

The Ups and Downs of Direct-Marketing Beef

Peggy and Richard Sechrist, Fredericksburg, Texas

Direct-marketing beef is both challenging and rewarding. For most producers, marketing is a new skill and requires time and practice to master. Richard and I have been "practicing" for five years and feel that there are some basic guidelines we can share regarding direct marketing. But each and every situation will be different, and producers must develop a marketing plan that fits their situation.

Our presentation will discuss how we have applied the following guidelines.

Direct-Marketing Guidelines

I. Make sure marketing is consistent with your goals, personally and professionally.

A) It is very time consuming (and rewarding)

B) Requires a long time to develop

II. Select and define your market

A) Identify your market niche. You have to know who you are trying to get to buy your product, how to reach them, and figure out a compelling reason for them to change their buying habits.

B) Differentiate your product

C) Study your market. Research information and trends relating to your target audience such as buying habits, priority concerns, future trends, etc.

III. Get your product ready for market

A) Labeling, packaging, promotional material such as brochures, advertising

IV. Develop a marketing plan

A) How are you going to reach your target market?

Options: retail
wholesale

Distribution

B) Marketing tools:

- Resources such as marketing book
- Brochures
- Advertising
- Farmer Markets
- Special events booths

IV. Flexibility & Adaptation

Be prepared to change your marketing strategies or things like your product packaging to better fit the market need.

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Relationship Marketing

Joel Salatin, Polyface Farm, Shenandoah Valley, Virginia

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1. Diversifying your Pitch.

- A. Education– Consumers need to be told how your product differs from the competition. As clean-food producers, we need to explain the difference between edible products and inedible, extruded, amalgamated, irradiated, genetically-modified, adulterated pseudo-food.
- B. Examples– Giving out samples of your product always works. This is usually the best advertisement investment you can make. People are always predisposed to like something given more than something bought, because the best things in life are free.
- C. Evangelism– Turn your patrons into evangelists by rewarding their efforts with free merchandise. A few gung-ho patrons (we call them cheerleaders) will bring you high quality customers faster than any scattergun approach.

2. Diversifying your Patrons– It's easier to find 100 people who will spend \$1,000 with you than 1,000 people who will spend \$100. The hard part is getting the patron. Once you have the patron, diversify your product line so that you can capture more of the patron's money per visit. This marketing bounce-back is far more efficient than trying to add new customers for a mono-product line.

- A. Individuals– Our 400 families are the backbone of our business. We send out an annual newsletter (epistle) and order blank to keep us from being in the speculative farming business. This way everything is pre-ordered, taking the risk out of the production end.

3. Diversifying your Product

- A. Farmers' Markets– Extending your efforts into multiple venues garners additional exposure and allows you to touch people who may not be ready to come out to the farm. In persuasion, you are always trying to move people in degrees, not lump sums. If you are a "one," and you're talking to a "ten" your goal is to move that person to a nine, not a three or two. Non-farm venues like food fairs, farmers' markets, buying clubs, and health food stores offer opportunities to touch people not ready yet to actually trek out to your farm.
- B. Restaurants– The taste and texture of clean food makes it highly marketable to discriminating chefs. Given the choice, patrons will often choose food produced in a humane or non-chemical way. We supply about 30 restaurants and use a subcontractor to make the weekly delivery. A variable delivery fee is added based on poundage, which serves as the subcontractor's commission. This keeps us from compromising on FOB Polyface prices, encourages the restaurant to buy more in order to get the delivery percentage down, and insures aggressive and high-quality delivery because the whole shebang carries no wages.

We are in an age of niche marketing. Everyone is looking for something unique; designer duds are in. Most farmers break out in a rash at the thought of doing something different. And yet it is difference that drives marketing distinctiveness. Nothing is as hard

to sell as the same old same old. Product differentiation is key. And nothing is more uniquely recognizable than superior quality.

The wholesale-commodity-based agribusiness system spurns differentiation and applauds mediocrity. But if you will devote yourself to excellence, the market will always make room at the top. The problem is that

most of us will not passionately address the personal character qualities and abilities that will produce a significantly superior product. This requires a major paradigm shift-- probably even getting rid of the TV.

The opportunities are there; the battleground is between the ears. Go for it.

Exploring Value-Added Agriculture

La Rhea Pepper, Texas Organic Cotton Marketing Cooperative, O'Donnell, Texas

Founded in 1993, the Texas Organic Cotton Marketing Cooperative (TOCMC) is comprised of a group of producers whose farmland is certified by the Texas Department of Agriculture. In 1999, membership was also expanded to include cotton producers from other areas, certified by appropriate groups. The program has grown from 400 bales and a handful of farmers, to over 30 farm families and 5,000 bales from the 1999 harvest.

