Regional Large-Animal Meat Processing Plants:
Summary of Economic Viability

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The information summarized in this report is drawn primarily from case studies of 16 successful and unsuccessful meat processing businesses. Some additional information comes from studies that collected statistics on multiple businesses (Conner, Campbell-Arvai, & Hamm, 2008; Lewis & Peters, 2011; Siebert, Jr, Thelen, & Kuker, 2000), and observations about processing firm successes and failures from planning professionals (DeHaan & Raines, 2011). Six of the case studies describe failed businesses (Falk, 2002; Network, 2010; Oleson, 1999; R. D. Smith, Smith, Davis, Edwards, & Molina, 1999; Werwaiss, 2006), while 10 profiled businesses were successfully running at the time of the study (Bauer & Berton, 2003; Brown, 2000; Buhr, 2004; Network, 2010; Shuman, Barron, & Wasserman, 2009). The businesses profiled are mostly small or very small: their median capacity is 3,274 head of cattle per year. They range in size from very small (capacity of 572 head of cattle and 780 hogs per year) to large (capacity of 460,000 head of cattle per year). The majority (12) process multiple animal types.

Although the case studies included here were not restricted by any criteria other than that they must be in the US, they all have an important characteristic in common: they concentrate on niche markets. Meat production is a very competitive business. Economies of scale have driven intense consolidation of the industry in the past four decades: in 2004, four firms controlled 80% of the market for cattle slaughter; 64% of the market for hog slaughter; and 57% of the market for sheep and lamb slaughter (Domina & Taylor, 2010). Some of the businesses profiled here are small or mid-size processors that have turned to niche markets to maintain competitiveness. Others are the project of animal producers that have pursued vertical integration in order to capture a larger portion of the value returned from the final product.

Obstacles: What factors cause new processing businesses to fail?

Several strong themes emerge from the case studies, aside from the apparent necessity to capture a niche market. Table 1 shows the most common **problems and obstacles** perceived by processors and reported in interviews.

Table 1. Problems and obstacles perceived by large animal processing business owners, and businesses that cited each problem. Footnotes identify the business; * indicates a failed business. **Bold** businesses in footnotes failed.

Problem	Businesses citing problem
Start-up capital insufficient	1*, 2*, 3*, 4*, 5*, 7
Labor difficult to find and keep	2*, 6*, 7, 8, 9, 10
Management incompetency	1*, 2*, 4*, 5*, 6*
Non-prime cuts difficult to sell	1*, 2*, 4*, 6*, 9
Planning insufficient	1*, 2*, 4*, 6*
Volume of animals insufficient	2*, 4*, 5*
Sales/marketing strategy insufficient	1*, 2*, 5*
Regulations inconsistent	7, 9, 10
Unanticipated competition	2*, 4*
Operating capital insufficient (cash flow)	10

[1] **American Lamb Producers** (R. D. Smith et al., 1999)
[2] **Harvey, ND Plant** (Network, 2010)
[3] **Northern Plains Premium Beef** (Oleson, 1999)
[4] **Rancher's Choice Cooperative** (Falk, 2002)
[5] **Virginia Lamb Co-op** (R. D. Smith et al., 1999)
[6] **New England Livestock Assoc**. (Werwaiss, 2006)
[7] Smucker's Meats (Network, 2010)
[8] Acre Station Meat Farm (Network, 2010)
[9] Good Natured Family Farms (Network, 2010)
[10] Midwestern Country Locker (Network, 2010)
[11] Lorentz Meats (Shuman et al., 2009)
[12] Niman Ranch (Brown, 2000)

From Table 1 it is possible to identify some of the factors that cause new meat processing businesses to fail. **Insufficient start-up capital** burdened five out of the six failed businesses**.** Such a mistake makes it necessary to play “catch-up” at the very beginning of the venture to raise the additional funds required, and makes it more difficult to deal with the inevitable unforeseen circumstances that confront a new business. In the case of one producer cooperative, Northern Plains Premium Beef, inability to raise sufficient capital meant that the project never got off the ground. More often, businesses that started with insufficient capital tried to make up the difference by cutting corners (e.g., American Lamb Producers, Harvey ND Plant). Smucker’s Meats, a successful business, reported that they had made up the difference in needed capital by raising prices. Both strategies make it even more difficult to run a successful business.

