



NSW Agriculture

Connecting to a beef end market

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David Llewelyn¹

Livestock Officer (Beef Products)

THE PURPOSE OF CONNECTING TO A PARTICULAR BEEF MARKET

Target marketing means establishing dedicated production and supply into an end market of your choice. This is usually part of a long-term strategy which is established for the convenience and business advantage of all participants in the particular chain.

It is a far cry from spot selling, which is determined only by an individual's wish to get rid of stock on hand. Some beef producers consider they are already committed to a particular market but in reality they are still day to day traders (i.e. spot sellers) with little or no commitment beyond the farm gate.

This article describes the process of moving towards a 'beef market connection' that can be used to enhance future business activities.

WHY BOTHER?

For a beef producer, the purpose of connecting to a particular beef market is to establish a position from which to base future trading activities. Again, this is a long-term view.

HOW DO I CONNECT?

For beef cattle producers, this may involve one or more of the following steps:

- getting to know and understand your customer's customers;
- establishing a direct trading routine with one specialist market outlet, capable of supplying full market feedback and product compliance information – this may or may not be a forward contract arrangement;
- taking equity further down the chain, e.g. by owning a butcher shop or forming a partnership with a processor or other end-user;



- joining an alliance with a ready-made market outlet;
- partnering a retailer, wholesaler, finisher or backgrounder.

PERSPECTIVE

At one end, store cattle breeders are usually the people furthest removed from an end market. They know how much their cattle sell for but often not for what purpose they were purchased.

Many different types of buyers may in fact bid for their stock over a period, and it is therefore difficult to set any objective parameters for their breeding and production.

On the other hand, larger producers with integrated finishing operations can more commonly turn off lines of stock into specific end user markets, thus learning of their market requirements through first hand experience.

MEASURING PERFORMANCE

Market performance is usually measured in terms of:

- delivery capabilities;
- compliance with customer requirements;
- consistency over time;
- satisfactory remuneration.

Advantages of measuring performance are:

- Knowledge of good performance in a market over time encourages repeat business.
- Knowledge of average/poor performance in a market establishes a position from which to plan improvements, or move to a market that is more appropriate for your stock.
- No knowledge of performance is a no-win position in any business terms.

¹ David is the Team Leader in the Beef Market Development Group

PRODUCERS OF SMALL LOTS OF CATTLE (5–50 HEAD)

Low-volume producers will always have difficulty creating leverage in the market unless they employ lot-building strategies, based on effective market and livestock coordination. Such options are available to groups of producers prepared to work together to make it happen.

Where producer groups do achieve critical size, they have to work hard to remain connected to their markets and not simply default their responsibilities to their coordinator or coordinating agency.

On any given property, four to five turnoff lines will usually exist, i.e. a main steer market, a secondary steer market, a prime heifer market, a prime cow market, a manufacturing cow market and possibly re-stocker lines. It is important that attention be given not only to marketing the whole crop, but also to selecting carefully and value-adding certain classes of stock when margins dictate.

SPECIALISED NICHE MARKETING

Most beef product is traded in the commodity market. However, as beef operations grow to critical mass and become more controlled through an increased knowledge of the supply chain, then opportunities arise for specialised niche marketing of feeder steers and meat products.

This is usually a long-term business.

In the case of feeder steers, this may involve forward contracts and in the case of meat products, it may involve establishing a completely new business that requires capital funding for research and development, pilot testing and time to develop and/or acquire new skills. Professional assistance in this area is highly recommended to establish just where to step in to the marketing chain, who to do business with and to confirm a viable scale for operations.

There is no substitute for experience in this area and a variety of commercial options are available from which to investigate retained ownership and to start to learn more about a potential customer's requirements.