Our farmers consider themselves stewards of the land. As conscientious stewards they want to see the land able to support the next generations of farmers. Many farming practices used today reduce the potential for passing healthy, productive land to our children. Misuse of pesticides and herbicides has done great harm to our environment. That, coupled with the current, and on-going agricultural crisis that we are facing in rural areas, motivated the farmers involved in TOCMC to not only farm using alternative methods-- sustainable methods-- but to also market their product using alternative methods.

TOCMC is bringing the farm gate closer to the market gate by investing in value-added agricultural products. By adding value to farm products, the production chain is shortened, allowing the farmer to share in benefits of the

manufacturing process, create a sustainable market, and most importantly, bring a quality product into the marketplace giving many consumers the option to purchase chemical-free products.

Cotton Plus-- The First Step in Value-Added

When Terry and I first became "certified organic" (1992), a number of people began calling-- wanting organic cotton. Unfortunately, they didn't want a 500 pound bale. They wanted fabric!! At that time, only the "big boys"-- Esprit, O'Wear and Ecosport -- could afford to meet the mill minimums to launch their own organic programs. There was a void in servicing the small and medium-size manufacturers. I still remember the way I felt when my husband and I took our cotton to the mill and ordered 4,000 yards of denim. SCARED!!! What were we going to do with that much denim, and where were we going to put it! Before the fabric arrived, it was all sold, as well as another batch, and we added chambray and canvas. Filling those first orders was a riot, using a ping-pong table to cut and measure fabric, and having a mountain of fabric that the boys used as their playground! Cotton Plus now offers 140 different fabrics,

Value-added is not for the faint of heart!

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used over 750 bales last year and employs 3 full-time people and services over 400 manufacturers.

Organic Essentials– A Giant Leap into Value-Added

Organic Essentials began conceptually in 1994 due to the feedback from consumers seeking alternatives to feminine and personal care products and the need to develop additional markets for the fiber. While we were not having any problem selling and marketing the higher-quality grades of fiber, we were experiencing over ten percent of the fiber falling outside of spinning specifications. In the conventional cotton market, you have a mature market that buys and sells every type of cotton for a variety of applications. The difference in a high leaf or a low micronaire or a short staple may only be a couple of points on the conventional market– in the organic market, it is the difference of being sold for application in an organic program, or being dumped on the conventional market. With all of the bales going into a pool and the equity of the value of the bales evenly divided per pound to each producer, receiving conventional prices for the low-quality bales lowered the progress payments across the entire membership. We began to research programs and areas where we could consistently place this cotton into an organic program. You should have been in the meeting when I told our board that we needed to start making feminine hygiene products!!!! Like I said, this wasn't a small step into value-added agriculture, it was a giant leap!!!

Organic Essentials is owned not only by TOCMC and members of TOCMC, but because the minimums are so high and this program is capital-intensive, additional shares have been sold to other individuals interested in promoting rural economies and organic cotton products. This is already a success for the farmers involved, because this cotton has an "organic" home. With additional time and

greater volumes, it shows the potential to be a good investment for others as well.

Strategic Alliances

Our third venture into value-added agriculture began in February of 1999. We have found over the years that each market or product has its own specific needs– resources, knowledge, talent, and passion. This is the case with Sunshine Au Naturaul Mill. The primary market focus for the program is bed and bath products towels, sheets, robes, and other related items. From a farmer's perspective, a towel uses two pounds of medium-grade cotton. From a marketing standpoint, it has to be soft and absorbent. You have to tell the story, have the quality, and be able to give point-of-purchase support into the retail market. We have been fortunate in the development of a strategic alliance with Bryant Rayngay who has the expertise and knowledge for this market sector. TOCMC and Cotton Plus are both primary shareholders in Sunshine as well as suppliers of fiber and fabric.

Belly up to the Bar

Since the beginning of the organic cotton businesses (1992) in O'Donnell, Texas Cotton Plus, TOCMC and Organic Essentials– the economy has benefitted \$10.8 million over the price of conventional cotton, over \$6 million in fiber sales, \$2 million in fabric sales, \$1 million in non-woven goods and \$500,000 in payroll. This return has come with a price. TOCMC operates on retains, for every pound of cotton that is sold on the organic market, a pre-determined cents per pound is paid to cover marketing expenses. In addition to that, additional capital has had to be invested in each of the value-added programs in order to develop and launch the program. In addition to the cash that has been invested, there has been ten times that amount invested in blood, sweat and tears. Value-added is not for the faint of heart!

Value-Added = Cash

You may have the most wonderful crop in the world, but if you don't have the cash to turn it into a product all you have is a 500-pound bale that no one wants to buy. Organic Essentials' inventory is a double-edged sword. Fabric minimums at 4,000 are nothing. To meet a minimum in non-wovens, we're talking 50,000 per item. To launch the cotton ball project required \$40,000 cash plus the cotton. The second verse to this song is that you may have the most wonderful product in the whole world, but if you don't market and sell that product – you're still nowhere. You have to put together the entire package.

