Feasibility of a Natural Meat Industry

In Humboldt County

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Background

In February of 2006, The North Coast Small Business Resource Center (NCSBRC) was contracted to manage an existing Headwaters Fund Grant to assess market feasibility and to develop a market plan for "natural" meat production in Humboldt County (referred to hereafter as the HNM Project.) In April of 2006, as additional support for the HNM Project, the Community Services Development Department of Humboldt County also contracted NCSBRC, through a Planning and Technical Assistance Community Development Block Grant, for the preparation of a Natural Meat Feasibility Study. This report is that Feasibility Study and includes all HNM Project research, data analysis, and conclusions to-date regarding the viability and achievability of natural meat production in Humboldt County.

Definitions

Many of the descriptive words used when discussing "natural" meat products do not have definitive definitions. Below are the designated or most commonly accepted definitions for the key terms used in this report.

- **Grass-Fed**: This definition is pending final USDA approval, and if approved as currently stated will mean animals that are 99 percent fed on grasses, either live or stored grasses and some forage. The USDA definition says nothing about pasture grazing versus lot feeding, nor that the feed need be organic.

  The average consumer however does tend to equate grass-fed with free-range, pasture-fed cattle.

- **Natural**: A vague term that is used interchangeably as follows:
  - In its broadest meaning encompasses any and all beef that is *not* mass-produced in cramped, feedlot conditions and largely fed on grains with the support of growth hormones and antibiotics to offset the stress of this type of production. When in this document the word "natural" as here is enclosed by quotes, this it the definition we are referencing.
  - Under current USDA policy, meat may carry this label if it contains no artificial ingredients and is minimally processed. No other requirements are stated.
  - In popular usage, the term natural commonly refers to, and is assumed to mean, beef that has been raised mostly on pasture, without routine use of medications and under humane overall conditions.

- **Organic**: A USDA certifiable designation that means animals that are reared under full organic management. Animals must be raised separate from their conventional counterparts and must consume 100 percent organically produced feed free of animal byproducts. The animals are not give growth hormones or antibiotics. They must have access to pasture and must be provided living conditions that accommodate the health and natural behavior of the animal. Further, the producer must manage manure, and other byproducts, in a way that does not contribute to soil, water, or crop contamination.

Executive Summary

It is indisputable that a viable and significantly large Bay Area and greater Northern Californian market exists for "natural" meats. Data from the market research company, Spectra Marketing Systems, indicates that the greater San Francisco Bay Area has the highest potential demand in the nation for grass-fed, natural and/or organic beef products. This is due to a confluence of market characteristics that favor this product in this region, including a heightened health consciousness, higher than average education, higher than average interest in environmental issues, high median and upper incomes, and a higher than average percent of households in these income brackets. Consumer research conducted on behalf of the HNM Project confirms this data and suggests a high probability of favorability in this market for "natural" meats from the Humboldt region.

It is also apparent from our own consumer research that Humboldt-grown natural meats are uniquely suited to meet the desired product attributes of these specific consumers. The fertile deltas of our region and proximity to the sea creates a micro-climate of cool summers and relatively warm winters that are ideal for the growth of prime, world-class grasslands for grazing animals. The resulting high meat quality and excellent flavor, along with the pristine and scenic perception of our region, and our relatively low "miles-to-market" are crucial desired attributes that will become key selling points to distinguish us from other "natural" meat products as we develop a Northern Californian/Bay Area market. Adding these key positive differentiators to the additional consumer concerns we can meet regarding excellent stewardship of both animals and lands, preservation of family farms, and inherent health benefits of grass-fed beef should give Humboldt "natural" beef a marketing edge over imported meats, and lesser quality domestic stock.

While the bulk of locally produced meat is presently sold as conventional meat, much of this local livestock is routinely grass-fed, and pasture-raised. As such, it already meets many of the expectations for "natural" beef and some of the "organic" certification requirements. Further, some Humboldt ranchers and farmers have already qualified their stock and are producing natural and organic meat products and are successfully selling them into local health food and grocery stores. This considerable start and producer "know-how" will make additional production and certification requirements that much easier to meet should producers try to develop a larger scale, coordinated regional "natural" meat program.

As this summary shows, nearly all the information gathered during the HNM Project has been encouraging and reason for optimism. That said, it must also be noted we identified only a few very small-scale local producers that are providing conventional, natural and/or organic poultry, lamb, pork or goat. By far, the largest and most developed segment of current local meat production is in beef. For this reason, it become clear early in this Project that beef presented the most immediate and viable opportunity for expanding local "natural" meat production. It therefore became the focus of our study. This is not to say markets for "natural" chicken, lamb and pork do not exist, and should not be encouraged, but it was concluded that local production in these meat segments was too nascent to be addressed effectively alongside the elephant in the room – beef. Therefore, the specific data and analysis included herein addresses almost entirely the opportunity for grass-fed natural and organic beef products. Lessons learned would apply to any future development of other meat production opportunities.

Feasibility Analysis of the Production of Natural Meat in Humboldt County

1. Introduction

The "natural" beef market is one of the fastest growing segments in the U.S. meat market. Growth has been driven by healthier eating choices, food safety scares, as well as consumers looking for and the proliferation of organic and "natural" products at the retail level. It was estimated that in 2005 there were roughly 425,000 head of cattle in the U.S. that qualified as "natural", out of a total of 100 million head nationwide – up 17.5 percent over the previous year. The "natural" meat sector is estimated to be worth $550 million annually, or 1.1 percent of the total beef market. While it is yet a small portion of the market, what is notable is that as overall beef sales in the U.S. have been slowing since peaking in the 1970's, and overall production figures continue to decline*, the "natural" beef sector is growing by roughly 20 percent annually*.

Organic meat is now the fastest growing segment of the $14 billion organic food business, even though it represents only 2 percent of the total organic food market. Exceptionally high growth rates in the overall organic meat market saw organic meat sales expand by 140 percent from 2004 to 2006. In 2005 alone, the research and consultancy firm, Organic Monitor, measured a 51 percent market growth rate, and the Organic Trade Association recorded a 55 percent market growth rate. Certified organic beef sales are expected to grow at least 30 percent each year from 2005 to 2008, per Barbara Haumann, senior writer for the Organic Trade Association.

The soaring demand for natural and organic beef is causing the global supply to tighten, and U.S. processors unable to get sufficient supply domestically are having to import meats from Latin America, Australia and Canada. This is taking place concurrently with increased interest from consumers in the origin and source of their foods. Local is being equated with "better" due to reduction of resources to get the product to market and also due to a greater likelihood of accurate and trustworthy information regarding the producer. Actually knowing the producer – ideally a small family farmer – is even better.

The anticipation of continued growth in the natural and organic meat sectors and the opportunity for premium prices for these products makes this a very desirable market segment. Prices for organic and natural beef are up to 46 percent more than the average price for all beef products and have increased 25 percent during the last three years (2003-2006). Combine this with the fact that Humboldt producers have access to one of the largest and most viable consumer markets for this product makes pursuing a more coordinated and expanded Humboldt natural meat program a very realistic niche market opportunity.

2. Existing State of Natural Meat Production in Humboldt County

a. Beef Production

i. Current Production Volume – The HNM Project conducted a producer survey in May 2006, to which many local producers responded, (see Addendum I for the full Summary of the Producer Survey.) Key summary data of livestock and resource audit information from this survey is as follows:

- Total number of cattle produced 4,978

- Total number of broad cows 1,943
- Total available acres of pasture land 27,986

ii. Current production systems – Conventional, grass-fed and organic beef are all currently under production. Organic representing the least number of cattle at approximately 12 percent, grass-fed, natural at approximately 20 percent, and the remainder as conventional beef.

iii. Current market models – While much of the locally produced beef is sold at auction to the open beef commodity market, local producers have been very resourceful and creative in marketing their premium beef products. Past and current marketing options have included farmers' markets, private direct orders, mail order, Internet sales, and direct sales to regional, independent grocery stores.

Two local brands have recently emerged – Humboldt Grass-Fed Beef and Eel River Organic. Direct sales to local grocery stores have been fairly successful for these brands.

- Humboldt Grass-Fed is available* locally at the North Coast Coop stores, Murphy's Markets, and Ray's Food Place; it is available regionally at Oliver's Market, Sonoma Market both in Sonoma County and Geiger's in Laytonville.
- Eel River Organic Beef is also available* at the North Coast Coop stores, Kaiser Permanente Santa Rosa Hospital Cafeteria, several local restaurants, through Rock Island distributor and via the Internet at the brand's website.

* These listings may not be all inclusive or entirely current.

b. Chicken, Goat, Sheep and Swine Production

i. Current production volume – The Producers Survey conducted in May resulted in the following figures:

- Local lamb/sheep meat production 150
- Local goat production 53
  - Brood goats 20
- Local Poultry production 74
- Local Swine production none listed

ii. Current production systems – These animals are sold live or for meat largely to restaurants and some lamb to the North Coast Coop.

iii. Current market models – Direct marketing to individual customers, grocery stores, and restaurants.

c. Existing processing resources

i. Redwood Meats, located in Eureka, CA, is a USDA certified meat processor. They currently process approximately 20 head of beef per week.

3. **Analysis of Demand and Preference for Natural Beef Products versus Conventional Meat**

The research into the potential for Humboldt "natural" meat products for a viable and receptive regional market has garnered consistently auspicious results. And the exceptions – minor concerns from the retailer survey – are ones that can easily be addressed.

a. Drivers of Change in the Natural and Organic Beef Industry – The Agricultural Marketing Resource Center sites low profitability in the conventional beef industry coupled with changes in consumer tastes and preferences as fueling producers' interest in the niche natural and organic meat markets. Further they state increased demand for natural and organic foods, product innovation, competition, recent changes in USDA to more robust, quality certification programs, and the beef hormone dispute as positive drivers of change for the natural and organic beef industries. Add to this the more recent, growing concern that our foods be produced closer to home, as advocated by writers such as Michael Pollan in, The Omnivore Dilemma, and the prevailing market trends shape-up quite favorably for Humboldt grass-fed natural and organic beef.

b. Growth in Natural Food Supermarkets – The health food store industry has achieved a 20 percent annual sales increase in recent years and comprises approximately 1 percent of U.S. food sales, or an estimated $8.4 billion in 1997. Approximately $4 billion of this was organic foods. Wild Oats and Whole Food Markets have approximately 35 percent of this retail supermarket segment, with much of this growth occurring in cities and suburbs with high-income consumers. This again reinforces the Bay Area market as an ideal outlet for Humboldt "natural" meats. (In fact, conversations have already begun with regional Whole Food Meat buyers regarding our Humboldt organic meat products.)

c. Consumer and Retail Survey Analysis – The HNM Project conducted both a retailer and a consumer survey to evaluate interest and preferences for "natural" meat products within the greater Bay Area market. The complete results from these surveys are included in Addendum II – Greg Sullivan's Final Report, and Addendum III, the statistical analysis from the Consumer Survey, as provided by Dr. Judith Little of HSU. A brief summary of these two surveys follows:

    i. Retailer Survey – Greg Sullivan, of Advance Marketing Systems, interviewed meat managers from twelve independent Bay Area grocery stores and found –

        01. The meat market manager/buyer can be resistant to taking on a new meat product for fear it will further complicate his life, requiring too much customer education. Providing good point-of-sale (POS) materials that provide self-service information for the consumer is a wonderful means of addressing this concern and managers said might help persuade them to take on a viable new product.

        02. Meat managers would prefer a more local product because out-of-country products are variable, can too often have a short shelf-life, and their customers' disfavor for imported meats is growing – the miles-to-market issue once again.

        03. On average, prices for grass-fed, natural ground beef ranged from 28

percent to 46 percent above prices for conventional beef. In Whole Food stores it was as much as 54 percent higher.

04. To warrant a premium price per pound, "natural" beef must be of top quality and like flavor consistently, and also must have a good shelf life.

05. Consumers still do not entirely understand the health benefits of "natural" and grass-fed beef. Education for both the buyer and consumer regarding these benefits, through in-store demonstrations and POS materials, again, would be very useful to developing a customer base for a new product.

ii. Consumer Survey – Judith Little of Humboldt State University designed a consumer survey for the HNM Project to assess the consumer's meat buying habits, their preference for specific "natural" meat attributes as compared to conventional beef, and the consumer's price sensitivity and likelihood to purchase "natural" meat products. Greg Sullivan conducted the survey in the Bay Area interviewing 154 respondents.

The results from this survey were surprising in how favorable the respondents rated their perception of "natural" beef across the board, as compared to the meat managers more tempered responses. And more importantly the consumer responses reflect an encouraging receptivity to a Humboldt "natural" meat product. A summary of their responses follows –

01. The majority – 60 percent had purchased grass-fed, natural beef before; and those who had not, did not in large part only because either it was not available or they were not aware of the product. Price, taste or quality was *not* the reason.

02. The vast majority of respondents rated grass-fed, natural beef as superior to or at least equal to conventional beef in all attributes associated with taste, including color, tenderness, flavor and juiciness.

   - The most important characteristic for these consumers was flavor with 86.7 percent preferring grass-fed, natural beef's flavor and another 5.6 percent finding it as good as conventional beef – a combined favorable rating of 92.3 percent!

03. When ask about how important or not the health benefits of grass-fed beef is to them, these consumers resoundingly rated the increased health benefits of natural, grass-fed beef to be "very important" to them.

04. When ask how important or not the environmentally sound and humane production methods inherent to a grass-fed, natural beef product were to these consumers, they once again, across the board of issues, rated these issues to be "very important" to them.

05. And finally, when ask how important that such a beef product be a "local" product, 83 percent rated this as "important" to "very important".

- When asked if “local” included products within “Northern California” in their mind, 82 percent stated “Yes.” This bodes well for our Humboldt producers as it indicates that a product from our area would be perceived as “local” by a Bay Area shopper.

4. Analysis of Plausible Markets for Humboldt Natural Meats

a. Local – Humboldt County provides too small a market to allow for much expansion of local “natural” meat production. Also, because income levels in the County are below the state average, a premium “natural” meat product will find fewer shoppers per capita willing or able to pay the additional price. With producers already selling into much of what market does exist, there is little room for growth within the Humboldt County market.

b. Regional – From all the HNM Project research, Northern California including the greater Bay Area is proving to be the most promising market territory. The demand, the consumer values, and the ability to support a premium product all three concurrently existing in this area. Access to the market is also an advantage. All indications are that this territory should be the focus for Humboldt “natural” meat products.

c. National – Access to this broader market may only be viable via Internet and mail order sales. Eel River Organic Beef has had some success on this front, finding Internet buyers to be willing to pay a premium for a quality organic meat product and the added convenience of shopping online.

d. International – The opportunity exists for potential sales to Asia, but would likely require additional “dry-aging” and/or other product enhancements to distinguish the product within a foreign market and to warrant pricing that would cover the additional costs of marketing and shipping overseas.

5. Market Options

The HNM Project found several different market opportunities that local producers might take. With each there is a real opportunity for success, but also opportunity to make mistakes or to fail. It is therefore very important that local producers carefully review their options, and create a well coordinate and researched strategy for proceeding if they do wish to develop and grow a HNM Program.

In the early stages of marketing a “natural” meat product the meat can practically sell itself, but after a certain number of sales a producer or collective can “hit the wall” of demand. The market for these higher-priced products is growing, but is still shallow. This turning point will come at different sales levels depending upon the size of your community and the number of customers inclined to buy your products. The “easy” customers have all been located and supplied to their satisfaction. It is at this point increased production can begin to back up. From the Project research, it would appear that local producers are reaching this point with the Humboldt market. Selling more products may become a true challenge going forward.

