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Choosing the Best Marketing Channels for Producers Selling Meat & Livestock

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Growing demand for local foods is presenting new opportunities for small-scale agricultural producers, but understanding the relative costs and benefits of different local foods channels is important to maximize farm performance. Wholesale channels typically move larger quantities quickly but usually at a lower price. Direct channels often have higher prices but require more customer interaction.

A recently completed project funded by Northeast SARE (Sustainable Agriculture Research and Education) identified the primary factors that livestock farmers selling meats use to evaluate marketing channel opportunities and, accordingly, developed an easy-to-use tool for data-based channel assessment. Livestock farmers have many marketing options, from direct marketing channels such as farmers' markets to wholesale channels such as restaurants or commodity sales. This project was pursued in the wake of the original Marketing Channel Assessment Tool (MCAT) developed for use with fresh fruit and vegetable farms (see Smart Marketing March 2009). Using MCAT, a simple data collection process leads to meaningful conclusions for small farms evaluating their current marketing channel utilization and planning improvements.

This article describes the factors that livestock farmers use when evaluating marketing channels. Marketing channel selection is part of a farm's marketing strategy as well as a function of the relative performance of each channel based on six performance factors: Sales volume, hot-carcass weight (HCW) price, ability to sell the entire carcass, lifestyle preferences, labor required, and risk. Examples of marketing channels available to meat producers are:

Wholesale: commodity sales, auctions, restaurant, retail/grocery, and distributor.

Direct: freezer trade, community supported agriculture (CSA), farm store/stand, farmers' market.

Once a farm has conducted a Marketing Channel Assessment they can change their participation in channels to improve marketing and sales for the farm. Ideally, farms can find ways to increase their participation in the top performing channels while decreasing or eliminating participation in the worst performing channels. Additionally, farms selling meat can utilize product pricing to improve channel performance. This means that in addition to changing a farm’s participation in certain channels based on channel performance, the farm can also improve the performance of a channel by changing the pricing used in that channel, if possible.

This project found that any attempt to analyze the performance of an individual channel was incomplete without tracking individual products and their prices. For example, while restaurants buy high-value cuts, such as tenderloin, they do not purchase all cuts from the carcass. This reveals a weakness in the total “performance” of the restaurant channel since it is unsustainable for the farm to maintain sales of high-end cuts without proportional sales of all other cuts. Thus, tracking cuts and prices for each channel is important.

1. Sales Volume: Due to the nature of product volume and perishability the farm strategy for livestock products is about channel selection with an emphasis on price and inventory management, as illustrated in Figure 1. The sales volume factor for livestock farmers is quite different than for produce growers. Two important, interacting factors, product volume and product perishability, impact the role and importance of the “sales volume” assessment factor are.

Since meat can be frozen, perishability is of little concern. Low perishability means less emphasis on timing and therefore on the importance of sales volume in a given time period. It is still important for farms to sell all cuts from the carcass proportionately and in a timely manner so that they are not backlogged with certain cuts.

