

Direct Marketing Profit\$

Agdex FS 420/821-3

... business performance tools in an Alberta direct market beef enterprise

Business Summary

This factsheet provides specialized economic information on establishing and operating a direct market beef enterprise. This information was generated by a group of producers/marketers who arrived at a consensus of opinion on investment, production, marketing requirements, costs and revenues associated with developing a viable direct market beef enterprise.

This information is intended as a business planning tool. Managers will have to assess all the key production and financial variables that would influence the success of their enterprise.

Production Basics

The enterprise would sell all animals for slaughter and the manager would sort at the carcass stage rather than as finished animals or as calves.

	Year 1	Year 2	Year 3	Year 4	Year 5
Cows bred	25	50	50	50	50
Weaned calves		21	42	42	42
Replacements		2	4	4	4
Cull cows sold			2	4	4
Direct market			12	33	33
Commercial market			9	5	5

Basic Production Process

	Begin weight	Days	ADG	Gain	Weight
Weaning weight		475			
Backgrounding	475	150	1.0	150	625
Grass	625	120	1.5	180	805
Finishing	805	200	2.5	500	

Financial Benchmarks

	Five year average
Gross operating profit ¹	\$ 3,573
Return to management ²	(\$ 1,073)
Return on assets ³	3.38%

Capital Investment

	Year 1	Years 2-5
Land		
3 acres	\$ 3,000	
Livestock		
Cows	\$ 32,500	\$ 65,000
Bulls	\$ 3,000	\$ 6,000
Facilities		
Utilities (5% share)	\$ 750	
Feeding facilities	\$ 5,000	
Equipment		
Truck (50% share)	\$ 12,500	
Stock trailer (25% share)	\$ 3,000	
Loader tractor (25% share)	\$ 2,500	
Freezers (2)	\$ 1,000	
Transport coolers	\$ 170	
Commercial scale	\$ 400	
Computer with printer	\$ 1,200	
Total Capital Investment	\$ 61,520	\$71,000

Market Basics

Direct marketed beef is generally sold direct to consumers through farmers markets and to hotels, restaurants and institutions.

The three basic types of products to be sold by a direct market beef enterprise are:

- Carcasses sold on the hook at 58% to 60% of live weight.
- Primal cuts packaged, wrapped and boxed. The meat is bone out, well trimmed with all sinew gone and all organ meats gone. Saleable meat is estimated at 55% to 61% of warm carcass weight (about 490 pounds).
- Individual cuts including ground hamburger are packaged in cryovac bags or wrapped in Saran Wrap and brown paper. Saleable meat generally is estimated at 65% to 70% of warm carcass weight.

Development & Management Strategies

Direct Market Beef Enterprise

Entering The Industry

Direct marketers of beef must develop production/market processes that ensure the consumer gains a quality product and a satisfied eating experience. Direct marketers can enter the supply chain at any stage by purchasing calves, feeders, finished animals or carcasses. It is essential to know the reliability of the product.

Owning cows, raising calves and feeding for direct markets is a common strategy. Existing cow/calf producers with some freezer trade (generally to family and friends) will have the benefit of known genetics in their herd and detailed knowledge of their product.

A key strategic decision for direct marketers of beef products is the nature of the production/marketing mix. Individual operators need to find the best fit between their particular production process and what the market requires. The basic alternatives to choose from are:

1. Seasonal production with seasonal marketing
2. Year round production
3. Seasonal production with year round marketing. This approach will require storage of the beef product

The length of time between the breeding decision and the final product is a factor in the development of both the production process and the market. Finished beef will be 18 to 24 months of age. Accordingly, producers will need to have a strong belief in their program without direct proof from the marketplace. They can minimize the risk of failing to produce a quality product (that the market does not want to pay a premium for) by using proven genetics. Once the product is produced and available for consumption, they must be prepared to do considerable product testing to gain as much knowledge about the product as is possible.