Included here are some of the options the HNM Project research suggests might be useful for local producers, along with their advantages and their pitfalls highlighted.

a. Direct-to-Consumer Market – This is the easiest entry point for the smaller producer or collective. In fact each of these direct market channels has been or is currently in use by one or more of our local producers. This report, however, addresses these channels from a group perspective, assuming a coordinated effort amongst producers, looking at these outlets as opportunities for the group at large.

    i. Farmers' Market – This is a very time-consuming option, but can be a great way to introduce a new product and its producer(s) to a new market. Meeting customers in person can be invaluable to building the trust and credibility many consumers are seeking from a "natural" premium product.

    Once a customer base is built, it may be possible to take orders ahead of time and deliver orders at the market, which can limit the amount of time spent at there. Sending regular customers an order sheet or routing them to a product website for self-service ordering can further facilitate taking orders in advance of market day.

    - The shortcomings with farmers' markets are that not all markets allow meat sales, and if they do they may require strict attention to health and cleanliness regulations. Cooking and having meats available for sampling may be one of the restrictions, thus limiting the ability to introduce consumers to a product. Checking the rules and regulations of each market will be important.

    ii. Internet and Mail-Order Sales – Internet and catalog outlets may represent a useful supplement to other outlets, but are generally of limited value. One of the barriers to this kind of "remote marketing" is that packaging and shipping costs can as much as double the end price to the consumer. Secondly, many consumers are disinclined to purchase perishable foods via these methods.

    A better use of the Internet can be a business-to-business approach by tailoring a website, or at least a portion of it, to meat market buyers and restaurants. As well as taking online orders, a website can act as a business card and bulletin board with product updates, informational materials, and price-lists available for download.

    iii. Restaurants – Like Internet sales, this local channel will be best used as a supplemental channel for Humboldt producers, since the volume will be small. Looking past our immediate area more opportunity does exist, but since restaurants do not use a large quantity of meat, access to a large number of restaurants is necessary to drive any real volume. Producers who effectively sell to restaurants usually develop a route and deliver directly to each establishment once or twice a week.

    - The shortcomings of restaurant sales are restaurants almost always are buying only primal and sub-primal cuts, leaving the producer with the less favorable cuts to market elsewhere. Also care and time may be required to prepare the meat according to the specifications of various chefs adding more overhead to the product which can reduce a producer's profit margins.

iv. Institutional Food Service – Institutions such as hospitals and nursing homes, schools and university foodservice, and even prison, offer more options and volume than restaurants can. Many institutions have long-term contracts with food suppliers. These contracts can offer consistent pricing, fewer people to deal with, regular standing orders, and good volume.

Important to know though is that most food service purchases are frozen, precut, and often pre-cooked. Fresh ground beef or frozen, precut meats are the best bet with these buyers.

- Downside to these venues is that they usually have more bureaucracy and thus are more difficult to initially access. Also you must be ready to offer consistent supplies of quality products.

An example of this and one of the outcomes of the HNM Project is that Eel River Organic Beef is selling organic ground beef to Kaiser Permanente's Hospital Cafeteria in Santa Rosa. This product has been very well received and Kaiser Permanente may consider bringing it into additional hospital locations in the Bay Area.

b. Retail: Grocery Stores and Natural Food Stores – Retailer food store buyers demand a consistent quality product, a year-round source, and prices that are competitive with other sources. Producers deciding to target retail food stores need also to consider the quantity of meat required and the cost of the marketing services that will need to be provided, such as prepackaging and delivery.

Small independent retailers or chains are the best entry into this market. These kinds of stores seek quality items that will set them apart from the big chains. Next likely retailer would be natural foods stores and chains. Locally grown and slaughtered meat will have a longer shelf life in the retailer's case, which is a great selling point for producers offering fresh meat.

Retailers may accept whole carcasses or demand precut, prepackaged meat, depending on whether or not they have a full-service meat department equipped to break whole carcasses or not. The HNM Program should be prepared to sell their product in either form, so as to not limit what retailers can purchase it.

- Since retail food stores do not usually sign contracts with suppliers, a sudden cancellation of orders can leave producers without a market.
- Another problem is that the price you need to make a profit may be, when coupled with retail markups, too high for most consumers. Every penny of processing cost adds about 2.7 cents to the retail price. Adequate volume can help producers to realize economy of scale, but may not be something they have entire control over.

The HNM Project, via significant efforts by the Project's two contractors, Greg

Sullivan and Bill Carman, has explored and is currently in conversation with several retail entities in the Bay Area to introduce a Humboldt "natural" meat brand. A list of stores that have been approached includes:

Whole Foods – HNM Project has made several presentations to and continues in discussion with Whole Foods Bay Area and Western Regional Meat buyers regarding introducing Eel River Organic Beef into Bay Area stores. See Addendum IV attached, which is the organic meat program presented to Whole Foods for consideration.

Our Kitchen – This 40+ store, Bay Area buying consortium has also been presented with the organic beef program outlined in Addendum IV. There is very strong interest by several of the stores to carry this product. One last presentation will be made to this group in March at the Anaheim Natural Food Suppliers Convention. We hope to have a decision on this by May.

Lunardi's – An 8-store Bay Area chain, after two presentations is very seriously considering bringing on one of our current local brands; an initial order has been placed Humboldt Grass-Fed Beef and if sales go well – additional orders may follow.

Andronico's, Rainbow Market, Berkeley Bowl, Piedmont Market, Enzo's, and Traj's Supermarket were also all approached without successful outcomes to-date.

c. Selling to an Existing Large and Growing Brand or Cooperative – Because of the accelerated demand for "natural" meat products over the last few years, several meat cooperatives and brands have emerge to meet the demand. Painted Hills, Harris Beef, Panorama Meats, and Coleman Beef are a few among these. While our local producers currently do sell to some of these brands on and off, via the open market, a viable option may be to join up with one of these existing brands and negotiate a steady, exclusive, volume deal.

- While selling exclusively to an existing brand has the potential to greatly increase local beef sells and production, it could be at the cost of loosing a regional identity. Also, many cooperative brands (i.e. Panorama) have a reputation for paying producers 30-60 days after slaughter and delivery. This forced retention of ownership past the point of sale, can be very costly to producers, and has become more and more unattractive and in fact is putting some cooperative brands at risk.

The HNM Product brought Mel Coleman and Jim Coakley, of Coleman Natural, Denver, C0, to town in August of 2006 to discuss the possibility of a new product line for Coleman that would spotlight Humboldt natural beef. The program, modeled by Bill Carman, would have allowed local producers to retain visibility as the source of this upscale product and to share in the profits.

Shortly after their visit, however, Coleman Natural was purchased by their holding company and is currently under re-organization. Nothing has or is now likely to come of this opportunity.

d. Selling to Process Meat Manufacturers – With much of the retail market seeking chiefly primal and sub-primal prepackaged cuts and/or hamburger, the producer may still find himself with significant portions of a carcass unsold. To fill this gap, an option for beef producers is to sell direct to meat processing firms. These companies are often looking for the precise cuts remaining – rounds and chuck from which to make deli meats and/or sausage. With the consumers increased concern about “mad-cow” disease, hormones, and antibiotics, many processed meat companies have begun to offer “natural” product lines.

- A steady, year-round supply and consistent quality will be key to meeting the needs of this market.

HNM Project, in conjunction with Saag’s Processed Meats, is conducting a test run with 12 of Eel River Organic Beef rounds to produce roast beef for deli slicing. The final roast beef will be evaluated for taste, tenderness and shelf life. If Saag’s is impressed, a larger run and test marketing will be conducted.

6. Possible Production Constraints to Meeting Market Opportunities

a. Seasonal Production – Though the Humboldt beef season is longer than many regions of the country due to our overall temperate climate, Humboldt producers still cannot provide a year-round supply of beef. Winter months here are too wet for pasture-feeding cattle and thus introduce the issue of what to feed during this period and how to fatten cattle sufficiently for market without grain or pasture feeding.

- One approach to this problem is to educate the marketplace to the seasonal nature of a Humboldt "natural" beef product and to make the product available only during those months that cattle are ready for market. This would be akin to how wild salmon or crab is marketed with the consumer as seasonally available, and the consumer, educated to the seasonal cycle, becomes prepared to wait for the product.
- A safer approach – so that the consumer does not loose interest in our local beef or create an allegiance to another brand in the months ours is not available – would be to partner with other Northern California, inland producers who can provide beef in the months that we can not.

b. Available Bottomland for Finishing – This may become a limiting factor as production expands. There is only so much bottomland, with ideal grasses for finishing cattle. Current production levels do not stress these pastures, but production beyond 1,500 finished cows may begin to.

- Solid agreements and coordination amongst producers will be necessary to optimize finishing on-pasture opportunities.
- Again, a partnership with other Northern California ranchers not only could provide cattle off-season, but could also increase overall production capacity. What we may not be able to producer in Humboldt due to land limitations, we could get from our inland partners. As mentioned below, consolidation in the

marketplace and in production may require partnerships amongst a larger pool of producers than just those in Humboldt in order to remain competitive.

c. Organization and Solid Management of Production – In order to deliver consistent, quality meat, a HNM Program will require coordination and organization amongst producers across the 3 phases of production. Cow-calf producers, backgrounders and finishers will have to develop and maintain shared standards throughout the production process. To do so will require cooperation and solid management systems.

   - Local producers will need to create a HNM Program producer association in order to effectively coordinate production at a more maximized level.

7. **Marketing Issues and Challenges and Possible Mitigations**

   a. Consumer Education – Additional and continued consumer education will be vitally important in securing a premium for products in this growing niche market. Clarification of terms – natural versus grass-fed versus organic – and a better understanding of the unique and exceptional healthy benefits of a premium grass-fed beef product are the two areas in which consumers most need further edification.

      - POS materials and store demonstrations will be key to an ongoing educational effort.

   b. Consolidation of Producers and Processor – Major chains – Wal-Mart and Safeway for instance – are offering more "natural" meat products alongside the more traditional avenue – Natural Food Stores. This is driving up demand and causing major suppliers and processors to consolidate to meet the demands of these huge players entering the "natural" meats marketplace. In the short run, prices have been driven higher due to a shortage of product, but over the long run this may bring down market prices.

      - Continued refinement of animal and meat quality in the HNM Program, could help sustain prices so the HNM Product can continue to differentiate itself from less consistent and flavorful "natural" products.
      - Marketing based on our regionally superior grasslands is a recommended strategy. Building a superior provenance or appellation sensibility with the consumer can in turn still merit a premium price even in a soft market.
      - Careful and frequent attention to market pricing must be in place along with a solid production program. If prices drop, producers may wish to pull cattle out of the HNM Program early in their development and divert them to a convention production stream – thereby saving on their over production costs and not losing money to production of a higher end product that may not, due to market fluctuation, at that time find a market outlet.

   c. Inherent Product Attributes Raise Concerns with Some Buyers – "Natural" meats have distinct characteristics that may be an issue for meat market managers and buyers –

more so than for consumers. Again education will be very important to dispel these concerns. Most common concerns are:

i. Grass-fed beef has the reputation of being less tender than conventional, grain-fed beef. This is largely due to the lower saturated fat content, and/or is sometimes due to the increased time needed to fatten a cow for market.
   - POS instructions explaining how to cook grass-fed beef slower at lower temperatures can ensure for a tender outcome.

ii. Because grass-fed, natural beef can have a distinct flavor from conventional beef, many meat market buyers have voiced concern that the consumer will not like the flavor. Our own consumer survey and a 2002 Kansas State University study of 1,000 consumers, both concluded that consumers *prefer* the flavor of grass-fed, natural beef.
   - Educating the meat managers and buyers to these results and funding and conducting in-store surveys within their own stores can offset this bias.

iii. Steaks and ground beef can easily secure a premium charge of 20 – 30 percent above conventional beef, but other cuts will have more difficulty charging a premium.
   - Alternative outlets for these cuts may be the solution, such as a processed meat company who may be happy to purchase round, chuck, brisket or rump for processing into deli meats or sausage.

iv. Grass-fed beef tends to produce cuts with slightly yellow colored fat. This has been an issue with meat managers and buyers, but less so with consumers.
   - Again education has played a role in gaining acceptance for this anomaly. For instance, studies show that yellow fat has higher nutrient content and is more flavorful. With this understanding it can become a positive attribute for the consumer.

d. <u>Product Packaging</u> – Sales of "natural" meats can suffer due to poor packaging or environmentally insensitive packaging.
   - Given that premiums will be charged for this product, attractive package that makes the product look fresh and safe will be very important. Further, packaging should be kept to a minimum and be made from environmentally fit materials to align with the other inherent values motivating the consumer to buy this product.

8. Next Steps

a. The HNM Project is scheduled to wrap-up by the end of April. Producers will be meeting on the 22nd of this month to hear Bill Carman's final report and conclusions based on the in-depth marketing and channel development he has done on behalf of the project.

b. In late April, a final meeting of the producers will be held to review a summary and analysis of all HNM Project research, conclusions and recommendations. We will be encouraging the producers to make decisions about their next steps. The producers must drive any continued effort based on a strong, shared vision and a willingness to cooperate to realize that vision. Any possible continued support from funders would be based on the perceived success of this Project and the desire and request of producers to proceed.

c. Following the April meeting, the NCSBRC will draft a final Project report, detailing the outcome of the April meeting and producers comments and wishes. This report, based on the stakeholders' direction, will specifically address how to approach the outstanding issues and opportunities – based on their chosen path forward. This final report will be provided to all stakeholders who have been involved with this Project and made public in the same manner as this Feasibility Study has been. For additional information and/or questions – now or in the future – feel free to contact the Project Coordinator, Connie Lorenzo at the NCSBC at 707-445-9720 ext. 308, or via email at lorenzo@northcoastsbdc.org.

Conclusion

The HNM Project research and surveys were exceptionally positive and encouraging regarding the possibility to expand our local "natural" meat industry. The Project found that a "natural" meat program is indeed quite doable, and more so that it has a high likelihood of success if marketed and managed well.

The "natural" beef market is growing steadily with signals that suggest a continued extraordinary dynamic: continued high growth rates in sales, strong prices, the introduction of more branded products, more stores and mass outlets competing for these products, the continued evolution of a consumer preferences for healthier and more sustainable consumer products, and public standards and certifications that better define and support grass-fed, natural, and organic products. These are indications of near perfect economic conditions for building market share.

Because of market consolidation and increased competitiveness, though, any new supplier entering the playing field must be prepared to meet high standards of production and deliver quality products with little room for error. But as long as demand out-strips supply, as it currently does and is anticipated to for the next few years, the time is ripe for Humboldt producers to capitalizing on this unique growth market.

Local Humboldt producers are poised to leverage one of the optimal, national natural and organic markets – the greater Bay Area. Our "natural" meat products can claim the advantage of "local" status within this market, as the HNM Project research has confirmed; and further can and should differentiate themselves based on the world-class grasses and temperate climate here that results in a superior grass-fed beef. *Effectively* exploiting the opportunities outlined herein will result in measurable increases to local beef production. And when It does, success of our beef industry could set the stage and serve as a model for similar success in the smaller, but equally viable poultry, lamb, pork and even possibly the goat meat markets.