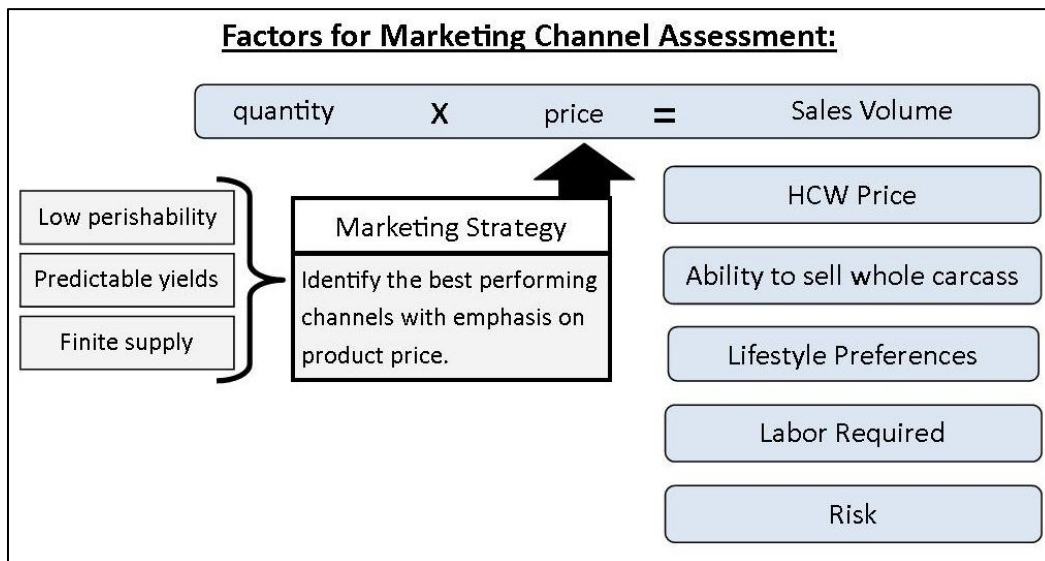


Figure 1: The “sales volume” factor is the product of the quantity of products sold and the price of each product. Due to nature of the perishability and quantity of products, price is the emphasis of the “sales volume” factor for producers selling meat.

2. Hot-Carcass Weight Price: Comparing channels means finding a way to compare whole animal/whole carcass channels such as conventional commodity sales, livestock auctions, and freezer trade with channels that involve sales by the cut, such as farmers' markets and restaurants. To make this comparison useful, we must develop a price equivalent. The simplest price to find for all channels is the hot-carcass weight (HCW) price. HCW pricing is the meat industry standard pricing method. Using farm data and assumptions on live-to-carcass weight and carcass-to-retail weight yields, a HCW price can be constructed for all channels.

3. Ability to sell the whole carcass: Interacting factors such as weight, gross sales volume, and price per pound (for either HCW or retail weight), are very important to compare the relative performance of different channels, however, these factors are not immediately comparable across channels. Gross sales in one channel may reflect whole carcass sales while another channel's gross sales might reflect sales of only a handful of cuts. Since some channels only consume certain cuts, one head of livestock cannot be easily tracked through each channel for comparison sake. In an attempt to account for this, a ranking was created for "% of carcass demanded by channel" to measure the degree to which a channel consumes all cuts. This way, this very important factor has sufficient weight in the overall assessment. Selling the entire carcass is critical to sustainability and is always cited as a key factor of assessment by farmers that sell meat by the cut.

4, 5, & 6. Lifestyle preference, Labor Required, and Risk: Risk and lifestyle preference are not externally measured factors, but rather are rankings provided by the farmer. The "Risk" ranking captures farmer perceptions on financial or business risk. Financial/business risk is defined as the probability of lost or lower-than-expected sales. "Lifestyle Preferences" reflect how well each channel fits the farmers' overall enjoyment of work in each channel. Finally, "Labor Required" is a measurement of the number of labor hours each channel demands during the study period. Since labor is one of the largest marketing expenses, if not the largest, it has a big impact on the profitability in any given channel.

Summary: The outcomes of the project were an understanding of the important factors for marketing channel assessment and the development of the Livestock Marketing Channel Assessment Tool (LMCAT). The LMCAT is now available for use by farms and Cooperative Extension agents. The tool involves tracking labor, carcass yield and sales data for at least one week and up to one month, and inputting the information into a user-friendly programmed Excel spreadsheet. In addition to the channel assessment feature, the spreadsheet has a tool for farmers to adjust the pricing of each cut in order to reach profitability goals.

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"Smart Marketing" is a marketing newsletter for extension publication in local newsletters and for placement in local media. It reviews elements critical to successful marketing in the food and agricultural industry. *Please cite or acknowledge when using this material.* Past articles are available at <http://marketingpwt.aem.cornell.edu/publications.html>.