Direct marketers of beef products will also have to make the decision of whether to market only steers as their beef product or both steer and heifer carcasses. One approach is to sort carcasses to determine which are suitable for the direct sales to consumers.

Development Strategies

A direct market beef operation can be run along side a commercial cow calf operation. This allows many of the capital costs to be shared with the commercial enterprise and a number of the operating requirements to be available on a custom rate arrangement from the commercial operation.

Direct marketers of beef will need to determine an effective strategy for developing their production capabilities and market potential. Development strategies also need to consider how fast to grow in the second and third years of operation.

Managing the Processing Stage

The following are key points that individuals must use to manage the processing stage of direct beef marketing:

- Terms for dealing with lost meat need to be in place before processing takes place.
- Individuals need to recognize that the whole processing industry is geared toward maximizing yield while they are seeking to maximize quality.
- Producers should only give cutting instructions on the day they want it cut to ensure that the meat is aged the way the operator requires.
- To achieve a quality product, direct marketers must take responsibility for the animals at the processor, which includes getting the animal to the kill box.
- Costs should be defined beforehand as processors tend to use hot weight and operators are focused on the amount of saleable meat.
- Operators should spend a lot of time talking with processors and butchers to ensure these people understand what the producer is seeking.
- It is important to avoid processing lines where wild game is being killed, as there is a likelihood that the beef carcasses will pick up the game taste.
- It is important to understand the impact of the different aging processes on the amount of saleable beef.

Projected Revenue and Expenses

Direct Market Beef Enterprise

Projected Revenues	Year 1	Year 2	Year 3	Year 4	Year 5
<i>Beef product sale</i>					
Carcasses			12	33	33
Saleable pounds			490	490	490
Total pounds			5,880	16,170	16,170
Complimentary samples			300	300	300
Price per pound			\$ 6.50	\$ 6.50	\$ 6.50
Revenues			\$36,720	\$103,155	\$103,155
<i>Commercial sales</i>					
Carcasses			9	5	5
Pounds per carcass (warm weight)			754	754	754
Total pounds			6,786	3,770	3,770
Price per pound			\$ 2.00	\$ 2.00	\$ 2.00
Revenues			\$13,572	\$ 7,540	\$ 7,540
Cull cows @ \$800			\$ 1,600	\$ 1,600	\$ 1,600
Total Projected Revenues			\$56,902	\$125,498	\$125,498
Projected Direct Costs					
Winter feeding	\$ 8,424	\$16,848	\$16,848	\$16,848	\$16,848
Raising replacements			\$ 1,386	\$ 2,772	\$ 2,772
Grazing costs - cows	\$ 3,120	\$ 6,240	\$ 6,240	\$ 6,240	\$ 6,240
Grazing costs - feeders			\$ 1,200	\$ 2,400	\$ 2,400
Feeding costs - backgrounding			\$ 2,205	\$ 4,200	\$ 4,200
Feeding costs - finishing			\$ 8,925	\$16,150	\$16,150
Production costs	\$ 390	\$ 780	\$ 780	\$ 780	\$ 780
Kill costs @ \$49 per head			\$ 1,029	\$ 1,862	\$ 1,862
Processing costs @ \$0.40 per head			\$ 2,352	\$ 6,468	\$ 6,468
Marketing costs	\$ 250	\$ 250	\$10,400	\$10,400	\$10,400
Interest on operating ⁴	\$ 442	\$ 874	\$ 2,136	\$ 3,149	\$ 3,149
Total Projected Direct Costs	\$ 12,626	\$24,992	\$61,074	\$90,011	\$90,011
Projected Indirect Costs					
Depreciation ⁵ of facilities & improvements	\$ 288	\$ 288	\$ 288	\$ 288	\$ 288
Depreciation of equipment & vehicles	\$ 2,324	\$ 2,324	\$ 2,324	\$ 2,324	\$ 2,324
Total Projected Indirect Costs	\$ 2,612	\$ 2,612	\$ 2,612	\$ 2,612	\$ 2,612
Total Projected Direct & Indirect Costs	\$ 15,237	\$27,604	\$62,788	\$92,202	\$92,202
Gross Operating Profit	(\$15,237)	(\$27,604)	(\$ 5,886)	\$33,296	\$33,296
Interest on Investment ⁶					
Livestock	\$ 3,350	\$ 7,100	\$ 7,100	\$ 7,100	\$ 7,100
Facilities & improvements	\$ 288	\$ 288	\$ 288	\$ 288	\$ 288
Equipment & vehicles	\$ 1,014	\$ 1,014	\$ 1,014	\$ 1,014	\$ 1,014
Land	\$ 15	\$ 300	\$ 300	\$ 300	\$ 300
Total Interest on Investment	\$ 5,151	\$ 8,701	\$ 8,701	\$ 8,701	\$ 8,701
Total Projected Economic Costs	\$ 20,388	\$ 36,305	\$71,489	\$100,903	\$100,903
Return To Management ²	(\$20,388)	(\$36,305)	(\$14,587)	\$ 24,595	\$ 24,595

