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University of California
Sustainable Agriculture
Research and Education Program

A Marketing Plan for NORTHERN CALIFORNIA'S FINEST GRASS-FED BEEF

by

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EXECUTIVE SUMMARY

For the beef industry, the inability of the consumer to purchase a consistent, quality product from the traditional meat case has contributed to beef's loss of market share over the last decade. Producers who found this unacceptable have turned to niche marketing as a way to pull themselves out of this downward trend. Capturing a niche market proves to be an essential tool used to gain market share. By creating specialty products, producers can cater to the changing demands of today's consumer. Past performance of other products that have used niche marketing shows increased returns due to premium prices charged by the producer.

Northern California's Finest Grass-Fed Beef (NCFGB) is the niche marketing answer for Northern California beef producers. NCFGB will provide an opportunity for local ranchers to be part of this new soaring product market. NCFGB is a high quality beef product produced without the use of hormones and minimal use of antibiotics. Northern California's Finest will meet the consumer demand for a more healthful beef product.

With the ABig Four@ packing companies B ConAgra, IBP, Cargill and National B controlling eighty-three percent of our nation's beef packing industry and expanding their operations to cover more aspects of production, it is difficult for ranchers to command acceptable profits. Northern California's Finest will cut out the need for middlemen and allow the producers to take charge of all aspects of production and provide consumers with an option to traditional beef.

Assuming that profits will meet acceptable levels, it is recommended that A natural@ beef producers form a cooperative. In this report a cooperative know as ANorthern California's Finest Grass-Fed Beef@ will be assumed to be fully established.

The primary goal of this producer-owned cooperative will be to provide acceptable profit levels to producers of grass-fed beef in the Northern California region. If there is a reasonable growth in sales NCFGB will expand sales into the Bay Area, Sacramento, and further south with intentions of increasing market share. As sales increase, the cooperative will hire a full-time salesperson and possibly a small management team. A long-run plan could include construction of a small slaughtering facility. If this plan succeeds NCFGB has the potential to gain a respectable share of the local beef market.

SITUATION ANALYSIS

Product Description

Northern California's Finest Grass-Fed Beef is an alternative beef product that fits the consumer demand for more healthful red meat. Current societal trends lean toward a more healthful diet that cuts down on fat and food additives. NCFGB is raised on native grasslands in Northern California without the use of growth promotants and minimal use of antibiotics. The cattle bypass grain feeding at feedlots and go straight from the ranch to processing.

The concept of this product is not new. Prior to World War II, most of the beef that was consumed in the United States was grass fed and finished, meaning that the cattle never saw grain prior to slaughter. Growth promotants were not used to any extent and antibiotics were used only when needed. It was not until the last fifty years that American consumers have become accustomed to grain-fed beef. NCFGB has great potential to fit into the more healthful eating habit's of current and future consumers.

Production Location

NCFGB is produced on the native grasslands of the valleys, foothills and mountains of Northern California. Local ranchers that have the range capacity to support the cattle through the entire growth cycle will provide the product. The animals will be processed in Northern California, currently being done by Jack's Wholesale Meats in Red Bluff. Production levels at this time are low and are dependent on the finding of a suitable market, although this could potentially provide a stable market for those ranchers interested in increasing the amount of their product that benefits the local economy.

The primary competition, traditional grain-fed beef, begins its production in similar areas and conditions but then has to be shipped to feeding facilities, normally out of state. Substitutes, like poultry and fish, are produced in other areas and must be shipped significant distances to reach local markets. NCFGB will utilize local native grasslands and minimize the need of extensive out-of-area shipping costs.

Market Environment

Beef consumption per capita peaked in the mid-1970s and then began its decline. Since that time the fat content in foods has come to the forefront of dietary concerns and many consumers began to feel that beef did not fit into the new fast-paced, health-conscious lifestyle. During the 1980s the industry tried to change the negative image of beef by promoting its product as a lean and nutrient-dense meat. Per capita consumption of beef made a slow recovery after the mid-1980s, but by the early 1990s, despite all efforts, chicken sales had surpassed that of beef for the first time ever.