All five of the failed operations that got past the planning stage (excluding Northern Plains Premium Beef, which failed to raise capital for the project to begin) cited **management incompetency** as a factor in their failure. Some businesses did not plan adequate compensation for plant management; Virginia Lamb Co-op, a small producer-owned co-op, only budgeted for a part-time manager and found that this was grossly inadequate for the amount of work that was required. Many firms hired managers that had little or no experience in the slaughter and processing industry. This led to problems ranging from poor employee coordination, poor planning, and inefficient logistical coordination, to outright theft of meat and money. The failed plant in Harvey, ND lost contracts because of quality issues attributed to poor plant management: "Carcasses were hung too long. A cooler went out over a weekend and for some reason wasn't checked, and carcasses rotted. Orders weren't ready on time and/or weren't packaged correctly" (Network, 2010). Other businesses suffered from deception and theft that led the business into failure. Inaccurate record-keeping worked the Rancher's Choice Cooperative deeper and deeper into debt, but the board didn't find out until it was too late.

Another common challenge that faced both successful and unsuccessful businesses was finding competent labor. Six plants reported that a skilled **labor force** was difficult to find and keep. Although the work done on the cutting floor is very important to the quality of the end product, most plants cannot afford to offer employees much more than minimum wage. The strong seasonality of processing also means that it is hard to keep employees on throughout the year; most plants have a very high turnover rate, making the difficulty of finding labor a constant issue. Although they run a successful plant, the leaders of Good Natured Family Farms report that one of their biggest challenges is "keeping qualified, competent, committed employees who want to process beef or run a meat plant as a career" (Network, 2010).

Two studies that conducted interviews with multiple processing businesses owners confirm that labor availability is a major factor limiting plant capacity and success. Lewis and Peters (2011) interviewed processors to assess limits to slaughter and processing capacity in New England. Although their study was prompted by complaints from producers that processing infrastructure in the area was inadequate, the researchers found that capacity was limited by the availability of skilled labor and the constraints imposed by seasonality. Conner et al. (2008) heard similar reports in processor interviews in Michigan. The processors identified a shortage of labor and the difficulty of keeping labor through seasonal swings in demand, saying that "by the time you've got somebody trained, you've moved out of the busy season and you're into the slow time and you can't afford them. So you're understaffed all the time" (Conner et al., 2008).

Many plants that failed suffered from **insufficient planning.** Among the consequences of this failure was that these businesses found themselves with **insufficient volume of animals,** or many fewer animals than were anticipated. Leaders of the failed plant in Harvey, ND found that in their planning process they had failed to anticipate that the volume of product they could supply would be inadequate to cement partnerships with distributors, who required a minimum volume. The business plan had also failed to project that the number of animals that were available to the plant was not enough to cover costs of running the plant. Both the Virginia Lamb Co-op and the Rancher's Choice Cooperative counted on supplies of high-quality animals that could be marketed through specific niche channels; when unforeseen weather events and producer irregularities reduced the number of animals meeting quality standards, it contributed to the collapse of profitability.

Recommendations from planning professionals in the processing business bear out many of the obstacles mentioned above. DeHaan and Raines (2011) cite insufficient capital and poor management as the two leading causes of failure in the producer-owned ventures they have knowledge of. The third important factor that they cite is marketing and sales weaknesses. Insufficient attention paid to **marketing and sales** was cited as a problem in hindsight by three failed businesses. DeHaan and Raines (2011) explain the lack of focus on marketing by many failed businesses: "Most of these [producer-owned processing] projects are supply driven. They need a market and thought the plant was the market." Successful processing businesses must excel in marketing their products.

Success factors: How do successful businesses compete and survive?

Many of the obstacles listed in Table 1 are experienced by successful plants as well as those that fail. Successful business have managed to deal with these obstacles in creative ways, and thus the characteristics that lead to successful processing plants are directly associated with the obstacles that such businesses face. Table 2 summarizes those factors that were identified as contributing to the success of businesses in case studies.

Table 2. Business characteristics identified as success factors in case studies, and businesses that cited each factor. Footnotes identify the business. (All businesses were operating successfully at the time of the case study.)