Regulatory Considerations

- Processing for resale must take place in either a federally or provincially inspected plant.
- Federally inspected processing is required for sales out of province, to chain stores, to franchise operations and to federal institutions such as armed forces bases or penitentiaries.
- The Provincial Health Authority regulates and monitors the storage and transportation of beef products.
- New provincial regulations for confined feeding operations will impact this industry and individual operations.

Capabilities

New entrants to direct marketing of beef must recognize that they will need to change their production/marketing process.

Personal Capabilities Required for Developing a Direct Market Beef Enterprise

- People skills particularly in customer relations
- A willingness to stand behind the beef product
- Ability to articulate the attributes of their unique product
- Networking capabilities
- Capacity to quickly resolve consumer difficulties with their product
- Ability to develop and maintain a strong market presence
- Patience and perseverance
- Recognition they are dealing with a consumer product and not a commodity
- Capacity to recognize the risks associated with a changing consumer forces
- Desire to thoroughly understand their product and the unique qualities it provides to consumers.

Definitions

¹Gross operating profit: The amount remaining after direct and indirect expenses have been paid.

²Return to management: An amount left of compensate the owner-operator for risk and management.

³Return on assets: $(\text{Return to management} + \text{interest on investment} - \text{management allowance}) / \text{total investment}$

⁴Interest on operating: The interest on an operating loan, calculated at 7.25% for 6 months.

⁵Depreciation: The reduction in the value of an assets over its lifetime.

⁶Interest on Investment: The cost of investing in capital assets rather than in a financial investment. Valued at 10% on all asset categories.

Management Strategies

Key management strategies that will contribute to the production and economic performance of the enterprise:

- Know your product
- Have a target market
- Have an image of longevity
- Have the financial strength required to allow the venture to mature
- Be prepared to learn on a continuous basis.
- Communicate with other producers
- Be fully aware of the significant level of market development required to get established

Key Marketing Activities

- Producers must consume their product to know as much as they can about it.
- Adopt the philosophy that you are providing a consistently good eating experience.
- Continuously search for new market opportunities.
- Determine a market segment that is receptive to a differentiated product and is willing to pay a premium for the product.
- Educate consumers about the different meat cuts and their cooking requirements
- Follow up on sales to ensure consumers are satisfied and immediately resolve any problems.
- Develop an image for the product by test marketing the product and test broad images for the product.
- Develop relationships with their consumers to achieve a positive eating experience.
- Determine which attributes consumers value and are willing to pay for.

For more information, contact:

Alberta Agriculture, Food and Rural Development
Production, Marketing, Economics, Business Planning & Development - Contact the Alberta Ag-Info Centre at 1-866-882-7677 or visit our website at <http://www.agric.gov.ab.ca>

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