Value-Added is a Choice

Any one of the steps leading to value-added agriculture may seem insurmountable, if you have to do it alone. Regardless of the crop or agricultural products you are involved in, you have a choice to make. Either be content with the way things are or become involved in your farm, your product, and find a way to become involved in marketing and selling your product. I'm convinced that one of the critical keys to sustainable agriculture is a economically-sustainable and viable market – even if we have to build it ourselves.

Alternatives to Industrial Vertical Integration in Oklahoma Agriculture

John E. Ikerd, Extension professor, University of Missouri, Columbia

People in rural Oklahoma as in much of rural America— are searching for new alternatives for economic development. Unfortunately, economic development and economic growth have become interchangeable concepts in the minds of many. Economic development has come to mean more jobs and more money with little concern for who gets the jobs and who gets the money. More jobs and more money may be fairly accurate measures of economic growth, but they do not necessarily measure how effectively a community is developing its economic resources.

Economic growth means that an economy is getting bigger – it does not necessarily mean that the economy is getting better. An economy is something created by people to meet the needs of people. Thus, an economy should work for people – not the other way around.

Economic development should mean that an economy is getting better at meeting the needs of the people it is meant to serve— which may or may not result from its getting bigger. In reality, many rural agricultural areas quite simply have become places where people from outside the community invest in activities that society will not allow them to carry out elsewhere. The local economy grows, but the needs of the community remain unmet.

A Development Alternative for Rural Communities

People in rural agricultural communities should not be criticized for looking to industrial agricultural enterprises, such as confinement animal feeding operations (CAFOs), as a solution to their problems. The industrialization of agriculture— a process that has been taking place in various forms for

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many decades—has continually confronted farmers with the choice of either getting bigger or getting out. Some must get out in order for others to get bigger. As farms have become larger and more specialized, fewer farm operators and farm workers were needed, and the larger farms reached farther and farther beyond the local community to buy their inputs and sell their products. Fewer farm families coupled with fewer local sales and purchases spelled decline and decay for many agriculturally-dependent rural communities.

It takes people, as well as dollars, to make a viable community. Many rural communities now are desperate and thus are vulnerable to any promise of new jobs and new investments. Further exploitation of people who are already exploited, further degradation of natural resources that are already degraded, and even disruption of a community that has already lost its purpose, may seem reasonable costs to pay for bring new jobs and new money into a community. "Just saying NO" is not a logical response for these communities. They need a viable alternative to industrialization— an alternative that will increase local jobs and income by means that enhance and develop local resources rather than degrade and exploit them for short-term gain.

Locally-owned, value-added enterprises (LOVAs) offer such an alternative. Value-added enterprises include any activity that adds value to basic raw commodities such as cattle, wheat, hogs, and cotton by transforming them into more valuable products such as beef, flour, bacon, and cloth. Thus, adding value to agricultural commodities that are already produced in a community may increase local income and create new jobs without changing the basic nature of local resource use. In so doing, the value of local resources also is enhanced through better access to viable local markets.

If the scale of value-added enterprises is matched with the scale of local production,

new jobs are more likely to go to local people. Larger processing and manufacturing operations may employ more local people in total, but they also tend to bring in a larger proportion of their total work force from outside the community. While additional workers may contribute to the economic growth of a community, they do not necessarily contribute to the development, or betterment, of the local economy. When the scale of new enterprises is linked to the local resource base, prospects for unintended negative consequences are less likely to result.

The development potential of value-added enterprises is enhanced when local investments are used to create jobs for local people by providing local markets for local production. In such cases, the emphasis is on developing the resources of a community natural, economic, and human rather than providing opportunities for outside investors to exploit local resources to create jobs for people from outside. In addition, if more rural communities more fully developed their own resources, there would be fewer opportunities for outsiders to exploit local resources for short term gain and less need for someone elsewhere to create jobs for those without jobs in the local community. In other words, community self-development through locally-owned value-adding -- is more stable and sustainable over time. It gives local people a purpose to live, work, and raise their families in a particular community or place.

In agricultural communities, the development potential of value-added enterprises can be further enhanced when local farmers invest in enterprises that add value to their commodities. If value-added enterprises are not farmer-owned, even if locally-owned, some of the raw commodities will quite likely be purchased from within the community, but some will not. A 1996 USDA study indicated that 42 percent of value-added enterprises located in non-metropolitan areas purchased

less than 25 percent of their raw materials locally (within an hour drive), but that 35 percent of such enterprises reported purchasing more than 75 percent of their raw materials locally. The greater the local purchases, the greater the local economic impact. Farmer-owned, value-added enterprises put the maximum number of dollars back into a local agricultural economy.

