Direct Meat Marketing

Leigh J. Maynard

The motivations for direct meat marketing have "push" and "pull" elements. On the "push" side, direct meat marketing may allow producers to escape low and volatile profit margins. On the "pull" side, some consumers are willing to pay premiums for value-added meat attributes such as organic production, no added hormones, no subtherapeutic antibiotic use, traceability, leanness, and local production.

I will focus on beef marketing, but most of the issues should be equally applicable to most meats. I will also focus on marketing through grocery and restaurant channels, as opposed to truly direct marketing through venues such as farmers markets. Marketing means different things to different people. I think of marketing as the full range of activities that transform a live animal into a consumer product. My presentation will focus on: (1) consumer demand for value-added meat attributes, (2) pros and cons of marketing to retailers, distributors, and restaurants, and (3) marketing challenges facing the start-up meat company. My perspective is limited by my experience, so hopefully these issues will be a starting point for a much wider-ranging discussion.

Consumer Demand for Value-Added Meat Attributes

When a large company develops a new product, it can afford to run test markets in major grocery chains. For small companies, just getting to the test market stage may require an irreversible commitment. An alternative source of information is public research on consumer willingness-to-pay (WTP) for new products. The upside of WTP research is that it is freely available. The downsides are that it may not be tailored to a specific company, and the WTP estimates may be biased to the upside.

Eliciting WTP without insisting that consumers actually pay for the product has been shown to overestimate WTP. Non-hypothetical experiments try to avoid such bias by making people actually pay for the product, but the results are still very sensitive to context. For example, Lusk *et al.* (2001) found that people were willing to pay an average of $1.84/lb to upgrade from a steak labeled "probably tough" to a "guaranteed tender" steak. In real life, though, consumers don't see steaks labeled "probably tough" in the meat case. Follow-up studies pitted guaranteed tender steak against more realistic choices such as USDA Choice and Certified Angus Beef. Consumers no longer showed much interest in the guaranteed tender product.

When WTP estimates are biased, they are generally biased upward. Most WTP experiments ask consumers to make a decision about a single unit of a novel product, but people interpret the results as if consumers will always be willing to pay that price on an ongoing basis. Maynard *et al.* (2003), however, found that consumers were willing to pay a significantly higher price for the first unit of locally-produced steak than for subsequent units. In addition, of those who said they would buy locally-produced steak "often" at the supermarket, more than half changed their answer to "rarely" when the steak was only available at a specialty meat store.

What value-added attributes do consumers really want? Looking at several studies, consumers seem most willing to pay premiums for meat raised without subtherapeutic antibiotics and added hormones. Humane and environmentally-sensitive production seems to be a second priority. Local production elicits curiosity, but product quality, uniformity, and packaging all need to be competitive with existing products before most consumers will pay a premium for local production.

Direct meat marketing ventures are often dominated by producers, who may assume that consumers are more knowledgeable about meat than they really are. Producers may see promotional material showing a healthy cow with a radio frequency identification (RFID) ear tag as a message of quality and traceability. Consumers, however, may gravitate toward packaging showing a juicy cheeseburger, and probably will not notice the RFID. Producers may also underestimate the importance of attractive packaging.

Pros and Cons of Alternative Marketing Channels

If a start-up meat-marketing venture is to reach a wide audience, the primary marketing channels are retail grocery

L.J. Maynard
Dept. of Agricultural Economics
319 C.E. Barnhart Bldg.
University of Kentucky
Lexington, KY 40546-0276

Email: lmaynard@uky.edu

Proceedings of the 57th American Meat Science Association Reciprocal Meat Conference *(pp. 75-76)*
June 20-23, 2004, Lexington, Kentucky
www.meatscience.org

chains, meat distributors, and restaurants. Each has its pros and cons. White tablecloth restaurants are attractive because purchasing decisions are often made by local, knowledgeable buyers who can promote their business by offering local meat products. Supply relationships may be more flexible, and price is not always the most dominant factor. In a restaurateur survey performed by Maynard, Burdine, and Meyer (2003), the highest beef purchasing priorities were USDA grade, price, and freshness. Most white tablecloth restaurants are willing to work with producers, but they worry that local meat supplies may be inconsistent and unreliable. A downside is low brand visibility.