The overall size of the market for the grass-fed beef is difficult to predict until further research is completed. Since the product crosses the line of traditional beef and beef alternatives, it could potentially encompass a large portion of the consumer base that eats beef regularly as well as those who rarely purchase red meat.

Primary Competitors

At the retail level there few, if any, true competitors to NCFGB. Most specialty beef products available align themselves in the organic category, our product does not classify itself as such. Currently there is no other product on the market that will compete at the product form level. The focus of this marketing campaign will be on selling the attributes of NCFGB as an alternative to traditional beef. Targeted consumers will likely base their purchasing decisions towards NCFGB due to a lower fat content than grain-fed beef and the conveyed perception that California's Finest is a premium product.

Substitutes

Since NCFGB will initially be marketed at the retail level, its substitutes will be those meats that fulfill the same dietary

requirements (i.e., protein) and already have a position in the meat case of grocery stores. However, since this product will cater to a more health-conscious consumer (in terms of nutrition), its main threat of competition will come from specialty beef products (e.g., Certified Angus Beef), and low fat meat that can be prepared in much the same way (grilling, roasting) such as poultry and fish.

Advantages

NCFGB has many qualities that the competition lacks. This is because grass-fed beef has an excellent flavor as well as a lower fat content that appeals to the health-conscious consumer. Also, the absence of growth promotants and minimal use of antibiotics holds an advantage over the traditional grain-fed beef product.

Local communities and producers also benefit from the production of NCFGB. The producers utilize the native grasslands of their area rather than feed concentrates grown out of the region. Northern California's Finest also opens up marketing options for small and medium-sized producers, offering them the alternative of selling their animals to a local company instead of feedlots in other parts of the state and country.

The community also benefits through economic growth prompted by the creation of jobs. Since the beef is not to be sent off to feedlots, the cattle is processed locally. Processing plants will have to be built or enlarged, thus creating additional jobs. The processing also has the potential to open up new consumer markets in the future (i.e., farmers markets).

Disadvantages

Although the reduced fat content of grass-fed beef may appeal to consumers for health reasons, the texture and taste of grass-fed beef differ from those of grain-fed beef. But many consumers cannot identify taste differences.

A package of NCFGB in the meat counter is not as visually appealing as traditionally-fed beef. The purpose of feeding cattle to a finish is to add fat to the animal. Finishing cattle on forage will leave the fat on the meat a slightly yellow shade.

The quality of grass in the pastures is a major concern. The flavor of the meat is directly linked to the feed available to the animal. The traditional grain-fed product has the advantage of a consistent feed that in turn produces a consistent-tasting product. Grass-fed beef, on the other hand, is reliant of the native forage available in the pastures used for grazing. The types of grass can vary from field to field or ranch to ranch, creating a problem in flavor consistency of the meat.

By keeping the animals on the land for a longer period of time this may threaten wildlife migration routes and habitat. This may also increase urbanization in the communities because of the increased availability of jobs related to the processing plants.

Other Factors Impacting the Market

Potential government impact could come from two directions B labeling standards and grazing public lands. Labeling should not present that large a problem, but could initially pose a few stumbling blocks such as discrepancies over the use of certain terms (natural). However, public lands, which many of the Northern California ranchers use as a significant part of their annual pasture, have the potential to present a large problem if government regulations are changed in the near future. If grazing fees are raised and regulations are made more stringent, ranchers may have to search for other pastures or face economic hardship. This could have the potential of increased costs for production for the grass-fed beef.

Unique Aspects of Production

As mentioned before, the idea behind NCFGB is not a new one. Marketing of grass-fed beef has been tried before on several occasions with less than impressive results. The reasons for the poor response to this product were many but a few that were cited as some of the main causes included:

- There are additional costs required to market this product due to the smaller quantity of the product over which to spread costs.
- Retailers are hesitant to carry two different kinds of beef due to the additional work needed to display the product.

For NCFGB to be successful the producer must not only produce a high quality, more healthful product but also educate their

potential consumers about the advantages of grass-fed beef. It is expected that the largest market for grass-fed beef will be in urban areas where eating healthfully is part of a more desirable lifestyle. This will mean that the producer/marketer will have to deal with and cater to people with a potentially different lifestyle than their own. Advertisements and public relations will have to cater to a portion of the population that is not familiar with the cattle industry.