Addendum I

Summary Data
Producer Survey for Natural Meat Program

Drafted and Conducted by Greg Sullivan, Project Consultant

7 total pages

Addendum II

Final Consultant Report

Greg Sullivan, Advance Marketing System

39 total pages

Addendum III

Consumer Survey - Frequency Tables and Graphic Result Representations

Survey Design and Data Analysis

By
Judith Little, Ph.D., Humboldt State University, Department of Sociology

54 total pages

Addendum IV

Power Point Presentation of the Organic Meat Program as Presented to

Whole Foods,
Our Kitchen, a Bay Area Independent Retailer Buying Consortium, and
Miscellaneous Individual Independent Grocery Stores

Drafted by Bill Carman, Carman Consulting, Inc.

5 total pages

Summary

PRODUCER SURVEY FOR NATURAL MEAT PROGRAM

Notes to Summary:
15 Surveys were completed and returned
Everyone did not respond to every question
If an area is blank, or empty, there were no responses
All narrative responses are exact quotes from the surveys
The number following a response is the number of times that response was given, i.e., Bayside 1, one respondent is in Bayside

I. General Information.
Name ____________________________________Phone_____fax ____email__ __
Address: Bayside1, Ferndale 4 , Fieldbrook 1, Ft. Dick 1, Fortuna 2, Hydesville 1, Kneeland 1, Loleta 1, McKinleyville 1, Petrolia 2
County: Del Norte 1, Humboldt 14

II. Livestock Inventory Information.
1. Types and number of head of livestock you are currently managing?
Cattle_X no. 4,978; swine_ no_; sheep_X_no150; goats X_no. 53; poultry_X_ no._74_
2. Regarding your cattle, please give the current number of brood cows 1,943_
brood goats?___20_
3. Approximate number of steers and heifer you sell each year Steers?_+1719_ heifers 1,373
(does) goats? __15
(bucks/withers) goats? __15

III. Resource Audit
1. Acres of pastureland? 27,986 . (Acres per response: 5, 11, 40, 100, 380, 600, 950, 1,000, 1000, 1,500, 2,000, +4,000, 5,000, 5,000, 6,400)
Do you have cross-fencing for controlled grazing and breeding? Yes_14, Somewhat_1__
No_____
Do you bale hay for your cattle? Yes_7__ No__7_ Acre baled?_144_ (Acres per response: 4, 10, 40, 40, 50)
Type of forage?_grass 2, grass hay 1, grass mix 1, wetland grass 1, pasture 1, rye and clover 1
2. Acres of cropland? _600_ What crops did you grow in 2005? _pasture, improved pasture, Easter lilies
Are any of these crops fed to your livestock? Ye _1_ No_2_ What?__Hayledge
3. Access to clean water for livestock? Piped_11_ wel__7__ river__5__ pond or lake 5

4. Number of livestock buildings dedicated for cattle production on the property?____22_____
(Buildings per response: 1, 2, 2, 2, 2, 3, 3, 3, 4, hay storage barn, large old dairy barn)
5. Number of full-time employees who manage the livestock? ____8 1/4__________
6. Do you have irrigation systems for your pastures? Yes___6____ No____8____

IV. Chemical Use

1. Do you use chemical fertilizer on your pastures? Yes_2__ No__13__
When was the last application?_2006, 2005, 1999, 1986__Year
2. Do you use pesticides or herbicides on your farm? Yes__4_ No_11__
When was the last application? Pesticides 2005, 2005, 1997__Year
Herbicides 2006, 2005, 1998_ Year
3. Have you a written farm safety plan for the storage, use, and disposal of fertilizer and chemicals? Yes__3__ No__10____
4. Do you use anabolic implants on your heifers or steers? Yes _____ No__14___
Were any of your brood cows implanted as heifers? Yes_2__ No_10__
5. What fly, tick and worm controls are you presently using on your farm?
Fly: Cydoctin 1, ear tags 1, insecticides 1, pasture rotation 1, Pouron 1, Wasp parasite
Tick: Ivomic 2, Ivomic Plus 1, pasture rotation 1, Pouron 1, yes 1
Worm: Dectomax 1, Drench 1, Ivomic 5, Ivomic Plus 3, pasture rotation 1, Pouron wormer 1, Three Way 1, yes 1
Flukes: Drench 1, Ivomic 2, Ivomic Plus 5. Ivomic injectable 1, pasture rotation 1, yes 1
6. Do you lime your pastures? Yes_1__ No_13___ How often?_every 5 years
Do you spread manure from dairy operations or feedlots on your pastures? Yes 2 No 12__

V. Livestock Management

1. What type of operation the predominant breed type of your cattle?
Commercial herd: _8__ mixed breeds___3_ predominant breed (what?) angus 7, angus X 1, angus/herford X 1, black angus 1, black English X 1, gelbuieh angus 1, full blood Boer goats 1
Pure breed herd___1__ breed:___angus____
2. Would your facilities (fence, labor, barns) allow for a split calving season spring and fall?
Yes_ 8_(Yes, but prefer to breed goats in August every year, kids in January) No__5___

Response:

- But prefer to breed in August every year, kids in January (goats).

3. Do you have facilities to retain slaughter animals for 90 days for grain finishing on your farm? Yes _5__ (grass finishing Yes 1) No_8__
A neighbor's farm? Yes____ No_6___

4. What is the potential number of brood cows you can manage if you also retain steers and heifers for fattening on improved forages? +2,037-+2,140 (Number per response: 7-10, 50, 75, 75, 200, +200, 250, 280, 200-300, 300, 400)

VI. Livestock Marketing

1. Location of nearest livestock auction market? Town: Fortuna 15
Distance: (miles) 2, 6, 6, 10, 10, 10, 5-20, 26, +/-30, 35, 40, 40, 40, 50, +100

2. Do you custom slaughter your livestock? Yes_10_ No_5_; if yes, then ask for home use only _6_; sale to neighbors_4_, sale at other place (where?)_2_

- Ten years ago we custom slaughtered and marketed via farmer's market, orders, and mail
- Private parties
- Humboldt Grassfed (not L. Mora's response)
- Internet
- Sheep: restaurants
- Goats: sell some live

3. Location of the nearest slaughter facility for custom slaughter?
Name of company: Gary Bigler 1, Redwood Meat Company 14, Bob Shaw 1,
Town: Eureka 13, farm 1, Ft. Dick 1
Distance (miles): 1, 10, 12, 18, 5-20, 20, 20, 20, 20, 25, 30, 36, 45, 55

4. Are you satisfied with the quality of slaughter and processing services of your animals?
Yes_12_ No_1_ Why?_They do not seem to be supportive of the grass-finisher's needs

VII. Environmental Management

1. State your vision and philosophy about resource use and stewardship on your farm as it relates to cattle rearing?__ Responses:

- **I have to manage for maximum production to make expenses. I never injure the land on doing so but believe in improved pasture species, not natural growth.**
- **Take care of our animals, our land, provide local people with a good product for a reasonable price.**
- **The Hacketts are conservationists and have demonstrated commitments to resource land protection. A nation that loses its soil is a nation doomed. A county that loses its farmland is a county without culture or purpose. We manipulate carbon based compounds and living organisms in a holistic approach to build soil and produce a food product that is of extremely high nutritive value, and which is safe and free of un-indigenously occurring compounds. We do this very well.**
- **Protect streams, tree planting, irrigation, proper rotational grazing managements, reseeding.**
- **Work with nature. Improve pastures through water/fencing cattle rotation.**

- Using the natural resources—grass in particular as possible thus reducing the need for use of non-renewing fossil fuels to produce our product.
- I want to raise better and more profitable beef product through improved management of pastures (fencing, controlled grazing and water development) in an environmentally enhanced manner.
- To raise the best tasting healthy animals for food.
- I want to raise meat without chemicals and additives. (I have to buy grass hay for August-March breeding.) Since I am such a small operation, I specialize in raising breeding stock for small farms and 4-H withers. (goats)
- Humboldt Grassfed Beef produces cattle on the Northcoast of California. The long feed growing season of this area provides us with the unique opportunity to raise high quality grassfed beef and supply our markets with a fresh product on a year round basis. Our cattle are allowed free range on fertile pastures rich with naturally growing legumes and grasses. These cattle are selected for traits such as temperament, conformation, and disease immunity. We raise them using a strict quality assurance program without antibiotics, synthetic hormones, or other feed additives commonly used in the commercial cattle feeding industry. The health benefits of grassfed beef: - Extra Omega-3s. Although grassfed meat is low in total fat, it has two to six times more omega-3 fatty acids. Omega-3s are "good fats" that play a vital role in every cell and system in your body. For example, of all the fats, they are the most heart-friendly. People who have ample amounts of omega-3s in their diet are less likely to have high blood pressure or an irregular heartbeat. Remarkably, they are 50 percent less likely to suffer a heart attack. Omega 3s are essential for your brain as well. –The CLA Bonus. Meat products from grassfed ruminants are the richest known source of another type of good fat called "conjugated linoleic acid" or CLA. When ruminants are raised on fresh pasture alone, their products contain from three to five times more CLA than products from animals fed conventional diets. CLA may be one of our most potent defenses against cancer. –We hope you enjoy our beef, and tell your friends about our product. We continually strive to improve our management practices and cattle selection to insure your confidence in Humboldt Grassfed Beef.
- Happy cows ~ grass farming with cattle combines ~ happy soils.
- To produce the highest quality product to my customer while maintaining a healthy environment and ecosystem.

2. Are your willing to work with a group of livestock producers who share a common vision of integrating land stewardship and animal production to market a :

i. branded natural beef product? Yes__11_ No_____ If no, why?_____
ii.. branded grass-fed beef product? Yes_10_ No_____ If no, why? _____

Responses:

- **Somewhat hesitant, given the fact that producing a consistent quality product is challenging.**

iii. branded organic beef product? Yes__8_ No__2_ If no, why? _____

Responses:

- **I do not believe a small producer can survive operating organically.**
- **The USDA organic certification rules are counterproductive, e.g.:**
  1. **Health treatment (not to be confused with preventative pharmaceutical prescribing) rules provide incentives for abuse (both of the rules and reasonable ethical animal treatment)**
  2. **Health treatment rules provide limited or no consumer benefit**
  3. **Organic certification does not require or provide incentive for agrarian practice (i.e., "organic" factory farms are becoming normalized)**
  4. **"Organic is not what consumers want. Consumers want to have a bond with the land where, and practices how their food is produced**
  5. **"Organic" is a consumer demagoguery. Sustainable agriculture is our social need, which means static or increasing topsoil and farmland. Sustainable Agriculture means agrarian Agriculture**
  6. **"Organic" barriers to the use of great (low cost, safe and effective) technologies is stupid (e.g., use of herbicides (selectively and prescriptively) (not to be confused with routinely or as normalized management). Examples of appropriate (nondependency)usage include:**
     a. **Elimination of noxious weeds**
     b. **Rectification of legacy management (e.g., last step pasture conversion)**
     c. **Facilitation of agrarian practice to build soil and enhance soil health (i.e., it is better to use herbicides than routine tilling**
- **Very hesitant about organic. Giving up use of products that we currently use and not losing quality of the product, or weight of calves and reproduction in cows. Also increase in cost particularly increased labor—would it be covered by increased profitability. We also do not want to have multiple cattle sale points or times; again it has to be management effective.**

3. Have you an interest in an agro-tourism program that supports a shared vision with other cattle producers concerning environmental stewardship and cattle rearing? Yes__10__ No_1_
Why?__________________

Responses:

- This effort requires volume to develop a market.
- Somewhat. How does it pencil out? Is our profit increased enough to make it a real business venture. What about the associated regulations that go with an enterprise such as that. It is something we have considered. How much more labor is involved?
- Expand market for meat/income from farm.

4. Do you have additional comments that you wish to share regarding developing a branded meat program for Humboldt and Del Norte Counties?

Responses:

- Previous meetings seemed to be lifestyle/environmentally slanted. I'm interested in making a living. A market bonus would help. I am not convinced that natural or organic beef is a superior product to conventional beef.
- Would be very beneficial to have these counties recognized as being natural/organic beef producers.
- If a branded meat program would mean that I had to change my current livestock and management or if my own standard on grass fed beef wasn't met or the costs to participate were too high I wouldn't be in that meat program, because we are too small of a producer and are having no problems with selling our beef.
- We need to resolve our own standards that reflect our place and time; standards that provide leadership for and relationship with our consumers.
- There should be a set of rules/standards I hope for genetic selection of cattle if we are all to market cattle together.
- As stated previously we did direct market of a grass finished product 9 years ago. We quit because it was labor intensive and not profitable. I would like to see a program with a set of criteria for quality cattle and development of a branded product. I am not tied to only grass finished or organic. My belief is that the consumer wants to know more where their food is coming from. The other challenge/benefit we have is that for some of us in the hill country we do not have the natural resources to finish cattle well. However, I believe by partnering with folks on the bottoms we could create a product. There is a radically different growing environment between the "hill land and bottom land." Finally, we need to be able to market all of our cattle through a single program. It is not cost effective, labor management effective for us to market only a few head through a grass or natural or specialty program. So whatever we build on the North Coast, in my opinion only, needs to be robust enough that I can market all of our cattle through it, but also the small producer can as well. I also firmly believe that we need to have standards for production, using current tools such as ultra sound to ensure that we are marketing a quality product. We need to be able to finish cattle correctly. We need to know that we are giving the consumer a consistent, year round product. We just recently

had a poor eating experience of local grass fed beef at a high end restaurant in Eureka. This is the sort of experience that really sets us all back. As a group, we need to ensure that we have standards that folks are conforming to so that all of our product is of the highest quality.

- Favor grass fed over grain fed. Favor field slaughter to lessen stress on animals, improve meat.

- I am giving you a list of names of some of the potential larger breeders of goats who will need an outlet for their meats currently selling to restaurants via ? Redwood Meat butchering is working for one goat rancher, Sharon Zanone (Petrolia). (goats)

- Hopefully this study will look outside this county when determining a market place and demand for a beef product raised in Humboldt.

Please return by 5/15/06 to Barbara Burke, SBDC, 225 H Street, Crescent City, CA 95531

Summary tallied by Project Lead Barbara Burke 7/17/06

January 31, 2007

TO: Connie Lorenzo Program Director
Barbara Burke, Project Leader
Humboldt County Natural Meat Feasibility Study
North Coast Small Business Development Center

CC: Susanne Hendry, Contracts Manager
Colleen Trask, Accounts Manager
Michael Kraft, Executive Director

FROM: Gregory Sullivan, Consultant

REF Deliverables for the Grass Fed Meat Initiative

The attachment contains the agreed upon deliverables for the Natural Meat Feasibility Study (NMFS). The analysis of consumer surveys conducted in the San Francisco Bay Area is being done by Dr. Judith Little in the Department of Sociology at Humboldt State University according to our agreement and her separate contract. Her analysis can be appended to this report upon her completion of her analysis.

I will return to the San Francisco Bay Area the week of February 5th to follow up on market leads developed in the December market visit. The visit will provide the opportunity to further explore market opportunities and promote the Humboldt County natural meat initiative. I will also travel to Humboldt County to participate in an evening stakeholder meeting on February 8th at a location being arranged by Ms. Lorenzo and Dr. Little to present the results of the San Francisco meat survey, the analysis of the consumer survey by Dr. Judith Little, and the market development plan.