LOVA Possibilities for Rural, Agricultural Oklahoma

A study of the potential for LOVAs in Oklahoma's agricultural counties was carried out as part of a larger study of the ecological, economic, and social impacts of confinement animal feeding operations in Oklahoma.

Within the context of this study, Texas County is characterized as a county that began with a logical movement toward long-run economic development that somehow has been captured and redirected toward short-run, economic growth. The course for Texas County seems to have been set. But, what about Oklahoma's other agricultural counties? Should they follow Texas County's strategy of economic growth or choose a strategy for economic development locally-owned, value-added agriculture? The study was designed to provide some insights into the answer to this question.

Potential increases in local purchases and new jobs were estimated based on an assumption that new value-added ventures might be undertaken that are capable of utilizing raw materials equivalent to 50 percent of 1992 production of livestock and crops for Oklahoma's agriculturally dependent counties (excluding Texas County). Two alternative scenarios were developed for local purchases. The cooperative scenario assumed that local producers own the value-added enterprises, and thus, all of local raw materials cattle, hogs, wheat, corn, etc. are purchased within the county. Local purchases of the remainder of input materials and supplies

were assumed to be at the same percentage as for the second scenario. The second corporate scenario assumed that percentages of local purchases were the same as the averages for existing non-metro-based value-added operations reported in the USDA study cited.

The same levels of value-added activities for livestock and crops are assumed for both scenarios. The estimated numbers of jobs created, the same for each scenario, were based on the average relationship between dollars of local purchases and jobs created reported in the USDA non-metro value-added survey. However, the farmer-owned cooperative scenario utilizes a larger proportion of total local production because it gets all of its raw materials -- cattle, hogs, wheat, corn, etc. locally, whereas the corporate scenario purchases some raw materials from outside the county.

This analysis is only meant to give some general indications of the potential of LOVAs as rural economic development strategy in these counties. For example, the numbers of potential jobs resulting from a LOVA development strategy range from 250 in Cotton County to 1779 in Cimarron Co. The average across all 13 counties was 636 new jobs per county. The total number of jobs created for the 13 counties was more than 8,264. The average potential increase in local purchases ranged from \$26.5 million for the corporate strategy in Cotton County to \$258 million for the cooperative strategy in Cimarron County. The average was \$93.6 million for the cooperative strategy and \$67.1 million for the corporately-owned strategy.

The farmer-owned cooperative strategy resulted in a potential \$1.2 billion increase in local purchases for the 13 counties in total compared with a \$873 million increase in local purchases for the corporately owned LOVA strategy. These results give some general indication of the range of results that might accrue over time from successful strategies

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consistent with those represented by the scenarios outlined in this analysis.

Conclusion

There is little doubt, opportunities for increasing employment or local purchases by these magnitudes would create considerable interest if they were offered by outside investors. The possibility of attracting a new industry that will employ over 600 people probably would be given number-one priority by any rural economic developer. Millions of dollars in public funds might be spent to lure such an industry to a rural county. Landing a business that promises even 250 new jobs would be viewed as a major prize for many rural communities. However, this type of potential quite likely exists in all of Oklahoma's agricultural counties as it does for most agricultural counties across the nation.

For the state as a whole, a realistic LOVA strategy, as outlined in this analysis, could add more than \$1 billion to the state's agricultural economy and could create more than 8,000 new jobs in rural areas. This level of economic achievement would likely surpass that of the largest agri-industry ever brought into Oklahoma, which probably is the Seaboard CAFO operation in Texas County. However, one marked difference is that scattering numerous locally-owned, value-added enterprises across the state does not create the negative environmental and social impacts of concentrating all activity in one location. In many cases, negative environmental and social impacts are not a consequence of the total amount of waste or of the total number of people involved, but instead are a result of concentrating too much waste or too many people in one place. *The poison is in the dose.*

Can Oklahoma achieve its rural economic development objectives more effectively through LOVAs than through industrial recruiting? The answer depends upon Oklahomans. If rural Oklahomans want

someone else to create jobs for them by bringing in investments from outside, a LOVA strategy won't work. CAFOs, or some similar strategy for exploiting rural resources for short run growth, may be the only options. On the other hand, if Oklahomans are willing to accept the responsibility for creating jobs for themselves, by investing their own time, energy, and money in their communities, then LOVAs certainly would seem to be worthy of serious consideration as a rural economic development strategy. The choice is between growth from outside investment or development from within. Growth is far easier and quicker to achieve than development. So, Oklahomans will have to decide whether they want faster economic growth or instead are willing to work a bit harder and longer for economic development for economic betterment of their rural communities.

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