Direct sales to retail grocery chains allow excellent brand exposure. By self-distributing, a meat company might retain more of the value-added premium as profit. Retail meat buyers, however, are under intense pressure to weed out nonperforming products. Slotting fees put the burden of failure on the supplier. Retailers have little tolerance for delivery and packaging inconsistency. Buyers are in a position to drive hard bargains, and are forced to in the struggle for survival against low-price superstores.

Distributors offer an alternative, for a price. Distributors act as an intermediary that can seek out buyers and negotiate on a more equal footing. The biggest advantage of using a distributor is that it will perform many marketing functions more effectively than a small meat company. Meat distributors tend to have cutting facilities, allowing the small meat company to supply only primals. Using distributors, however, implies a sharp reduction in value-added premiums returned to the small meat company as profits.

Common Marketing Challenges

The allure of cutting out the middleman and capturing larger profits runs headlong into the reality that supplying marketing services is expensive, and is already being performed very efficiently by established competitors. In Kentucky, one of the biggest challenges is arranging for slaughter and processing in a state with few federally inspected facilities. Transportation costs mount as cattle must be trucked long distances in partial loads. Processing fees are not competitive with those of the big, integrated meat firms. Small meat companies staking their fragile reputation on uniform, high-quality products must rely on the person holding the trim knife at the processing plant. Small meat companies are often founded on the principle of raising returns to producers, but paying producers generously conflicts with the need for cost control.

Value-added meat marketing relies on selling a product with valuable attributes to a niche audience willing to pay a premium for those attributes. The consumer's WTP must be high enough to not only pay for the additional cost of adding those attributes, it must also make up for the relative cost inefficiency of the small meat company. A major challenge with marketing value-added beef is that the middle meats may sell well, but it is much harder to find a premium market for the end meats.

Perhaps the most intimidating challenge of getting a meat marketing venture off the ground is that many decisions need to be made simultaneously, each decision impacts each of the other decisions, and there is never enough information to know whether one is making the right decision. Picture trying to do a jigsaw puzzle in one step instead of piece by piece. For example, it is extremely difficult to get potential buyers to discuss specific prices until negotiations are at an advanced stage. This makes it hard to choose among the three main marketing channels discussed above (retail, distributor, restaurant). Depending on which marketing channel the meat company pursues, the processing and transportation needs differ widely, and may need to be arranged before the company can commit to a supply arrangement. Decision making Catch-22's like this example add to the risk a new meat company faces.

Up to this point, the discussion has focused mainly on the difficulties of launching a direct meat marketing business. The risks are high, and cannot be discounted. One local effort in Kentucky actually obtained shelf space in Kroger, but failed when it was unable to keep up with demand. Annie Wilson (2001) provides a detailed account of the demise of the Tallgrass Prairie Producers Coop. But, other efforts seem to be succeeding. Many states now support entrepreneurism as a catalyst for economic growth, and the opportunity to finance capital costs with public grant funds may encourage investment. Other contributors to entrepreneurial success appear to be an extremely high, sustained level of commitment to the effort (i.e., workaholism) and a refusal to quit in the face of high risks.

References

Lusk, J.L.; Fox, J.A.; Schroeder, T.C.; Mintert, J.; Koohmaraie, M. 2001. "In-Store Valuation of Steak Tenderness." American Journal of Agricultural Economics 83, 539-550.

Maynard, L.J.; Hartell, J.G.; Meyer, A.L.; Hao, J. 2003. "An Experimental Approach to Valuing New Differentiated Products." Proceedings on CD-ROM of the 25th International Conference of Agricultural Economists, Durban, South Africa.

Maynard, L.J.; Burdine, K.H.; Meyer, A.L. 2003. "Market Potential for Locally-Produced Meat Products." Journal of Food Distribution Research, 34: 26-37.

Wilson, A. 2001. "Romance vs. Reality: Hard Lessons Learned in a Grass-fed Beef Marketing Cooperative – Part One." Tallgrass Praire Producers Coop, Kansas Rural Center.