Deliverable #1. Consumer and Retailer Surveys Results

The Redwood Natural and Organic Beef working committee consisting of Dr. Judith Little, Connie Lorenzo and Barbara Burke designed a consumer survey for the San Francisco Bay Area. The survey was modified by Drs. Little and Sullivan after Whole Foods, the target retailer, pulled out of the activity at the last minute. The survey was administered by Dr. Sullivan in December.

1.1. Consumer Survey

The importance of the consumer survey is to determine how significant consumers view the attributes that can be embedded in the product. Attributes on production practices, location and other perceived qualities can be then communicated in the marketing program. An important segment for Redwood Natural and Organic Beef (RNOB) will be consumers with higher disposable income and with smaller household sizes. It will be important that this segment be further defined as consuming beef on a regular basis and occasionally shop at natural food stores and meat shops. Other market research found that older consumers are not willing to purchase premium meat products. It seems that the presence of younger children in a household may increase the likelihood of purchase and paying a premium for natural beef for health reasons.

There seems to be a positive relationship between the demand for natural beef products and income of consumers so this could be a product attractive to retailers that are attempting to bring such consumers into their stores. This information can be used by some stores to carry natural beef using the appropriate market and demographic data. Emphasis needs to be placed on production practices in advertisements and the product label at the point of sale. Pamphlets describing the farms that supply the beef will be important as to where the beef comes from. Meat brokers in the SFO Bay Area can better gauge the value of the Redwood Natural and Organic Beef if a set of marketing materials is available. It will be important to insure that brand advertising of the grass-fed beef ultimately benefits the livestock producers in the Redwood Region.

1.1.1. Survey Design, Administration and Analysis

A copy of the survey was provided in the 3rd Quarter report in the attachment section and it is not necessary to present again. The survey was designed to elicit information from consumers of beef about their eating habits as well as their attitudes to grass fed beef. The survey took approximately 10 – 15 minutes to complete. The survey was conducted in various locations in the San Francisco Bay Area. The SFO Bay Area was chosen at the request of producer in the stakeholder meeting in May, 2006 as a place of interest for selling products. The following locations were chosen: farmers' markets in SFO, Marin and Oakland; Berkeley Bowl in Berkeley, Traj's in San Mateo, and three supermarkets in SFO, and one location in Sausilito. The surveys were conducted over a period of about 10 days and 154 surveys were completed. Surveys were mailed to Dr. Little at Humboldt State University, and she and her staff will analyze the data using the SPSS software package.

1.1.2 Survey Findings

The survey findings were very significant in gauging the understanding by consumers of natural grass fed beef products. Consumers ranked as important key characteristics of the beef that could be embedded in a market program. Certainly, no antibiotics and no hormones were seen as important to very important by respondents.

What was surprising was the number of people approached to be interviewed that said that they do not eat beef. The estimate is that at least a similar number of people completing the survey responded that they do not eat beef. Out of the total number of over 300 respondents, only 154 consumers said that they eat beef. Various reasons were provided: vegetarian, animal rights concerns, beef is not part of their healthy lifestyle, cattle production is hurting our environment, and concern about BSE and other animal diseases affecting food safety. A percentage said they would consider eating beef again if they could be convince that beef was a wholesome product.

Some of the key attributes of grass fed beef that distinguishes it from conventional beef were not clearly understood by a majority of consumers. Conjugated linoleic acid (CLA) and Omega E Fatty Acids were not recognized by a large percentage of the respondents. The nutritional advantages of grass fed beef can be important to communicating to consumers to recapture lost beef sales for reasons stated above.

Consumers stated that they would pay a higher price for grass fed beef over conventional beef. The willingness to pay for grass fed beef indicates that if the product attributes can be clearly distinguished at the retail counter then grass fed can receive a price premium.

1.2. Meat Wholesaler Survey in San Francisco Bay Area

Several meat wholesaler companies in the Bay Area were visited. The meat procurement official for Fracciola's, a large meat distributor and now part of Sysco, was interviewed by both phone and face-to-face. Fracciola's does not carry a grass fed beef product at the present time. The findings indicated that there was an interest, and this was relayed to Lee Mora for his follow up. Mr. Mora did have a personal meeting.

A dinner meeting was held with Bala Owange, the owner of Preferred Meats. Mr. Owange introduced me to the chef of Petreccio's, an up-scale restaurant in the downtown business district. Mr. Owange imports South American grass fed beef. He expressed an interest in knowing more about Humboldt County grass fed beef. I connected him with Lee Mora for a follow up meeting. Mr. Mora had a productive meeting with Mr. Owange during his January visit to San Francisco..

There are a number of meat wholesalers in the Bay Area. It will be important to select a company that is small and will provide personal service to promoting any Humboldt County meat program. For this reason, Preferred Meats represents the type of firm best for producers.

1.3. Retail Meat Survey in San Francisco Bay Area

The consultant conducted interviews with officials of supermarkets (owners, meat buyers and head of meat departments). The following contacts were made.

- Andronicos (several locations in the Bay Area and phone survey with the field person on meat retailing
- Mollie Stone: phone interview with the owner of the company and visit to store in Burlingame and held discussion with meat manager
- Traj's Supermarket in San Mateo with survey of meat department and the owner of the company
- Draeger's Supermarket: has three stores and up-scale. Phone interview with the owner, John Draeger and sent him a price sheet and information about Humboldt Grass Fed Beef.
- Berkeley Bowl: Meat manager and phone interview with the store manager
- Enzo Supermarket: Oakland up-scale retail market and interview with meat managers
- Lunardi's Supermarket: has 8 locations in the Bay Area. Spoke with the meat procurement manager and visited stores.
- The Willows Market: supermarket in Menlo Park. Interview of the meat manager, Vince Meraz, who is interested in grass fed beef.
- Piedmont Market: Upscale market in Oakland. Visited with meat manager, Tony, and he said they are not interested in changing from their Certified Angus Beef program.
- Big G Supermarket in Sausilito with a full service case supplied by Fracciola
- Managers of three Real Foods Supermarkets in San Francisco and Sausilito
- Kaiser Permanente Cafeteria: manager of San Francisco hospital to explain the work started with Eel River Organic Beef in Santa Rosa hospital which is currently selling 80 pounds of ground beef per week to that outlet.

1.3.1. Survey Topics with Retail Meat Managers

The personal interviews were conducted of key decision-makers with the following general questions asked:

- Do your customers ask questions about grass fed beef? What are they?
- Do your customers understand the advantages of grass fed beef? Do they ask you to compare it to conventional beef?
- Do you believe that price is a factor in the purchase of grass fed beef?
- Do customers want to know where the beef is from and about the producers of the beef?
- What is the best way to promote grass fed beef in the store?

1.3.2. Findings from the Retail Survey

1. Grass fed does not carry the cache among meat managers at large. Meat counter managers are very reticent to undertake a new beef item that makes their life more complicated. Traditional they like to cut and sell meat. You have to find a meat manager that is willing to understand the advantages of grass fed beef and promote the product as a main item in their full service counter.

2. The meat counter is crowded with different branded meats so that consumers have a hard time finding the product. The shopping experience can be confusing in selecting a beef item and recognizing what the brand conveys. Some of the brand names include: Panorama, Niman Ranch, Atkin's Ranch from New Zealand, Painted Hills, Yosemite Valley, Long Meadow Ranch, Hearst Ranch, Sierra Meat, Harris Ranch Beef, Western Grassland, Stockhills, Masami (Kobe Beef), Varaler Rose (Uruguay), Prather Ranch, Sommers Organic (Uruguay), Sun Marin, and Oregon Country. In only a few stores were there POS materials on the grass fed product and even then you had to look hard to retrieve them. Only Enzo's in Oakland had a poster on the wall of one of the programs.

3. Some meat is not properly identified especially for grass fed beef from Uruguay. One meat manager mentioned that some consumers have a problem with buying Uruguay beef. There is grass fed from New Zealand as well. Meat managers mentioned that the quality on the Uruguay and New Zealand beef can be variable. This could be due to shipping times, etc. Meat managers in general would prefer a local beef product that does not cause them any hassles.

4. Some meat managers reported that they tried grass fed beef in their counters, and it did not catch on with consumers. Consumers lacked the knowledge about the product and what are the important attributes. Product was discontinued this was true for an upscale store in Marin County.

5. Initially consumers try grass fed because it is a novelty item, and they experiment looking for a change in their eating experience. If they have a good eating experience then they will be repeat buyers – if not, then they select the other offering in the case. In none of the many stores visited was grass fed the only selection of beef.

6. Some managers refused to even sell grass fed in their counters because it didn't have the flavor and taste that consumers expected. Meat managers preferred beef that would be high choice or even prime, such as Certified Angus Beef. Before starting with a retail chain, it will be important to do a mass education of the meat managers at each store.

7. In Andronico's the grass fed Uruguay beef was relegated out of the full service to the self-service coffin case next to pork shoulders and an assortment of other discounted meat items. This is not an attractive place, and the products were not clearly marked as grass fed. I believe that a Humboldt grass fed beef product could be supplanted in this chain with the proper marketing push.

8. In Whole Foods in Palo Alto the meat manager said that Yosemite Valley replaced Western Grassland because of better product quality. The Western Grassland beef would turn too quickly. The new supplier has better shelf life and the volume is good as well. Product needs to have a good shelf life.

9. In a Mollie Stone store, the manager said that consumers do not have a problem paying the higher price for grass fed beef or other premium beef items. The meat manager said they are selling about six boxes per week of a 40 lb/box of cuts. The store sells 8-10 lbs per day of ground beef selling between $5.99 to 6.99/lb.   I spoke with the owner of Mollie Stone, and he said emphatically that he was not interested in replacing his current suppliers of grass fed beef.

10. Several meat managers said that demos in the store would be the best promotion method to get consumers to try the product. It is important to get the meat manager and staff to interact with the consumer on the advantages of grass fed beef. Demos early in the entry phase would be critical to building up meat counter staff excitement about the product.

11. In the introduction phase of Humboldt grass fed beef it will be important to have the plan for conducting demos for a period of time to get consumers to try the product.   Need to educate consumer on the advantages of grass fed and on how to properly cook the product.

12. Most consumers do not ask the meat manager to explain the advantages of grass fed beef. Need to have an education program about the benefits of grass fed beef and the advantages of beef from Humboldt County. Meat managers and staff need to be fully versed in the advantages of grass fed beef.

13. In Lunardis in San Bruno, organic grass fed was in the back and not on the shelf. Store carries only market steaks and New York strips. Grass fed can be a tough sell without the full marketing package. When the meat comes from a wholesalers, there is no personal touch to getting the meat staff committed. This was in contrast to interviews with meat managers carrying

Humboldt Grassfed Beef (HGB) in Northern California. These managers were excited about the product and could tell me what they liked about the product.

14. In the interview with Tony, the meat manager at Piedmont Market in Oakland, he said that he would not carry a grass fed beef as it would complicate his life and confuse the customer. He carriers Harris Ranch and CAB beef. Tony represents the kind of manager that will be the greatest challenge to any Humboldt grass fed program.

1.3.3. Meat Prices in San Francisco Bay Area

<u>Traj's in San Mateo</u>
Ground chuck $3.99/lb
Ground Round (85% lean) $5.29/lb
Ground Sirloin (90% lean) $5.69
Steak:
Porterhouse Steak $14.99
T-bone Steak $13.99
Beef Loin New York Steak $14.99

<u>Mollie Stone</u>
Market steaks $12.99 - $13.99/lb
Ground beef $5.99 – 6.99/lb

<u>Draeger's Supermarket in San Mateo</u>
Ground Round reg. $6.99 sale: 5.99

<u>Berkeley Bowl in Berkeley</u>
Harris Ranch Beef lean ground beef $4.19/lb
Uruguay Estancia brand ground beef $5.49/lb
Panorama ground beef $5.49
Chateaubriand $13.99/lb and New York steak $20.99

<u>Mill Valley, San Rafael</u>
Harris Ranch, ground chuck $3.59
Ground Round, $4.59/lb
Ground Sirloin $4.99/lb

<u>SFO, Haight Street, Low Cost Meat</u>
Carries Harris Ranch in carcasses
Roast $3.50/lb
Ground Sirloin $2.89/lb
Fillet mignon $11.99/lb
T-bone steak $7.99/lb

Schaub's in Palo Alto
Ground beef extra lean, $5.99/lb
Ground round $3.99/lb
Ground chuck, $3.49/lb
Market steak, $16.99/lb

Andronico's in Menlo Park
Summer's Organic, Ribeye steak $16.99/lb
New York steak, $17.99/lb
Chuck roast, $6.99/lb
Ground beef, $6.99/lb
Certified Angus Beef
Boneless Chuck Roast $4.99/lb
Filet Mignon $19.99
Ground Chuck $4.99/lb

Whole Foods
London Broil $6.99/lb (top round)
Lean ground beef $6.99/lb

The Willows in Palo Alto
Ground Chuck $2.99/lb
Ribeye $13.99/lb
New York $9.99/lb

Andronico's in Berkeley
Organic beef rib-eye $16.99/lb
CAB ribeye $13.99/lb
Ground beef $6.99/lb

Enzo's in Oakland
New York steaks grass fed $22.99/lb
Ribeye steaks, $22.99/lb
Top sirloin, $10.99/lb
Ground sirloin $5.99/lb
Non-grass product:
New York steak $19.99/lb
Ground Sirloin $5.99/lb
Prime rib roast $12.99/lb
Beef short ribs $8.99/lb
Tri-tip roast $9.99/lb

The price list indicates that retail prices for selective cuts are at a level to be attractive to meat program operators in Humboldt County. This is based on indicative delivered prices from Humboldt County to the Bay Area at between $2.30 and 2.50 per pound. Based on a 30 percent retail mark up, the price of grass fed ground beef is below the prices in all stores except The Willows and one other low price store on Haight Street.

Deliverable #2. MARKETING AND FEASIBILITY REPORT

Prepared for
Redwood Natural and Organic Meat Program Stakeholders
Prepared by
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Advanced Marketing Systems
June 15, 2006

1. THE MARKET FOR NATURAL AND ORGANIC MEAT PRODUCTS

1.1. The Situation

Over the past 30 years, the U.S. market for products labeled natural and organic has expanded. Supermarket sales of organics have seen double digit growth since 1997 though sales as a percent of total food sales is still low at 2.5%, but it is increasing from 1 % nine years ago (Rocky Mountain News, July 8, 2006). Overall the potential is good for continued sales as supermarkets designate larger amounts of shelf space and more product lines to their natural line of products. U.S. Department of Agriculture expects organic food sales to hit $23.8 billion by 2010, up 72 percent from 2005 (Rocky Mountain News). Even large conventional supermarkets are jumping into the organic market. In the meat counter, conventional supermarkets are providing branded case ready products that are prepared at a central processing location. Supermarkets are attempting to embed qualities which have been the domain of niche programs into their meat products.

The number of meat programs has increased in an effort to meet consumer demands for meat products, which are perceived as safer than conventional products. Coleman Natural Meats, Laura Lean, Maverick Ranch, Harris Ranch, and Lassister Grassfed are just a few of the more well know meat programs. Most companies rely on a group of private producers who supply the company. In a few cases companies have been able to break into national distribution and even a smaller few have successfully exported their meat to Asia and the European Union, e.g., Coleman and Harris Ranches.

More recently the natural label has been muddied by the rapid entry of new firms. Terminology has been stretched and watered down, e.g., free range when animals have access during the last 30 days of feeding. In an effort to shore up their position some firms have moved to a higher level of organic determination. Recently Beilers, a producer of pork products, announced it would introduce an organic pork product.