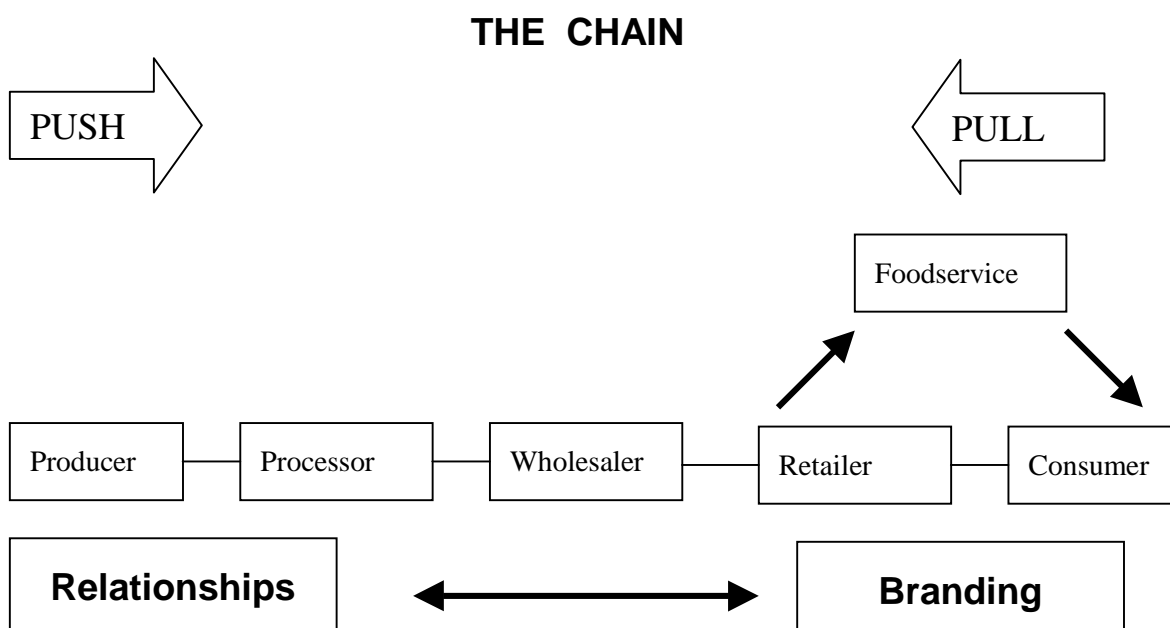
WHOLE CARCASS DISPOSAL

Most niche marketers have been tempted to capitalise on high mark-ups for trading selected primal cuts but the real profitability test depends on establishing a market for a variety of items from the whole carcass, including trimmings, secondary cuts, reject carcasses and by-products such as hides and offal.

Retaining ownership beyond the processor's back door can increase returns but it certainly increases the risks involved when dealing with many customers and many different products.

BUSINESS DEVELOPMENT

Successful downstream marketing businesses go through a common cycle of development, usually starting with relationship building at the front end and progressing to brand recognition for their products once they have established themselves commercially.



The sequence of development described above can vary widely and spasmodically with numerous 'go, no go' steps and just as many position reviews and re-evaluations. The whole exercise requires considerable stamina, forward planning skills and a carefully thought out budget.

Along the way there will usually be several feasibility studies, a business plan, contract killing and boning exercises, quality assurance documentation, partner selection choices, supply coordination options, customer surveys and process evaluation and monitoring.

It goes without saying that successful downstream businesses need to offer something to their customers that goes beyond normal business dealings.

It might be guaranteed year round supply, a documented high compliance to end user specifications, one hundred percent traceback through an externally audited QA system or perhaps joint ownership of a regional pasture-fed beef brand of well known origin. It could embody product attributes not easily sourced elsewhere, such as organic beef or long grainfed beef, or it could be as simple as stated and delivered guarantees on eating quality.

BEEF BUSINESS

As in any business there are always expectations on product delivery and client service. It is better to under-promise and over-deliver than to over-promise and under-deliver, as the former approach builds confidence.

The beef business is all about understanding where you sit in the marketplace and how you are currently positioned, and taking steps to align and develop your future options. This invariably involves good market intelligence, a commitment to market development, a strong customer focus and consistency in mainstream turnoff and beef products.

In short, a target marketing approach is called for, together with a realistic evaluation of your resources and capabilities.

SUMMARY

The reason for committing to an end market rather than spot selling is to increase competitive advantage in *that* market and to develop a track record. This can be done through improved customer and product knowledge and by reducing product wastage and downgrading, thus minimising the discount factor and increasing supply chain efficiency.

It is important to monitor the margins available and the cost of production at the various stages, and to establish market benchmarks for product performance.

However, locking in to *one* market end point for mainstream turnoff may not suit all players, nor all herds. Markets need to be developed on a 'costs plus' basis and a satisfactory fallback position should not be overlooked.

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