Another unusual aspect for the producer will be providing proof to the retailer/consumer of the authenticity of the product. Currently organic products must be certified, whereas there is no such certification for grass-fed beef. The NCFGB organization must come up with a system that will allow the consumer to be assured of buying an authentic product. This will be examined further as the product market research is continued.

MARKETING ACTION PLAN

Target Market

The initial venue for NCFGB target market will be Raley's Market on Skyway Avenue in Chico. To start with the product will only be marketed in this one outlet due to current production constraints. Promotion and advertising will focus on the middle to upper-income female consumer, aged 25 to 65 years old. It is this consumer that tends to be well educated about food consumption, health issues, quality in terms of brands. Women are targeted since studies have shown that women still do the primary food shopping for the household. Our target market will be focused in suburban areas in Northern California. As the popularity of NCFGB increases, the target market will expand to a larger demographic including those who usually do not eat beef.

Market size potential

The target market in the long run will be up-scale grocery stores in Northern California and the Bay Area. The greatest potential for large market development is in the Bay Area where the more affluent and health-conscious consumer will be more willing to spend a little extra on a labeled product. This will be several years down the road. Further down the road, grass-fed beef could have the potential of being marketed to upscale restaurants.

Price

The price of NCFGB is going to depend on the market price of cattle and the cost of pasture. The set retail price will be tied to the prices of our competitors (i.e., traditional grain-fed beef and Certified Angus). A pre-cut, vacuum-packed four hundred and 20 pound carcass will be sold for \$2.50 per pound to the retailer. This price will provide a profit that will be acceptable to the producer/member. After cutting and wrapping the price will be within a range that a consumer is willing to pay. The price will also be competitive. The cost of labeling and packaging is about half a penny per package after the supermarket receives the product and therefore would be insignificant and have little impact on the price.

Place

Finding a place where NCFGB can be marketed and readily accepted poses one of the major problems for this product. The waters remain relatively untested for marketing of Northern California's Finest Grass-Fed Beef. A venue is needed that will allow this product to become highly visible to its target market of middle to upper-income households that are searching for a healthier alternative to conventional beef but would like to continue eating beef regularly.

Indirect marketing through Raley's in Chico will give the best chance of overall successful marketing. Since NCFGB must be prepared differently than conventional grain-fed beef.

Product Positioning

The marketing for NCFGB when implemented will position this product among the other lower fat alternative meats such as chicken and fish. Over the past 20 years consumer demand has shifted towards lower fat chicken. The goal of this plan is to steal back some of the poultry market and, at the same time, compete directly with the grain-fed beef market.

The NCFGB wants to convey the image that the product tastes like good old-fashioned beef while it has the same low fat content as chicken. NCFGB also wants to set itself apart in terms of no chemical intervention. In-store displays will show cows grazing on green grass in a beautiful Northern California setting to instill a connected community feeling. The displays

will also stress that no hormones and very few vaccines are used on the animals.

Product Promotion

There are many ways to promote NCFGB. During the first three years of the product's life the majority of the advertising will be done through print media. Quarter-page ads will be placed in the Chico Enterprise Record on Tuesday twice per month. During specified weeks these ads will feature a coupon for fifty cents off any package of NCFGB. The target time period for additional heavy advertising will be Memorial Day through Labor in order to capture a share of the BBQ market. Northern California's Finest will also rely on being featured in Raley's own circulars that are placed in the Enterprise Record on Wednesdays.

In store promotions will consist of cardboard advertisements that are freestanding or suspended from the ceiling. Three by five inch cards will be available to the consumer at the-point-of-sale. It will feature recipes with full colored pictures of the product along with the cooking tips for the consumer.

The logo of NCFGB depicts a beef animal grazing on grass, capturing the essence of the product. The use of red, green and black is eye-catching and easily recognizable. This logo will be used on packaging as well as in the advertising campaign.