There are a few companies that have direct application to the Redwood initiative. T.O. Grassfed is a program that is located east of Monterey Bay, California. The animals are slaughtered at Hollister Custom Meats. Beef carcasses are sold to the end user. Sales have recently been around 80 head per year. (This number seems low but cannot validate). Joe Morris, the owner, says he has remained small to better control his production (his own livestock) and also because his current supply is limited. He has spent 10 years developing the market so the reality is it takes time to develop niche meat markets for producer groups. He prefers to pre-contract his product so inventories are kept low. His animals reach a slaughter weight of 1050-1200 pounds in two to three years on grass.

Another program is Western Grasslands Beef. The program is currently selling product to Trader Joe's, which is a supermarket outlet headquartered in Southern California but is expanding stores into neighboring states. Traders Joe's is a chain that is promoting volume and unique products at value prices.

Painted Hills is a meat program in Oregon and comprised of a group of ranching families. The product sells in Wildberries Marketplace in Arcata. The product is delivered as sub-primals to the store. The consumer reaction to the product is good.

Tall Grass Beef is a program that supplies natural beef. Ultrasound technology is used to monitor the growth of the animals to determine when they are ready for slaughter.

Another meat program in California is Praether Ranches, which sells under the Vintage label and is currently selling in New Frontiers Natural Food Market (NFNFM). Mark Keller has worked hard to build his brand in the San Francisco Bay Area with a retail outlet in the Ferry Building. When I made contact with the person at NFNFM he indicated some displeasure with the product packaging and the bleeding of meat in the package.

A meat program that I have indirectly been involved with is Homestead Beef. The initial group had five ranchers. For many years they had their beef custom killed at a local USDA inspected plant and sold at farmer markets. Needing to become more efficient in their distribution they purchased a small meat plant and converted it to a retail outlet in Paonia, Colorado. After some time they purchased the custom kill plant and have recently purchased another plant in Delta, Colorado, to fabricate their meat. Again it has taken them over six years to get to this point in their operation.

San Marin Farms sells in the Bay Area but on a limited basis. It sells direct to consumers from its ranch as well as sells product in the farmers' market. The product has a small following of consumers for its products. David Evans is the contact person.

Other programs that will be further investigated are Potter Valley Beef (contact is Mark Muegruetter), Oregon Beef, and Highland Beef, which are collaborating with Mondavi Winery. Washington Beef sells conventional beef under the name of Snake River Farm as well as Wagyu Beef (both are not labeled natural or grassfed) but have established a niche overseas.

2. THE MARKETS FOR REDWOOD NATURAL AND ORGANIC MEATS

The relevant markets for beef from the Redwood Region are disaggregated by local, region, national and international.

2.1. Local Market

Humboldt County is a small market for locally raised meat. The income levels are below the state average. Notwithstanding this fact, the local outlets have been receptive to promoting locally produced meats. The Northcoast Cooperative is carrying Humboldt Grassfed Beef (HGB) and Eel River Organic Beef (EROB). The meat managers are supportive of these efforts. Other outlets are Murphy's, Ray's, Six River Brewery, Golden Harvest, Lost Company Brewery, Jambalaya, and Big Blue Café. This list is composed of supermarkets and restaurants.

Northcoast Cooperative has two stores and is preparing to open a larger store in Eureka. The store is part of the UNFS system of independent cooperative supermarkets. It is felt that with the new store opening there will be a slight increase of HGB and EROB beef sales.

The market efforts by HGB and EROB in the local market have proven a good testing ground for ironing out distribution and sales issues and improving their merchandising techniques. For both companies to expand outside the local market area there will need to be a more focused marketing effort.

2.2. Regional Market

The larger regional market south of Humboldt County offers improved opportunities for sales of HGB, EROB and other natural and organic meat products. The areas of interest are Mendocino, Sebastopol, Marin, San Rafael (Mendocino, Sonoma, Marin, and San Francisco Counties), and the San Francisco Bay area including Oakland and Berkeley (Contra Costa and Alameda Counties). Other areas farther afield would be Walnut Creek and Concord. The Silicon Valley and the towns of Palo Alto, San Jose and San Carlos (Santa Clara and San Mateo Counties) are possible areas of interest. These areas have households with higher household disposable incomes.

It will be important to target high-end food stores like Glen Ellen in Sonoma County, Andy's Market in Sebastipol, and Molly Stones stores in Napa Valley. The town of Monterey has an image of high-end retail stores, and these can be investigated.

HGB is slaughtering cattle in Petaluma and selling carcass meat in Garberville, and it will be important to evaluate this effort and determine if more volume can be sold with an effective promotion program.

An opportunity that requires further research is a company that was located in the Humboldt area but moved to Oregon. Amy's Kitchen is a small food processing company that is sourcing organic meat for its line of frozen entrées. The company is growing and could be an outlet for some of the lower valued cuts from the round and the chuck.

Looking farther afield in the region, the opportunity exists to penetrate the Southern California markets and parts of Arizona and Nevada (Reno and Las Vegas). The targets are supermarket chains with less than 20 stores that would be interested in a meat program that could draw consumers into their stores. An initial contact was made with New Frontiers Natural Food Market (NFNFM) based in Southern California. The chain has five stores (two in California and three in Arizona) and their clientele is looking for high quality products. It is reported that consumers like the fact that animals can be traced to a specific farm and that animals are removed from the production system when they become sick.

2.3. National Market

Access to a wider array of customers is possible through the Internet and mail order catalogues. EROB is currently selling product on the Internet to customers on the East Coast. The daughter of one of the cattle producers is a mail catalogue specialist, and she could be a good resource for adding Humboldt County products to existing mail catalogues.

2.4. International Market

An opportunity exists in the future to position meat products from the Redwood Region for export to Asia. This is not in the immediate future but could be an opportunity if the region successfully obtains a name for its meat products. Snake River Beef sold by Washington Beef is a niche meat product in Asia. Grassfed products will have to compete head to head with Australia and New Zealand grassfed beef on price and taste.

3. MARKET DEVELOPMENT OF RNOM PRODUCTS

The development of a Redwood Meat initiative will require addressing key marketing issues early in the program development.

3.1. USDA Regulations

The USDA is currently soliciting opinions on the use of natural and organic labels of meat. Conventional meat companies with integrated production, processing and distribution operations want to participate in what they see as an increasing market for natural and organic meats. These companies have an advantage of large-scale operations driving down their costs and also having existing market links with conventional large retailers, like Wal-Mart and Costco. If USDA loosens up the standards for natural, then this will push producers to try to meet the stricter standards for organic products, especially regarding the source of feed and the concept of open range. This will be more costly. Some companies are stretching this term of free range with limiting free range to the last 30 days.

3.2. Humboldt County Initiative

About five years ago Humboldt County proposed an economic development initiative through progressive agricultural industries. Efforts were made for conventional dairy farms to move to organic production of milk. With the subsequent development of Humboldt Creamery, dairy farmers who made the transition saw a steady demand for their milk. This is a good example for cattle producers interested in converting to grassfed natural beef and ultimately organic production. This could eventually include lamb and goat meat.

3.3. Product Differentiation

Research has shown that consumers are willing to pay a premium price for products perceived to contain quality attributes. This holds for meat products. Some of these qualities include product characteristics such as tenderness, taste, freshness, nutrition, and aroma. Other potential embedded qualities are sustainability of resources, conservation of resources, identity preservation (IP) and opportunities for valuing the location of the production, protection of open space, minimum stress on the animal, minimum processing, open range, and product traceability.

For Redwood Meat Products it will be important to assess what are consumers' perceived values for these embedded qualities and prioritize the factors to determine if a premium price can be received. This information will lead to promotion of the product. Any promotion will have to include testing the product by consumers to overcome any resistance to grassfed beef.
Another important differentiating factor will be identity preservation (IP) of where the product is sourced. The appellation factor (place identity) works well for the Redwood Region. It will be important to determine the best way to identify the location to garner the greatest cache for the products during marketing. The area certainly confers an image of a place being environmentally pristine with scenic panoramas of the Northern California Coast. It will be important to differentiate the RNOM as being special and unique.

3.4. Product Development

A factor that confounds producers of niche meat products is that the beef animal produces only a small percentage of high value table cuts sought after by restaurants and supermarkets. The chuck and round primals pose marketing challenges for disposing of these lower valued items. Efforts are needed to pull out sub-primal cuts that would be merchandised to restaurants and even smaller supermarket chains. It will be important to show the quality of the products and their value on the menu or in the meat counter. Opportunity exists to process products into natural and organic sausages.

3.5. Year Round Supply

It will be important to assess the requirements of targeted segments as to their need for year round supply of grassfed beef. Most products, other than horticultural, are set up on a vendor basis for efficient delivery of products. Because grass finished beef is determined by the season of forage production, there will be a period when product will not be available in the fresh form. It will be necessary to look at market segments where this is less of a problem or develop marketing alliances with other suppliers of similar meats to augment supplies during the off-season.

4. THE FEASIBILITY TO MEET MARKET OPPORTUNITIES

This section draws upon the one week spent in field visits in Humboldt County in May. Meetings were conducted with producers, processors, and retailers of livestock and meat.

4.1. Resources Available

The Redwood Region including both Humboldt and Del Norte Counties (no interviews were conducted in Del Norte) are pristine areas with abundant resources to support a value added livestock program. The area receives abundant rainfall during most of the year to support grassfed livestock. The area is composed of mixed resource use with both pastures and woodlands. Some ranches contain old growth timber stands.

The area is distinguished by having coastal bottomlands for intensive production of livestock on grass during periods of the year. The hilllands offer excellent conditions for cow/calf production. A synergy exists between the two areas. The area is known for large ranches, which had been previously in sheep production but has now shifted into cattle production. The area has a long and colorful history.

4.2. Production Systems

For a natural/organic grassfed system to be effective there needs to be a well-coordinated synergy between producers on the hillands and those on the bottomlands. The hillands are best suited for producing weaned calves in the weight range of 600– 650 pounds at nine months of age. Retaining these stocker calves for finishing on grass would best be done on the bottomlands. The objective is to have a finished beef animal at less than 24 months of age. It is unlikely to achieve a slaughter weight of 1100 lbs within 24 months on the hilland farms.

Bottomlands produce more grass because of the soils and the topography of the land. However these areas are subject to flooding during the winter, increased salinity from coastal tide surges, muddy areas, increased presence of liver flukes and the presence of migratory geese that consume the pasture grasses.

4.3. Slaughter and Processing Activities

Redwood Meats is an important player in the success of a RNOM program. The plant is USDA certified and holds the key for any success of the program. The Nylander family runs the plant. The current kill charge is $79 per head to kill and dispose of the offal. In addition there is a $26.50 per head fee for organic and CCOF certificates. The cost to process meat is currently $.53 per lb to cut and wrap and will be $.60/lb for organic product.

Carcases normally hang in the cooler for three to five days. Further aging of the product is done in the cryovac packages. Currently the preference by Redwood Meats is for product to be sold as primal cuts with the retail store doing the final cutting and packaging for the retail counter. The plant is currently processing 20 head of beef per week.

4.4. Market Sales and Distribution

Currently HGB and EROB are individually responsible for selling their meat products. HGB is selling into supermarket chains and currently slaughters around 8 beef animals per week. EROB is killing around one head per week and sells to a variety of outlets including the Internet.

Retaining a meat broker to facilitate the sales of both brands has been discussed with EROB and would be acceptable. The broker will work on a commission. The broker would be directed to find high-end clients in the region. The San Francisco Bay Area would be a primary target area. The broker would be asked to incorporate the marketing program into the sales activities.

5.0. MARKET STRATEGY AND TACTICS

5.1. Target Markets

The marketing effort will pursue market opportunities for Redwood NOM products. The prime segments to target will be restaurants, hotels, casinos and retail supermarkets. The supermarket clients will be high-end retail outlets with a small number of stores, less than 20.

The marketing effort is underway with contact made with New Frontiers Natural Food Market (NFNFM). Other potential supermarket chains will be contacted with the help of meat brokers and through personal networking. Potential contacts will be made with:

- Roger Lawson who is a meat processor and distributor in Redding
- John Rice who is involved in restoration and conservation in the area
- Allen Brothers is a Chicago meat company
- Francis Scarpulla is an attorney in the San Francisco Bay Area and may have an interest in investing in a high value meat program, and he owns Lost Coast Farms, LLC
- Mark Keller is in the San Francisco Bay Area and may have an interest
- Molly Stones is an outlet currently being supplied by Coleman Natural Meat
- Andronicas is an outlet in the San Francisco Bay Area that promotes green, clean and local products

5.2. Market Linkages

An initial market push will be into the San Francisco Bay Area. Focus will be on the North and East Bay Areas. A list of restaurants, hotels and up-scale retail outlets will be identified and contacted.

Follow-on activities will include potential outlets in Napa Valley, Silicon Valley, and Marin County. When speaking with potential clients a questionnaire will be used to ask a series of questions to determine the likelihood of each client to purchase RNOM products. The objective is to understand the factors that appeal to buyers and how to meet their requirements. Questions of importance will be how do they expect the product to be delivered and preferred product specifications (cuts, fresh and frozen). The information will be compiled and presented to stakeholders of the RNOM program. Discussions with clients will also include year round supply of the product, the expected quantities of meat required, and likely prices to be paid. The opportunity for processed products will be explored including sausages and marinated meats.

5.3. Program Management

The initial challenge will be to bring all interested stakeholders into a collaborative working group. Efforts will be made to build a work structure for setting minimal standards agreeable to all stakeholders. A working group has been in operation so it is a matter of continuing to work with this group. Minimum standards would include the basics of a natural label. In addition the standards might include ultrasound of animals, electrical stimulation of carcasses, and aging of the meat product. Humane treatment of animals could be a pillar of any standards developed. It will be important that producers receive carcass performance information to better fine-tune the live animal production with the requirements of the meat program.

5.4. Consumer Research

Initial contact was made to undertake a consumer survey in the SFO Bay area. The research will be targeted at consumers' perception of natural and organic meat, the recognition of the Redwood Region for meat, and consumers' willingness to pay for branded meat products from this area labeled natural or organic. This research will be undertaken by the social research department at Humboldt Statue University and will be funded under another grant.

A prior market research report was conducted by the Strauss Family Creamery. The result found that the major demographic group buying organic products was older women in higher income brackets. An effort will be made to obtain a copy of the study and see how the findings can benefit the RNOM program. We will want to see how to best reach this target group with RNOM products.

5.5. Market Promotion

Solid communication and market efforts will be needed to launch the RNOM program into restaurants, hotels, casinos, and supermarket segments. The promotion effort will be developed along with information collected from contacts made with sellers and consumers of NOM products.

The communication plan will vary depending on whether it is restaurant or supermarket outlets. For the supermarket chains, we will be focusing on different attributes such as product healthiness (Omega 3 and CLS) and meal solutions. For restaurants we will focus on taste, tenderness, quality of the product, and source of the product. The communication program will be coordinated with the meat broker, if one is identified early in the marketing effort.

The marketing plan will look at ways to differentiate RNOM products from existing meat products in the market place. This requires study of the response by end-users to their current suppliers and how to better satisfy their needs with RNOM products.

We will also evaluate when possible the logos and products of HGB and EROB in the market to determine if there needs to be improvement in the marketing package. We will encourage both programs to undertake product demonstrations so that we can ascertain consumer reaction to the products.