Success factor	**Businesses citing factor**
Certification (organic, "all natural", animal welfare, etc)	1, 2, 3, 4
On-site retail	5, 6, 7, 8
Creative ways to sell non-prime cuts	1, 3, 8
Brand identity established before processing venture began	1, 3
Strong marketing focus	1, 3
Diversified customer outlets	2, 4
Sophisticated cost monitoring	4

[1] Good Natured Family Farms (Network, 2010)
[2] Lorentz Meats (Shuman et al., 2009)
[3] Niman Ranch (Brown, 2000)
[4] Sioux-Preme (Network, 2010)
[5] Acre Station Meat Farm (Network, 2010)
[6] The Egg and I Pork Farm (Buhr, 2004)
[7] Gordito's Meats (Buhr, 2004)
[8] Nahunta Pork Center (Buhr, 2004)

Many of these success factors relate to product marketing, which successful businesses excel in. Two businesses made very smooth transitions into processing because of their **established brand identity;** Good Natured Family Farms and Niman Ranch had already developed strong marketing and sales divisions before entering the processing business. Both of these successful businesses also place a great degree of emphasis on the marketing side of their processing business; a co-owner of the Niman Ranch brand came to the business from a position as marketing manager for a division of Nestle.

Some successful processors have found it advantageous to become **certified** in their practices, such as certified organic, all natural, or animal welfare. Other successful businesses, however, have not. All of the successful business have identified their market niche and tailor their products to fit that niche.

Finding profitable markets for **non-prime cuts** can make the difference between overall businesses viability and failure. Different portions of the animal vary greatly in their marketability. Businesses that do not purposefully deal with less desirable cuts in a profitable way end up suffering losses: Virginia Lamb Co-op let the unsold, non-prime cuts pile up in freezer space until they ran out of room, counting the whole lot as a loss. Other businesses lose a great deal of money by failing to find markets for offal and hides. American Lamb Producers, the Harvey, ND Plant and the Rancher's Choice Cooperative were forced to pay for disposal of their offal, instead of finding markets for it to be sold.

Successful processors deal with non-prime cuts in creative ways. Mike McConnell, co-owner of Niman Ranch, has a policy where "new customers have to agree to take 50% percent of their order in non-loin cuts; if not, Niman Ranch will not contract with them" (Brown, 2002). Gordito's Meats manages to sell ribs in the winter months by cutting the loin into 6-inch roasts with the ribs attached; this way, the ribs are sold along with the loin. Good Natured Family Farms obtained a grant to partner with nearby grocery meat managers to develop processed products from the non-prime meats that would be attractive to consumers.

Four successful businesses cite **on-site retail** of their products as a contributor to their profitability. Three of these are pork processors that specialize in highly processed products that may be difficult to find elsewhere. Nahunta Pork Center, in eastern North Carolina, for example, makes and sells country pork products like country ham, chitterlings, souse, cracklings, and other prepared foods. Gordito's Meats serves the Hispanic community in Ogden, Utah by providing cuts that are used in traditional Mexican cooking. Acre Station Meat Farm, also in eastern North Carolina, produces and sells sausages, fatback, pig's feet, and other traditional country food.

A study of 65 small and mid-sized meat processors in Texas supports the idea that a retail component can be beneficial to a processing business. Siebert et al. (2000) examined the financial records of 65 processors and analyzed the correlations between various business practices and metrics of financial success (return on sales, ROS; and return on assets, ROA). They found that those firms that were more retail-oriented and that capitalized on processed products (i.e., going beyond fresh meat cuts) were more successful, and that a reliance on fresh or unprocessed meat was detrimental to profitability.

In summary, it takes very smart leadership to begin a meat processing business. In a very competitive industry where economies of scale make it even more difficult to compete with the dominant large processors, excellent marketing and management are necessary. This report has identified some factors that may be overlooked, but that can lead to success or failure for a processing business. Having a strategy for selling non-prime cuts and offal, and being able to find and keep quality employees are important. Businesses that start with a marketing focus and then move into the processing business are likely to face fewer roadblocks. Having the recommended level of capital is very important, especially in the start-up phase. Those businesses that can identify a marketing niche and tailor their offerings to that niche will be more likely to succeed; even then, other aspects of the business such as labor, management, and capital must be carefully planned and executed in order to be economically viable.

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