BUDGET CONTROL AND ACCOUNTABILITY

Budget

For the first year, NCFGB production level is projected to be one hundred cattle. These cattle (steers and heifers) are expected to have a live weight of 1000 pounds. With a 60% dress out there should be approximately 60,000 pounds of beef available to the supermarket the first year (assuming 100 cattle available). The approximate delivery will be two head of cattle a week to the Raley's store. Discounts will be offered through print ads and therefore incur a small monetary loss. Advertising will represent a cost of \$2500 for the first year.

The increase in production for the following two years will account for an increase in consumption due to consumer acceptance. By the third year the goal is to provide four head of a cattle per week to the Raley's store, an equivalent of about 2,400 pounds of cut beef.

Monitoring and Measurement

Sales The administrators of the NCFGB cooperative will keep in touch with the Raley's management on a regular basis. To monitor sales a part-time bookkeeper will be needed. If sales fall below seventy percent of projections by the end of the third quarter, the marketing plan will be reevaluated. The contingency plan described below will be implemented if it is deemed the appropriate strategy for the declining sales.

Marketing Penetration The chief indicator of target market penetration will be the ratio of promotion/advertising dollars spent compared to sales dollars. If sales increase as expected while holding promotion expenditures steady, this will be proof that the target market has accepted Northern California's Finest Grass-Fed Beef. It is projected that there will be a loyal customer base by the end of three years. At that point word-of-mouth and print will be the best forms of advertising.

Northern California's Grass-Fed Beef Three Year Budget

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Gross Sales (\$2.50*total pounds)	\$150,000	\$225,000	\$300,000
Less Discounts	\$ 6,000	\$ 6,000	\$ 6,000
Net Sales	\$144,000	\$219,000	\$294,000
Production Cost of Goods Sold			
Cost of Cattle	\$ 65,000	\$ 97,500	\$130,000
Processing	\$ 30,000	\$ 45,000	\$ 60,000
Freight	\$ 2,000	\$ 3,000	\$ 4,000
Freezer Rental	\$ 600	\$ 900	\$ 1,200
Labels	\$ 500	\$ 750	\$ 1,000

Gross Margin	\$ 98,100	\$147,150	\$196,200
Less Advertising	\$ 2,500	\$ 2,500	\$ 2,500
Net Profit (Before Taxes)	\$ 43,400	\$ 69,350	\$ 95,300
Assumptions:	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Average Live Weight per Animal	1000	1000	1000
Average Carcass Weight	600	600	600
Number of Head	100	150	200
Cost of Cattle per pound	\$ 0.65	\$ 0.65	\$ 0.65
Cost of Processing per pound	\$ 0.50	\$ 0.50	\$ 0.50

Profit Objectives First and foremost, NCFGB hopes to provide a profit for its members, the producers. The producers will expect a profit above and beyond that provided by current cattle market. At times this may not be the case. The market price may be higher and provide more profit. But on average over a period of years, with increased sales, the profit provided by the cooperative for its members will be higher and the cash flow will be steady.

The second profit objective is to retain enough earnings so that NCFGB can build its own slaughtering and cutting facilities. Eventually NCFGB could employ a full-time sales staff to increase the potential market.

Contingency Plan

If sales, market penetration, or profit objectives do not meet expectations by selling NCFGB at Raley's then a contingency plan must be implemented. This plan consists of expanding sales to natural food stores where organic and natural products are sold. Product sold in these stores tends to carry a higher price than what is available in the supermarket due to the stores have more specialty products with a more discriminating consumer.

CONCLUSION

The current consumer trends have led to a loss in consumption of beef over the past two decades. NCFGB is a beef product that fits the consumer demand for a healthful red meat alternative. NCFGB is raised without growth promotants and minimal use of antibiotics.

The rancher will benefit from growing this product because they will not have to deal with a middleman. Their cooperative will handle the meat from the farm gate to the retail outlet. The rancher will also get top dollar for their cattle because they will be raising a specialty product.

The target market is female, 25 to 65 years of age from middle to upper income households. Market penetration will be measured by a ratio of promotion dollars to sales dollars. By implementing this plan it is believed that NCFGB will become a household name and seen in the supermarket for years to come.

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