It is our intention to draw heavily on the success of New Zealand grass fed beef in conveying their messages of product quality and source recognition. We believe there is a lot to be gained from adapting some of their approaches to RNOM program.

We will set up a marketing promotion schedule that will be in lock step with the sales by a meat broker to effectively establish RNOM products in different target segments.

5.6. Linkages in the Food Cluster

An opportunity exists to position the RNOM program alongside other food and green industries in the Redwood Region. These include:

- Organic dairy production and processing (see Blake Anderson)
- Humboldt Creamery
- Loleta Cheese Company (Bob and Michelle Laffranchi)
- Sheep producers
- Goat producers
- Cyprus Grove Goat Cheese
- Eureka Fishers
- Oyster Producers in Humboldt Bay
- Lobster Cher
- Sunflower Bulbs
- Timber Companies
- Coastal Redwoods and tourism

The RNOM marketing program will look for ways to capitalize on efforts currently underway by each group and also examine establishing a seal of quality that can be carried in the retail counter for RNOM products. A meat purveyor in the San Francisco Bay Area could help to market an array of meat products from the Redwood Region.

Deliverable #3. Quantitative Product Supply Assessment

1. Executive Summary

Based on interviews with producers, the following steps are recommended for the production system of branded grass fed beef from the Redwood Region and centered in Humboldt Country.

- Need a core of 2,200 cows in the grass fed beef program. This will allow for 1,500 calves by year 3. This number of cows allows for a moderate acceptance rate at weaning and finishing stages. Cows can be either tattooed or micro-chipped to insure validity of the production program to potential market outlets. Calves can be ear tagged or tattooed.

- The number of producers required to supply these cattle will vary, but the best estimate is around 25 to 30 cow/calf producers having an average herd size of 75 to 100 cows.

- In the early years, the meat programs can continue to purchase cattle on the open market from producers. It is important that a core of cow producers commit to a local grass fed program. By year 3, closed herds would be needed reducing random purchases.

- Cows in the program will be in two groups based on when they drop a calf: either August – October or January – April. This will allow for year round supply of finished cattle.

- Producers will have a 90 percent or better calving rate. Calves will be weaned at the end of eight months at a weight of 625 lbs. Cattle will be ultrasounded and weighed. Cattle accepted into the program will enter into a pool of calves and will be valued based on a negotiated price over the local price as a basis. The pricing system needs to be negotiated in a transparent manner with the stakeholders.

- The next stage is the growing stage taking cattle to 800 lbs. The ADG is estimated at 1.50 to 1.75 lbs and take around 110 days to reach the target weight. Cattle will be inspected and either accepted or rejected into the finishing program. Cattle will be ultrasounded again. An average cost for cattle will be $.35/lb gained. The location of these animals for grazing will be determined by available acreage on either upland or bottomland and time of the year. The cost may increase if during the winter period.

- Cattle will be in the finishing stage approximately 100 days based on an ADG of 2.25 lbs/day. The average ending weight is 1025 pounds per animal. The cost of gain per day is estimated at between $.35 to $.55 per lb of gain. The higher price is due to feeding requirements during the winter months.

- Cattle will be moved to the slaughter facility for processing. The Redwood Meat Company will kill and process cattle into boxed meat and ground beef at $.70 per pound. Dressing percent is estimated at 58 percent. The total charge will be $325 per carcass. The average carcass weight is estimated to be 595 lbs.

- The value of the boxed meat on a carcass weight equivalent (cwe) at the plant is estimated at $ 1275/head. Cow/calf producers will get 61 percent of the boxed product on a cwe basis.

- Based on the retail survey for grass fed beef in San Francisco retail outlets, there is a satisfactory margin for the grass fed beef program organizer and the retail outlets. The program organizer is expected to receive a gross return from the projected sales in five years of $137,000 for 1,500 head per year.

2. Aspects of the Grass Fed Program

Limiting Factors.

An important initial finding is that the limiting factor in production will be available bottomland for 100% grass finishing so that cattle can be slaughtered at Redwood Meat Company. The initial estimate is that 1,500 acres could be the upper limit on available bottomland acreage. There is currently competition for available bottomland by dairies for raising heifer replacements and raising organic dairy meat for slaughter. Another possible limiting factor will be the carrying capacity of hillside pastures for wintering stocker cattle to go on bottomland grass in April.

Program Cattle.

An important consideration will be to correctly identify those cattle that are suitable on size and tenderness early in the production program so that time and money are not wasted on animals that will not meet the program standards. The use of ultrasound is a tool of choice.

Standards.

The RNOB producers will need to identify a set of basic standards that are needed for the cattle in the branded beef program. Minimum agreed standards by producers have to be adopted. These standards can be modified as the producers become more familiar with the program and the market's requirements. It seems a worthy goal that after three to four years that the program will produce beef that is certified as **ORGANIC - though this is not absolutely necessary.** Traceability will have to be a key ingredient in setting standards for the program. The standards need to be set relative to market demands and in negotiations between the grass fed producers association and the meat program organizers.

Maximizing Returns.

It will be important to allow producers to maximize their returns, not just on the program cattle, but also for cattle that do not make the branded grass-fed program and which are sold to other natural grass-fed programs such as Coleman and Western Grasslands (now Panorama Beef). This goal will benefit both the upland producers supplying stockers into the program as well as the bottomland finishers.

Pricing.

Sustainability of a branded grass-fed program means that producers will receive a price commensurate with the quality of their cattle at each production stage: stockers (600 lbs), feeders (800 lbs) and finished cattle (950 to 1100 lbs). Pricing will have to be transparent and easy to verify by all parties. Contract pricing can be implemented as well as the possibility for producers to retain ownership of the animals to the rail if necessary. Pricing can be set around several benchmarks:

- Local auction prices
- Contract buying by Coleman and Western Grassland
- Video auction prices from Humboldt Stockyards
- Grass fed special sales in other areas of California less transportation differentials
- Cost of production data
- Final retail price for branded beef less appropriate cost incurred from the farm gate to the retail counter.

There is certainly no shortage of price information to give sellers and buyers a good indication of the value of the cattle that go to either the RNOB program, a third party natural beef program, or to a conventional sales outlet (live or video auctions).

3. Production Stages.

Hillsides farms predominate in numbers and acres compared to available acreage in the bottomland. Hillsides farms are needed for raising 100 percent grass fed beef. The hillsides farms will have the following responsibilities:

Cow/Calf Stage

Individual farms will raise 100 percent natural weaned steers and heifers weighing an average of 625 pounds. The preference will be for cattle with a medium frame and a preference for Angus breed cattle. Other breeds like the South Devon could be considered.

Across all farms, cows and calves will have a similar production system with necessary vaccinations, castration and other preferred animal treatments. A third party auditor will inspect cows and calves to certify the quality and management system of the animals.

Performance data will be collected on cows and bulls to make decisions on retention of calves in the grass fed program. Tools to be used: visual inspection, breed, cow and bull performance (carcass and cut-out data from previous calves that went to slaughter) and tenderness (shear test) data, and ultrasound data. Calves will be selected for the pool at weaning. Cattle not showing the potential for meeting the standards of a 100 percent grass finished will be eliminated and the producer can sell through normal marketing channels. Cattle meeting the program will be ear tagged with the grass fed program logo and given a number indicating the cow and the farm of origin. The two present grass fed programs will be notified of the number of animals prospective suppliers have for the program.

Stocker/Background/Growing Stage

Cattle enter the 2nd phase of the program, backgrounding, and will be inspected and monitored. Animals may be retained on the hill farm or on another farm contracted to carry the animal to the finishing stage. Number of days in this second stage is 110 days and animals will have an ending weight of around 800 pounds.

Fattening/Finishing Stage

At reaching 800 pounds the animals are again screened and sorted. Animals meeting frame size and condition score will move to the final stage of finishing. Cattle will be on the bottomland but could spend some time on the hill farms depending on the time of the year. Cattle will be close to the slaughter plant to reduce stress during handling and hauling. Cattle deemed not acceptable to the meat programs will be sent to other natural grass fed beef programs outside the region, e.g. Coleman Natural Beef. The finished animal will weigh between 950 to 1100 pounds with an average of 1025 pounds.

4. Production Issues

Several production issues will be important to the success of the program:

1. Available bottomland is the limiting factor. The current slaughter of grass fed cattle is around 500 to 600 head per year. The first phase is to reach a slaughter of approximately 1,500 head per year without major structural changes in the slaughter house or in having to significantly increase the production costs because of intensification of systems for finishing cattle.

2. For a year round supply of cattle, the finishing stage during the winter will have to harvest forages for roughages and protein. This will require another dimension on forage production: perennials and annuals. The preferred hay will be a mixture of high protein legumes with some mixture of dried grass for roughages during the winter. It could be considered that grass fed beef during this period carry a disclaimer that cattle have been fed with other products that are still considered natural and plant based, no grain however. Country Beef in Oregon is using a mixture of potatoes and other agricultural by-products in their feed ration.

3. The third consideration will be the business model for the production stages. Cow/calf producers may wish to retain ownership of the animal until slaughter. If this is the case then an alliance of producers could form together to co-mingle their grass fed cattle into a pool. The producers would retain ownership, but likely not management responsibilities. These details will have to be negotiated between producers and meat program organizers.

4. There is the need to differentiate this product from its competitors on its location (local, even for San Francisco), health benefits, and environmental benefits. The goal that was articulated by stakeholders in the first producer meeting in May, 2006 was for producers to produce a quality, branded product. The brand will need to embed the production practices.

5. Production System

There is no one production system that can be called optimal for grass fed beef production in the Redwood Region. In fact in my discussion with current producers, they feel that they have a good handle on producing high quality grass fed beef. It would be presumptuous on my part to recommend something radically different. However, there are two important considersations.

1. Develop a system that integrates producers into the marketing program.

2. Provide a year round supply of high quality grass fed finished beef

The flow chart in Figure 3.1 is an illustration of number 1. The boxes and arrows show the flow of animals from cow/calf to final slaughter, fabrication, and sell of meat. At several junctions cattle can exit to the RNOB program and be sold to other grass programs.

The excel spreadsheet estimates the numbers and costs of producing grass feed beef for the program over five years. The estimate is for approximately 30 producers producing 2,600 cattle for the grass fed program annually.

6. Steps for Organizing a Grass Fed Producer Association

The following steps could be followed in organizing the grass fed producers.

1st. Conduct survey of potential producers. (This was done in May and June, 2006)

2nd. Hold several meetings with stakeholders to present the concept of a grass fed beef association and how to link with on-going marketing programs.

3rd. Establish a coordination committee to engage stakeholders in the purpose of an association and how it might be structured.

4th. Register the producers into the association after they have designed the association. Membership and contribution would be an indicator of participation.

5th. Undertake necessary training on the proposed system for raising calves and set minimum standards.

6th. Arrange for first group of stocker cattle to be pledged to the program.

7th. Monitor and evaluation the program for its effectiveness and fine tune the activities.

A forecast of the likely expenses and revenues for the grass fed producers association is presented in the following table. Based on a projected 28 members, the annual cost to the association is estimated at $338 per member in year 1 and then approximately $120 per member in each of the following years.

Cost Requirements for Grass Beef Association

	Years				
Investments	1	2	3	4	5
Ultrasound equipment (no=2)	$2,000				
Portable Digital weigh scale (no=1)	$500				
Microchip implant and reader	$500				
sub-total	$3,000				
Operating costs for association					
identifcation tags (cows and calves)	$2,453	$1,302	$1,432	$1,432	$1,432
Third party certification	$2,000	$2,000	$2,000	$2,000	$2,000
Legal advising	$2,000				
Sub-total	$6,453	$3,302	$3,432	$3,432	$3,432
Cash outflow	$9,453	$3,302	$3,432	$3,432	$3,432
non-cash replacement of equipment	$600	$600	$600	$600	$600
Annual Cash and Non-cash requirement					
Number of members	$28	$28	$28	$28	$28
Annual Cost per Member	$338	$118	$123	$123	$123

