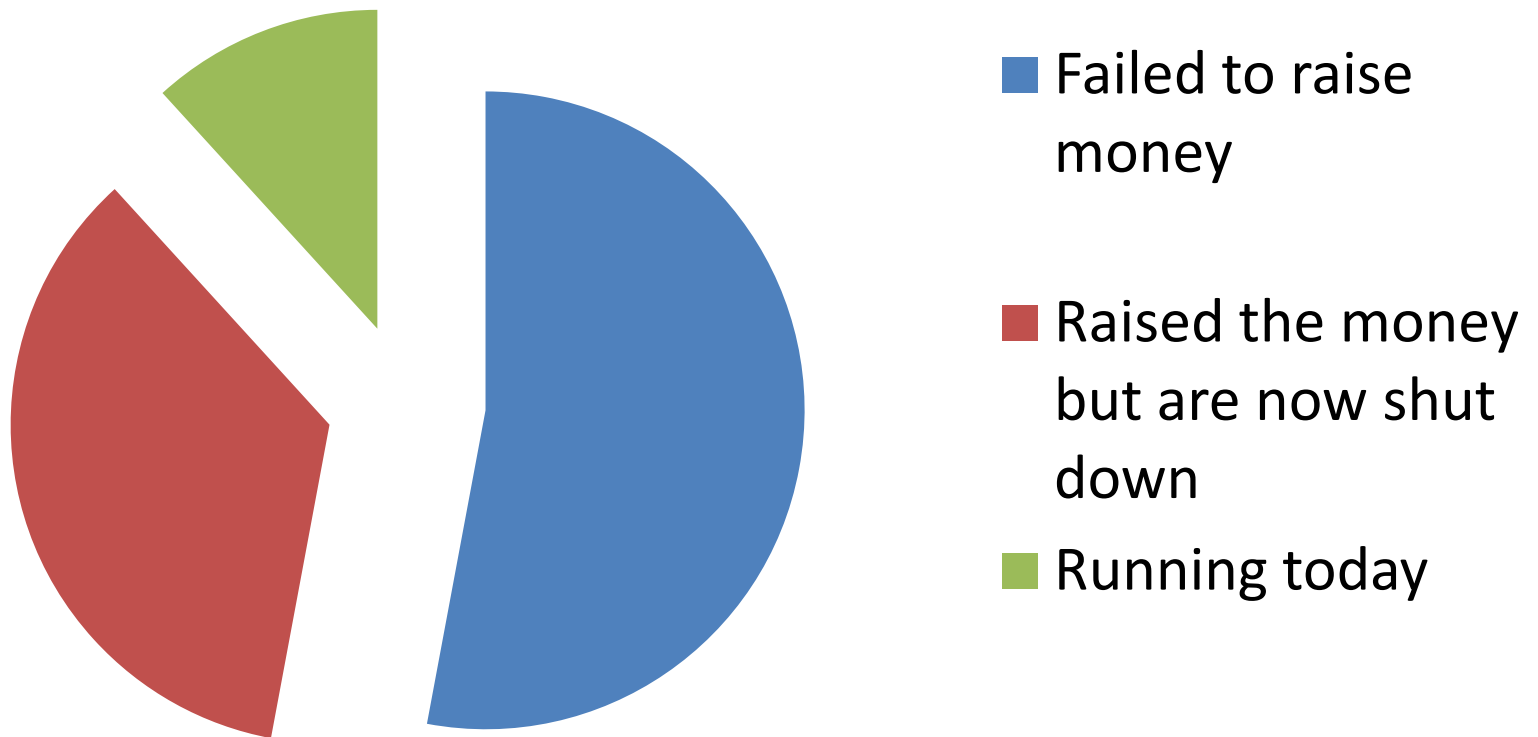
Decreasing number of USDA-inspected plants offering custom processing services to producers.

Why producers express a need to own/control a processing plant

- **Closest custom plant is too far away.**
- **Closest plant doesn't have the right processes, services, or certifications.**
- **Wait listed – plant is too busy at desired time of year.**
- **Custom processing fees are too expensive.**
- **General attitude that they will have better product control if they had their own plant.**

Producer-owned or controlled meat/poultry plant projects in 18 states

35 Projects in 13 years



Why such a high failure rate?

All have unique reasons but some commonalities

1. Run out of operating capital and have limited opportunities to find more with investors and lenders. Cannot weather the storm when the market is upside down.
2. Huge management mistakes. Results in #1.
3. Marketing/sales weaknesses. Most of these projects are supply driven. They needed a market and thought the plant was the market.
4. Livestock producers do not have the experience to oversee a processing/marketing business.

What did the successful ones do right?

One or more of the following

- Producers set up a functional Board of Directors with good business understanding.
- Purchased a successful processor.
- Hired a good manager with experience.
- Attracted investments from successful producers with means and started out with plentiful equity.
- Producer investors were dedicated, quality conscious.
- Developed good lender relationships.

We believe in producer involvement in processing to some degree but not necessarily total ownership

- It's not what producers do.
- Waste valuable time and money learning.
- Processing is a skill-set with its own unique challenges and problems.
- Processing is a money pit. Producer resources are better used in marketing.

If new processing capacity is the only way to be in the marketplace, what are the most viable strategies?

1. Involve an existing processor.

- Find a regional custom-exempt processor or state inspected processor interested in expansion.
- Develop a business partnership.

2. A well-designed marketing plan should be the 1st step in the business planning process.

3. Involve as many producers with common goals as you can find (equity source, raw material source).

4. Shore up equity needs. If short, don't start.

A study by Dave Swenson (ISU) exploring small-scale meat processor expansion in Iowa



Small processors add significant economic growth to local communities

Our firm intends to go deeper with small plant expansion analysis

(Applying for grant funding + projects with individual plants)



**Study barriers
to expansion
and solutions
&**

**Develop
expansion
models**

Questions?

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