Figure 3.1. Flow Chart for Grass Fed Beef Production Program

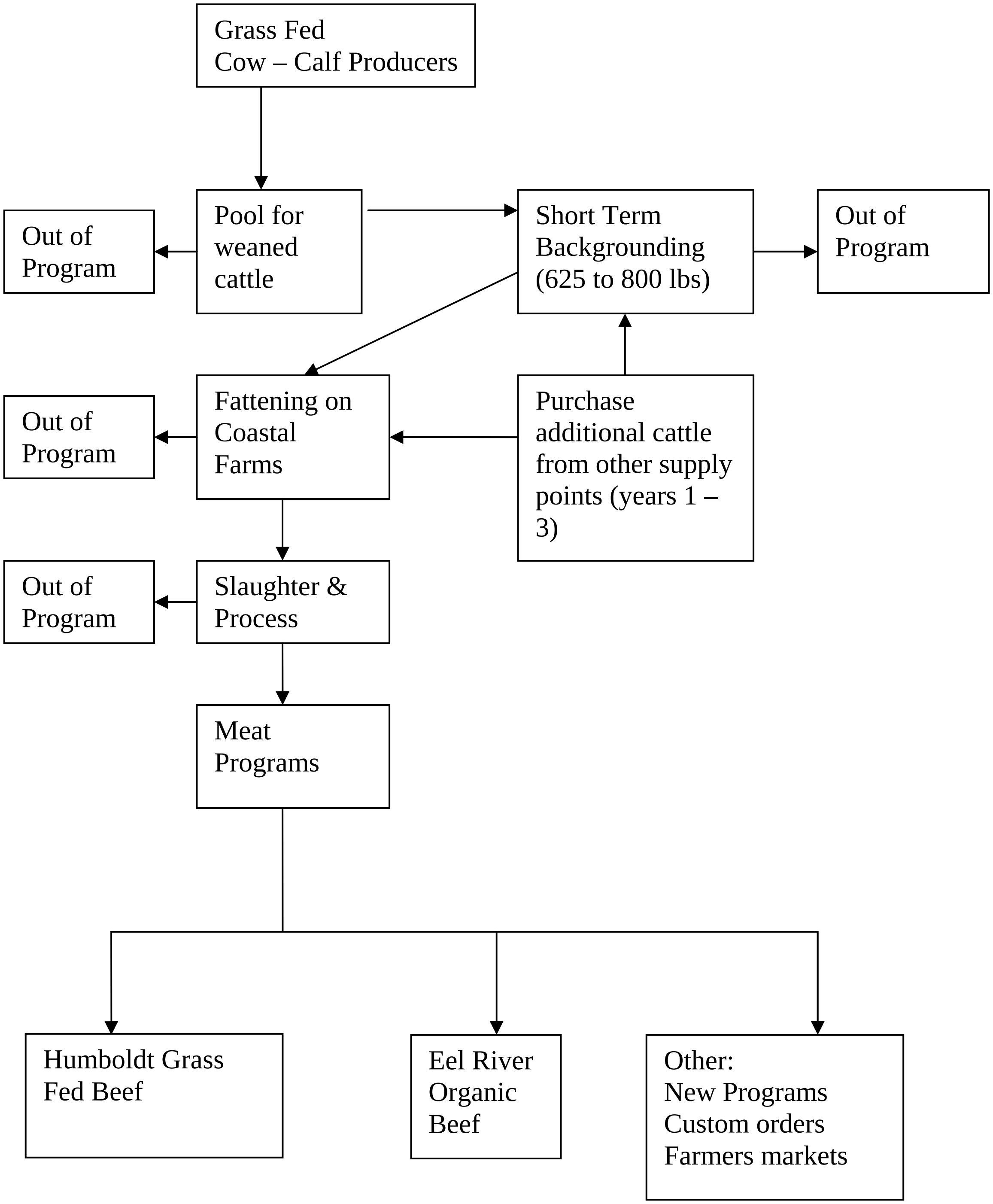


Table 3.1. Spreadsheet for Grass Fed Beef Production

Grass Fed Beef Projection

		YEAR					
	Units	0	1	2	3	4	5
Existing Farmers	no.	3	3	26	28	28	28
New Farmers Entering into Program	no.	0	23	2	0	0	0
Participating Farmers	no.	3	26	28	28	28	28
Average cow herd size	hd	100	100	100	100	100	100
Calving rate	%	90	90	93	95	95	95
Calves born		270	2340	2604	2660	2660	2660
Weaning Rate	%	99	99	99	99	99	99
Calves weaned	no.	267	2317	2578	2633	2633	2633
POOL FOR GROWING							
Weaned Calves Accepted into Pool	%	100	80	80	80	80	80
Weaned Calves into Pool	no.	267	1853	2062	2107	2107	2107
Average weight of weaned calves	lbs	625	625	625	625	625	625
Transfer to next year							
Average weight of feeders exiting pool	lbs	800	800	800	800	800	800
ADG during growing period	lb/day		1.50	1.60	1.70	1.75	1.75
Number of days in growing stage	no.		117	109	103	100	100
Animals injured or become sick	%		0.05	0.05	0.05	0.05	0.05
Percent of animals accepted into finish	%		75	80	80	91	85
POOL FOR FINISHING							
No. of program cattle entering finishing stage	no.	200	200	1482	1649	1916	1790
No. of head purchased for finishing stage	hd	400	600	-482	-449	-416	-290
No. of surplus cattle to other outlets	no.			482	449	416	290
Average liveweight of cattle entering	lb	800	800	800	800	800	800
Average liveweight of cattle exiting	lb	1025	1025	1025	1025	1025	1025
ADG during the finishing stage	lb/day	2.25	2.25	2.25	2.25	2.25	2.25
Number of days in finishing stage	days	100	100	100	100	100	100
Required Animals for Slaughter	hd	600	800	1000	1200	1500	1500
Surplus Cattle	hd						
Average Liveweight	lbs	1025	1025	1025	1025	1025	1025
Dress Weight Percentage	%	58	58	58	58	58	58
Average Dress weight	lbs	594.5	594.5	594.5	594.5	594.5	594.5
Returns to Grass Fed Producers							
Price per pound at entery into Grower Pool	$/lb	1.25	1.25	1.25	1.25	1.25	1.25
Gross Return per head	$/hd	781.25	781.25	781.25	781.25	781.25	781.25
Additional costs for ear tags, ultrasound	$/hd	25.00	25.00	25.00	25.00	25.00	25.00
Adjusted Gross Returns for Cow-Calf Producer	$/hd	756.25	756.25	756.25	756.25	756.25	756.25
Cow-Calf Producer Share of Final Boxed Meat	%	61.25	61.25	61.25	61.25	61.25	61.25
Returns to Growers of Grass Fed Cattle							
Cost to grow out cattle to 800 lbs	$/lb	0.35	0.35	0.35	0.35	0.35	0.35
Cost to grow out cattle to 800 lbs	$/hd	61.25	61.25	61.25	61.25	61.25	61.25

Returns to Finishing Stage							
Cost to finish cattle to 1025 for Group 1	$/lb	0.35	0.35	0.35	0.35	0.35	0.35
Cost to finish cattle to 1025 for Group 2	$/lb	0.55	0.55	0.55	0.55	0.55	0.55
Gross Revenues to Bottomland Finisher	$/hd	101.25	101.25	101.25	101.25	101.25	101.25
Returns to Slaughter and Process Stage							
Slaughter fee	$/hd	40	40	40	40	40	40
By-product credits	$/hd	40	40	40	40	40	40
Process and box the meat per pound	$/lb	0.6	0.6	0.6	0.6	0.6	0.6
Process and box meat	$/hd	356.7	356.7	356.7	356.7	356.7	356.7
Carcass Value as boxed meat	$/hd	1275.45	1275.45	1275.45	1275.45	1275.45	1275.45
Pounds of meat per wholesale box	lbs	594.5	594.5	594.5	594.5	594.5	594.5
Cost of product to the meat program	$/lb	2.15	2.15	2.15	2.15	2.15	2.15
Sale to Meat Retailer (FOB) Redwoood	$/lb	2.30	2.30	2.30	2.30	2.30	2.30
Return to the Meat Program per pound	$/lb	0.15	0.15	0.15	0.15	0.15	0.15
Return to the Meat Program per head	$/hd	91.9	91.9	91.9	91.9	91.9	91.9
Gross Revenues to Program Organizers	$	55140	73520	91900	110280	137850	137850

Deliverable #4. Market Development Plan

EXECUTIVE SUMMARY

A marketing plan is presented in this document. There are several key activities that the North Coast Small Business Development Center (NCSBDC) can undertake in fast tracking the marketing plan.

1st. Work with livestock producers to establish a producers' association. This association would be composed of both cow/calf producers as well as fatteners and finishers. The association will allow for the implementation of all the details of the production system.

2nd, The results of the marketing survey conducted in San Francisco Bay Area can be an important tool for educating potential clients in the meat program about the advantages of initiating a program with a Humboldt grass fed beef. The marketing survey contains important information on consumers' attitudes and purchasing intentions of a branded grass fed beef product from Humboldt County.

1. INTRODUCTION

This marketing plan is being developed for the Redwood Natural Meat Initiative. Mr. Sullivan began working on this project in 2005 when he was contacted along with several other candidates to respond to a Request for Proposal (RfP) to assist in design and implementation of a marketing program for livestock and meat development. Mr. Sullivan was interviewed by the selection committee and was chosen based on his proposal and qualifications in the marketing area. Several delays occurred before the contract was signed as the committee asked for a shortened project horizon and tasks to be completed. Mr. Sullivan submitted additional revised work plans and ideas. Finally the contract was signed in the first quarter of 2006.

Mr. Sullivan saw an opportunity to bring a marketing perspective to what had previously been a selling program. Mr. Sullivan visited the area and met producers with the assistance of Ms. Barbara Burke. A questionnaire was submitted to producers by Ms. Burke and Mr. Sullivan, Ms. Burke tabulated the data for a producer profile report. (Survey results are found in the 2nd quarter report.)

2. VISION

Grass fed beef is no longer a novelty in the supermarket shelf. Any branded grass fed product must compete against not only conventional grain fed beef, but beef labeled as natural, organic and grass fed. A vision statement is presented which captures the essence of producing grass fed beef in Humboldt County.

> Livestock producers of Humboldt County will operate livestock programs that will improve their livelihoods as well as sustain their local resources.

The vision can be applied to beef cattle, dairy cattle, meat, milk and cheese, goats, sheep, and even pigs.

3. GOALS

The following goals were articulated by stakeholders in the first group meeting in May.

1. Produce the safest and healthiest livestock for the highest quality and safest meat products for the market place and that does not harm the environment

2. Implement a marketing program that convey a positive image of Humboldt County and supports the producers to gain access to markets.

4. OBJECTIVES and ACTION PLAN

Each goal has an objective and a set of tasks to achieve the goal in the marketing plan.

<u>Objective 1. Design and implement a cost effective, year round production system for grass fed beef</u>

4.1. The Cattle Production Plan

4.1.1. Description of Activities

To achieve this objective, the marketing plan requires a coordinated production program that is 100 percent grass based. The plan requires a year round program if possible. We believe this can best be done by establishing a grass fed producer group/association for Humboldt County. (Other counties can be enlisted in a second phase). The association will include both hill and bottomland ranchers. The group will use the production assessment and plan provided by the consultant as a starting point. A goat and sheep section could be organized under the same umbrella or as a separate entity.

The group will organize and operate as a strategic alliance. Producers are independent but agree to participate based on their shared interests. A facilitator/manager will be elected by the group for a period of time and renewed once per year. This is a voluntary position.

Protocols for managing cattle for the program will be set out in Terms of Agreement by members of the association. This document will lay out the necessary conditions for:

- Standards for management of cattle and criteria for cattle to be accepted into the meat program. For example, it can be agreed upon that all cattle will have to be ultra-sounded at different stages to predict their tenderness

- Ownership of the cattle and if an opportunity for retention of ownership if appropriate and agreed to by all parties.

- Pricing of animals at time of conveyance of ownership

- Protection and exclusivity of the marketing brand for the live animals. For example, Humboldt Grass Fed Livestock Producer Association

- The group may chose to conduct activities on behalf of the membership in promoting grass fed livestock in and outside the region. These costs would be voted on by members.

- Recourse for arbitration to settle disputes in contract delivery terms.

- Other matters deemed important by the producers

4.1.2. Outputs Required

- Formation of the grass fed producers association

- Terms of Agreement for Management and Care of Livestock

- Issuance of a certificate by the association that cattle have adhered to basic standards

4.1.3 Time Frame

The formation of the association can be completed in 2007

4.1.4 Investments Required

Items which can be shared among producers

- Ultrasound machine

- Portable digital weigh scale

- Micro chip readers for identification of the animals (ear tags can be used in the beginning).

4.2 The Meat Processing Plan

The meat processing plan calls for animals to be slaughtered at Redwood Meats. The killing and processing schedule will be the responsibility of the individual entities that are selling to the retail, food service and individual accounts. Meat from the strategic alliance group could carry a seal that these animals originated, grown and slaughtered in Humboldt County. Each box would carry this seal. This may or may not carry forward on to the retail counter.

The processing would carry the following requirements agreed to by the sellers of Humboldt natural meats.

- Humane slaughter certificate (cost incurred shared among sellers and processing plant)
- Carcass has undergone electrical stimulation
- Cooling regime is outlined in a set protocols that is within USDA guidelines but allows for reduction in cold shortening of muscles
- Minimum number of days meat has been aged in cooler or in package before sold to consumers.

4.2.1. Outputs Required

Plant needs to obtain a certificate that it is conducting humane slaughter. The plant's management is looking into this certification.

4.2.2. Time Frame

The items proposed could be invested as retail accounts are added to the on-going programs. Most products currently being sold is in carcass form by HGB which has the larger volume of the two programs. If HGB is successful in expanding into the Bay Area then the investments are warranted. It is felt that current clients of HGB want to shift to boxed beef. If so then the vacuum packaging machine may be necessary sooner.

4.2.3 Investments Required

Electrical Stimulation of Carcass. Mobile unit can be plugged and unplugged on the kill floor for program cattle. Estimated cost is $2,000, and one unit is required.

Packaging Equipment. This will allow for good presentation of meat for self-service counters in San Francisco market. Cost = $75,000. (The vacuum packaging equipment will have to handle larger primal cuts.)

Refrigerated truck. As the volume of sales increases with expansion into the SFO Bay Area, a refrigerated truck would help to reduce transportation costs. Cost of truck is estimated at $100,000.

4.3. The Meat Marketing Plan

This plan addresses Goal #2 and fulfills Objective 2.

Objective 2. Conduct a professionally sound marketing plan that conveys the benefits of Humboldt grass fed beef products in the market place.

4.3.1 Overview

The North Coast of California encompassing Humboldt and Del Norte Counties is a unique and pristine area of California. The area has developed a strong set of agricultural clusters including livestock (meat and dairy), vegetables, fisheries, and other niche agricultural commodities. These clusters hold the potential for economic growth with sustainable use of natural resources.

Several niche businesses have been successful. Lolleto Cheese Company has grown their business from start-up to now selling a line of specialty cheeses. The organic milk industry has supported this development. The dairy specialty product cluster has linked forages, milk, cheese and even organically raised replacement heifers for dairy and veal operations.

There are livestock enterprises which are developing grass based systems. Grass fed beef programs are also developing with producers selling feeder and finished beef cattle. Producers are supplying weaned calves to natural and organic meat programs. Local and regional auction markets and direct sales by producers are occurring. There is a small number of branded beef programs, like Eel River Organic Beef and Humboldt Grassfed Beef, that are purchasing these animals from producers in the area. Individual producers are also developing direct marketing programs that could eventually become new businesses. In addition, there are outside companies contracting with producers to finish cattle and have them slaughtered locally or outside the local area.

Sheep and goat raisers also can be included under a grass fed umbrella program. Sheep and goat producers, though fewer in number than beef producers, are supplying animals, meat, and milk products to the local market. They have expressed an interest in knowing how to better market their finished products. The RNOM program needs to be inclusive so that new producers and products would have an umbrella of support under which to market.

4.3.2. Market Research

Market research was conducted in a variety of location and for market segments. Supermarkets receiving HGB in selected retail outlets in Northern California were contacted and the meat manager interviewed. Retail outlets were interviewed in the San Francisco Bay Area including Marin County, Oakland, Berkeley and Palo Alto.

Where HGB is being sold now, store manager expressed a very positive acceptance of the product, and the program has built a loyal customer base. The major comment by store managers was that the product was sold as carcasses. A meat manager would like to do more special ad promotions and sell more of a certain cut; and with the carcass program, this is not possible. In interviews in the Bay Area there was no interest by stores visited for carcass meat.

Perceived Qualities of Humboldt County. The pristine environment is well known among residents of SFO Bay Area. People were asked their impression of Humboldt County and the comments were favorable. Cattle production is an extension of this image with clean air and water associated with the area. The concept of the outdoors and cattle being free to range and graze elicits good reaction among consumers in the Bay Area. These are also associated with sustainable land use in conjunction with sound grazing practices. The Humboldt Area is considered by most respondents as being local and that carries weight in consumer perceptions and their buying behavior.

4.3.3. Marketing Strategies

Direct Selling by Individual Producers. This strategy involves each producer, whether in a group or as an individual, to direct market the meat product whether beef, lamb, goat meat or pork into the San Francisco Bay Area or other markets This strategy has several tactics.

- Farmer markets have been a mainstay for small producer groups. The Bay Area has many open markets on a weekly basis. This tactic relies on producers having available time to personally market their products. This tactic has proven somewhat effective for natural beef programs (Praether Ranch and Sun Marin), but it stretches out the time before reaching a critical mass of consumers. Also the natural meat market, with natural and organic, has become crowded with competitive products, domestic and imported, and it is important to get established in the market in relatively short time.

- Catalogue selling of a branded grass fed beef program is possible. Again, this would require that a mail order specialist be hired to create the marketing program that would need to go along with selling in a catalogue format. The target is to market a box of beef priced at under $100 and which can be shipped Federal Express to customers.

- A market promotion program can be made to wineries in the Napa Valley area to investigate co-marketing wine and RNOM products. There is opportunity to position Humboldt branded grass fed with a premium, branded wine.

- Internet sales. Eel River Organic Beef has its own web page and is selling product direct to consumers. More effort by other groups can be undertaken. The webpage needs to catch the consumer’s eye and be easy to access. A simple shopping cart with on-line billing is advisable.

Whatever tactic is taken, it is important that the perceived advantage is that each producer is the master of his or her own destiny. The downside is that the cost in producer’s time can be very high, e.g. farmer markets. It also eliminates some activities like communications where costs can be shared and overall cost per unit could be lower.

Broker for Natural Meat Products. It is advisable that the Redwood Natural Meat Program consider using the indirect approach. This strategy calls for partnering with a reputable meat broker in the San Francisco Bay Area. The consultant interviewed several brokers and this list was passed on to persons carrying out meat programs. Meetings between Humboldt Grass Fed Beef and several purveyors were arranged. One purveyor in particular showed interest in holding further discussions with the individual and groups of producers. This approach could be described as a collaborative selling where the members of the Redwood Natural Meat Initiative have access to this broker in a more collaborative relationship. Examples of the advantages would be:

- The group could bring food and beverage buyers to Humboldt County to meet producers and tour ranches

- The group could invite supermarket retailers to visit Humboldt County to meet producers and tour ranches

- The natural meat group could form an alliance with a specialty meat broker in San Francisco who could handle an array of natural meat products, not just beef but lamb and goat meat. (This has been discussed with a purveyor.)

- The natural meat group could better use transport from Redwood Meats by taking down full truck loads of beef, lamb and goat meat to San Francisco and thereby lower the unit cost of products

- Collaborative marketing would allow for presenting a harmonized and effective communication plan at a lower cost than would be available to individual producers. The image of Humboldt County could be better communicated. Generic advertising of special qualities of natural meat from Humboldt County determined in the market survey can be better communicated.

- Finally this approach would allow for the hiring of a local sales representative in the Bay Area who would be in the field constantly helping to promote the product and seek new accounts. This person does not need to be full time and could have other accounts and work. This person would frequent existing stores to check on the products and talk with meat managers or chefs.

The only disadvantage to a collaborative style of marketing for natural meat producers in Humboldt County would be that individuals will have to work in a group setting on these generic issues rather than alone as individuals. Cattle producers tend to be more individualistic in their business dealings.

Food Service Outlets. Food service includes hotels, restaurants and institutional outlets. This segment of the market could be easily exploited by Humboldt County grass fed meat programs with the help of a local broker.

- Fine Dining Restaurants. Grass fed beef programs can target up-scale restaurants. When in San Francisco, the consultant met with a chef in downtown district at a trendy restaurant. The Humboldt grass fed program was pitched to the chef at Petroccios. He was interested in trying the product as a main menu item. A local sales representative could be very effective in getting up-scale restaurants to carry the branded product.

- Family Dining Restaurants for non-premium steaks using the chuck, round and cubed steaks. This could be facilitated by a meat broker in the San Francisco Bay Area.

- Premium Ground Beef. The SFO Bay research uncovered the opportunity for a ground beef program. This program could have two classes of product: regular ground beef (<90% lean) and premium (>90% lean – meat from the sirloin).

- Hotels and Catering using non-premium roasts from chuck and round that is price competitive for the establishment. This could be for the buffet lines.

- Corporate cafeterias. With the early success of getting EROB into the Kaiser Permanente (KP) corporate cafeteria, with more leg work it would be possible to expand other corporate headquarters, like Oracle, in the Bay Area. These would be regular consumers that could then carry their purchasing over to retail outlets. These corporate outlets have many customers who are environmentally sensitive and also like to support local (California) products.

Retail Grocery Sales. The consultant conducted interviews in the SFO with prospective retail outlets. The contacts led to face-to-face meetings between Leland Mora and several prospective clients. In an email to me from Mr. Mora he felt that the meetings were fruitful, and he would continue to pursue development of sales contracts. Retail sales in San Francisco Bay Area would be a major step forward for the producers in Humboldt County.

There is one group of consumers that could be particularly targeted in the Bay Area. This would be older women in higher income brackets. The consumer survey indicated that this group of respondents had good opinion about the importance of a healthy meat product. The objective would be to link this group of consumers with retail outlets selling Humboldt grass fed beef.

4.3.4. Outputs Required

Several general outputs are required by different stakeholders to achieve the necessary results.

- Humboldt County will pass an ordinance that grass fed livestock have been raised under the environmental conditions set forth in a Clean Environment Decree.

- Develop grass fed beef producers association and issue a Certificate of Origination for Products from Humboldt County

- Branding of Humboldt County Products

4.3.5. Time Frame Required

The outputs mentioned above can be started within the next twelve months.

4.3.6 Investments Required

Humboldt County. The support of the county can be pushed by Headwaters Foundation through its various partner organizations in the county. The goal is to have a Seal of Quality that conveys the image of Humboldt County and the beef products.

Grass Fed Beef Producers Association. The formation of the association can be done through the help of the North Coast Small Business Center and the agricultural extension service in the county. The association would be best organization to push for necessary protocols and certifications about the cattle and the practices. The goal is for producers to be supportive of the grass fed beef initiative. The tactic is to start small and not to commit producers to more than they can handle in the first year. Program needs to grow in a way that product supply and financing are in synch.

Branding Efforts. Hire a representative in the San Francisco Bay Area who will be making follow ups to meat managers of retail stores to keep them focused on grass fed beef from Humboldt County. This person will aggressively push the brands of grass fed beef selling in the Bay Area. This person would be hired by the meat program organizers. The meat program organizers could invite chefs and other key decision makers in up-scale restaurants to Humboldt County. Meat Program organizers can conduct demonstrations regularly in supermarkets carrying Humboldt Grass Fed Beef

4.4. The Communication Message and Delivery

4.4.1. The Story

A clear and concise marketing story needs to be developed for grass fed beef from Humboldt County. The following subjects are needed in the communication package.

Producers. Consumers want to identify with the producers of the product they are buying. The consumer survey elicited strong preferences for certain characteristics about producers, particularly that they are smallholders and have a strong commitment to their land. This message can best be conveyed through the image of a group rather than one individual. For this reason the group over the individual is a key message point.

Livestock. Consumers want to know something about how the animals are raised and cared for. No antibiotics and growth hormones are clear message points. There is less understanding about the CLA and anti-oxidant properties. These will need to be reinforced by sound research and convey to the consumer. Care of the livestock is important. Some consumers interviewed mentioned their concern for animal welfare. More than a few consumers did not consume beef because of their views on slaughtering animals. Reduction of stress is another key point.

The Environment. Humboldt County carries cache with some consumers. It is seen as a pristine area and this image needs to be reinforced. For this reason, the government of Humboldt County can be proactive in its communication by supporting the image through acknowledgement of protecting Humboldt County environment. Food safety will need to be incorporated with the message about the environment.

4.4.2. The Communication Delivery Plan

The message will need to be delivered in a structured and systematic manner to achieve the greatest support for the grass fed programs.

The Target Audience.

The key target audience for grass fed beef is higher income households and preferably those with children. A segment of this population would be to target women who are the primary person making food purchasing decisions. The market research uncovered key retailers in the Bay Area that could be in the first round of interviews.

For the retail stores, in-store activities would be the first primary activities. This would include providing point of sale materials to shoppers in the target group. Cooking demonstrations would be important in the early introductory period. Follow up demos would be necessary as market conditions dictate.

Outside the Stores Activities.

The following would be undertaken:

- Newspaper articles during the introductory period. This builds excitement.

- Food editors for the Bay Area newspapers would be a good target for providing information about Humboldt grass fed products. A press release can be provided to food editors. (The consultant has spoken with the food editor for the San Francisco paper.)

- Meat Brokers: If a meat broker has been engaged to introduce the product, then the following should be done before starting the first delivery.

    1. Discuss in detail with the broker how they normally push a new meat product. Work on coming up with a unique delivery of information. Don't allow the broker to provide some canned program that is lukewarm and generic. Push the uniqueness of Humboldt grass fed products.

    2. Have a commitment from the broker that he will arrange for at least 3 -4 face to face meetings with retail or food service accounts. This is important in selecting your broker. Be sure that you have a sound package of materials and your presentation honed before the meeting. Work the prospective client that you agree to a follow up meeting.

- Invite chefs to a cooking demonstration with wine at a function for high end restaurants. A commitment was obtained from such the chef at Petroccios in the Bay Area. More of these can be done.

- Slightly more expensive is to invite key clients, e.g. chefs and other procurement officers, to Humboldt County for a field tour during the height of the production season.

- The meat buyer for a chain account could be invited to Humboldt County to see the system. Have the buyer meet some of the ranchers in the strategic alliance at a luncheon and then the buyer returns back the same day to San Francisco. The goal is to build loyalty and trust.

- Hire a local representative for the meat program in the Bay Area. This person could be a marketing specialist who is handling other meat accounts but are not seen as conflicting. Person will make regular visits to the supermarket chain. It is important to keep the meat program firmly on the minds of the meat managers in the stores. Keep the program fresh and alive; otherwise, meat manager will not get engaged with the consumer on your program. In the start up period more visits are needed. Twice per month. After a couple of months when representative feels that the program is catching traction then can cut back on visits. The representative could be the one doing the demos.

EEL RIVER

ORGANIC BEEF

Certified California Organic Farmers
CCOF

Certified Organic
by CCOF
HYDESVILLE,
CALIFORNIA
www.eelriverorganicbeef.com

OBJECTIVES

- PRODUCE THE FINEST QUALITY GRASS FED ORGANIC BEEF CONSISTENT WITH CCOF STANDARDS.
  - SUSTAINABLE LAND USE.
  - ANIMAL WELFARE
  - EFFICIENT ENERGY USAGE.
  - COMMITMENT TO WILDLIFE AND OUR ENVIRONMENT.

- **WE GUARANTEE** FAIR TREATMENT TO OUR RANCHERS AND PROCESSORS. Payment for livestock will be made within 48 hours of delivery. Processors will be paid for their work within seven days of putting the meat in the box.

- WE WILL CONDUCT OUR BUSINES WITH THE HIGHEST STANDARDS OF HONESTY AND INTEGRITY. We will stand behind our product and deliver the quality and quantities promised.

LUSH EEL RIVER RANCH

OUR PROTOCOL

- **100% ORGANIC GRASS FED CATTLE.**
- **Cattle from ranches certified by a USDA approved certifier.**
- **EROB will inspect all facilities monthly to insure they meet our requirements.**
- **Our cattle will live <u>100%</u> of their lives on organic certified pastures that are free of chemicals, pesticides, herbicides and chemical fertilizers.**
- **Any feeds, other than natural grass, will meet the same standards.**
- **Detailed records of each animal are maintained and available from birth through processing and distribution. Data on each box will trace the contents back to the animal.**
- **Cattle are finished on pastures in the Eel River Valley of California, the Chico area (Liano Seco Rancho) of the central valley or other approved pastures to insure year round quality and availability.**
- **All pastures, grass, alfalfa or mineral supplements must be USDA certified organic and approved by EROB.**
- **Cattle will be harvested between 16-24 months of age at 950 to 1150 lbs.**
- **Cattle will be of at least 51% Black Angus genetics.**
- **Most EROB cattle will have a minimum 55% yield.**
- **Harvesting will be done in USDA Certified Organic Plants. Current plants are Redwood Meats in Eureka and Johansen in Orland.**
- **Cutout statistics will be made available to our customers when they want them.**

ECONOMICS

- Eel River Organic Beef will pay its producers within 48 hours of delivery.
- Current cost to raise organic cattle in Northern California is as follows:

• Cost of 30+day old weaned calf (561 lbs)	**$803.00**
• 300 days on feed @ $1.34 per day.	**$402.00**
• Death Loss	**$ 8.03**
• Total Cost of Gain	**$1,213.03**
• Interest Cost (10% @ .000274 per day)	**$66.01**
• Freight	**$60.00**
• Insurance	**$2.00**
• Harvesting ($.45 lb.)	**$293.00**
• Marketing	**$15.00**
• Administration	**$75.00**
• Sub Total Direct Costs	**$511.01**
• **TOTAL COST TO PRODUCE ONE ANIMAL**	**$1,724.04**

- ***Our average yield has been running over 55% with average live weight of 1000-1150 lbs.***

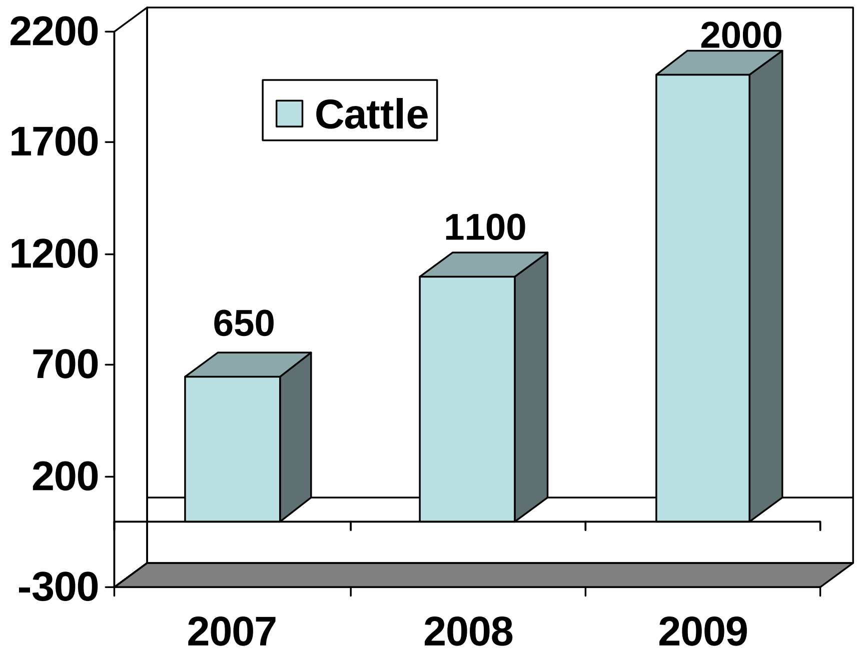
What is in it for us.

Break Even

	Price	Weight	Total
Cost	$ 2.65	650	$1,724.04
Sell	$ 2.95	650	$1,917.50
Gross Margin	$ 0.30	650	$ 193.46

- **Percent return on investment 11%**
- **Pricing will not reflect commodity beef fluctuations.**
- **Price changes will be necessitated by higher interest costs or other variables within our economic model.**

AVAILABILITY



- Product will be available in quarters, boxed primals and case ready vacpack.
- Pricing list herein requires Whole Foods to buy the beef in “cattle pack” configuration.

- Our objective is to sell 75% to dedicated contract customers and 25% of our production as branded consumer product.

CONTINUITY

- EROB is a made up of **independent ranchers** who have chosen to raise and market their livestock under strict, USDA approved, organic protocols.

- The ranches are equally spread between the **North Coast and Chico** area of the central valley. By so doing, we can take advantage of the natural climate differences between the two regions.

- Our processors were chosen for their organic qualifications and geographic location. We intend to minimize the use of energy at every stage of production.

- **<u>There will be no big corporate organization</u>**; only enough support to insure customer service and quality standards.

- As entrepreneurs, we recognize the need for profit and will seek a fair return on our investment. Pricing will be based on realistic costs to produce and process in California. Special requests for incremental marketing services (demos, advertising…..) will be added to our standard pricing.

- EROB is insured, prepared and dedicated to the growth of the organic meat industry. At no time will we jeopardize our values in pursuit of profit!

STRATEGY

- We are marketing the Eel River Grass Fed Organic brand in Northern California and nationally on our website: www.eelriverorganicbeef.com.
- We wish to partner with Whole Foods to provide them with a reliable, high quality source of organic beef. In so doing, EROB and its partners will have a steady outlet for its produce.
- To further this objective, we invite Whole Foods personnel involved in procurement, to visit our ranches and processors.
- Eel River Organic is not a conglomerate; it is, simply, a few ranchers and processors who market a quality product at a fair price.

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