

**A Market Analysis for Specialty Beef in Virginia**

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## **Abstract**

Virginia beef producers have been overwhelmed with increasing costs and decreasing profits as well as facing challenges such as development pressures, drought, increasing competition for grazing land. Together these have reduced opportunities for expansion and often increased incentives for farmers to sell land for non-agriculture use. Nevertheless, opportunities exist for the Virginia beef market. Consumer demand is changing and consumers are seeking food from alternative production systems based on attributes related to human health, environment, animal welfare, and other social concerns. Consumers are also interested in increasing their consumption of locally produced foods. Specialty beef such as natural, organic, and pasture-fed addresses the changing consumer demand and provides alternatives to commodity beef production. This thesis analyzes the potential for and the constraints to specialty beef producers in Virginia to sell their beef through alternative market outlets such as large retail outlets, specialty stores, restaurants, or direct to consumers. The study will research the potential demand for specialty beef through alternative market outlets, the market entry requirements to supply specialty beef to these alternative outlets, and the potential for Virginia's specialty beef producers to serve as suppliers to these alternative outlets. A survey is used to evaluate these alternative markets and determine if they present an opportunity for Virginia producers of specialty beef.

The results of this study will evaluate the viability of selling and buying between producer and retailer and offer valuable information and recommendations to Virginia specialty beef producers about the potential and requirements in each of these markets.

## **Acknowledgements**

As another chapter in my life comes to an end, completing this thesis marks the beginning of my life as a professional. It is my pleasure to thank the many people who made this thesis possible and supported me throughout my college experience. Specifically, I would like to thank my family, Mom, Dad, Angel, and Derek as well as my extended family who provided their constant love and support and my friends who always knew how to make me laugh and help me keep my sanity. I am grateful to have worked with a committee who provided wonderful guidance and exhibited a true interest in my college experience. I am thankful for the Department of Agriculture and Applied Economics for the exceptional learning opportunities I was given and a special thanks to Marilyn for being a vital part of this department. It is hard to overstate my gratitude for my advisor Dr. Mainville. With her inspiration, and great efforts to explain things clearly and simply, she helped me to thoroughly enjoy my research. Throughout my thesis-writing period, she provided encouragement, sound advice, good teaching, good company, and lots of good ideas. I would have been lost without her. Additionally, I would like to extend my appreciation to all those who provided information for this project through personal interviews whose expertise was instrumental to this research. A special thanks also goes to Sustainable Agriculture and Research Education (S.A.R.E.) for funding this research and providing me with an opportunity to learn and help Virginia specialty beef producers.

Finally, I would like to dedicate this thesis to my Uncle Johnny Waddle, a well-known beef and dairy cattle producer in Southwest, Virginia who passed away during my last year of graduate school. His knowledge of the beef cattle industry was extraordinary and is missed by so many. I miss him everyday but am truly grateful for his excitement and unique insight he always offered me during my research.

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# **Chapter One**

## **Introduction**

### **1.1 Problem Statement**

Virginia beef producers have been overwhelmed with increasing cost, decreasing profits, urbanization, and bad weather leaving beef producers facing many different issues and challenges. Beef is the second largest agriculture commodity in Virginia behind poultry bringing in \$430 million in cash receipts in 2007 (NASS, 2009). However, producers are faced with many barriers to running a successful operation. The market is dominated by small, part-time producers with 71% of Virginia beef farms having fewer than 50 cows and an average farm size of 171 acres (NASS, 2009). Another constraint is the expanding urban population which increases competition for pasture and cropland and reduces opportunities for expansion due to the increased demand for land for non-agricultural purposes.

These issues make owning and operating a profitable beef cattle operation challenging for beef producers in Virginia. Nevertheless, changing demand is also presenting some opportunities for the Virginia beef market: Consumers are increasingly seeking food whose attributes they associate with human health, environmental benefits, animal welfare, and other social concerns. Consumers are also interested in “eating local” and having a personal relationship with the person who produced their food as well as playing a part in contributing to the economic well-being of their community. Producers who can provide the attributes demanded by consumers may be able to gain a price premium over traditional commodity markets thus potentially increasing their profitability and the economic viability of their farming operations.

Throughout Virginia and in numerous other states, as producers, consumers, and policy makers learn more about the specialty beef markets, their enthusiasm and desire to invest in this market segment grows. This enthusiasm is leading to calls to address perceived bottlenecks in the marketing chain, for example through investments in beef processing facilities, without adequate assurance that the market will be able to absorb the increased volume once the bottleneck is relieved. Thus, it is crucial to understand the potential for different market outlets for specialty beef, both to help producers expand their marketing options as well as to help inform investment decisions. While many of Virginia's beef producers are currently seeking to capitalize on growing markets for specialty beef by direct marketing; there is still a lack of information about other market outlets and the opportunities and challenges that they present to producers who might sell through them.

## **1.2 Objective**

This research will evaluate potential marketing outlets for specialty beef that possess the attributes of organic, grass-fed, and natural at chain retailers, specialty retailers, restaurants, institutions, and direct market outlets in Virginia. The analysis will focus on each alternative market outlet and the potential for Virginia's producers to meet the outlets' diverse procurement, logistical, and organizational requirements. The research will address three specific questions:

1. What is the potential demand for specialty beef through alternative market outlets?
2. What are the market entry requirements to supply specialty beef to these alternative outlets?
3. What potential do Virginia's specialty beef producers have to serve as suppliers to these alternative outlets?

Specialty beef is defined in this paper as beef with differentiated quality attributes for which a producer receives a premium price. Many attributes contribute to differentiating beef but in this paper organic beef, grass-fed beef, and natural beef are the main types focused on.

### **1.3 Methods and Data**

Three retail and direct marketing surveys (Appendix A, Appendix B, Appendix C) will be used to evaluate the market structure of alternative market outlets and determine if the outlets present an opportunity for Virginia producers to market their specialty beef. The survey will use a qualitative research approach with semi-structured interviews of the beef buyer or direct marketer. These interviews are conducted in person at the place of business. Results will support conclusions as to whether or not the retail and direct-to-consumer outlets are potential market outlets for specialty beef in Virginia.

### **1.4 Organization of Thesis**

This thesis will examine the market for specialty beef produced in Virginia with the objective of providing insight into the opportunities and constraints that exist within the market especially with respect to potential alternative market outlets. Chapter 2 will present background information of the evolving trends in attributes demanded by consumers in food markets in general, consumer demand for beef, the relationship between specialty beef and the new attributes demanded by consumers, and the current market structure and supply of Virginia's direct marketed specialty beef. In Chapter 3, the conceptual framework and hypotheses guiding the research will be outlined. The conceptual framework will be based on a review of literature looking at retailers' and direct marketers' merchandising, procurement, logistics, organizational, and relationship decisions as well as requirements for the buyer and seller when marketing perishable products. Chapter 4 will report the results from the interviews of buyers for

alternative market outlets. These results will be discussed in Chapter 5 with the discussion also taking into account existing information on specialty beef market structure in Virginia in order to identify the most promising market outlets as well as constraints that need to be addressed. Finally, the thesis will conclude in Chapter 6, with a discussion of the implications of the research, limitations of the study and future steps that can be taken to build on the research results.

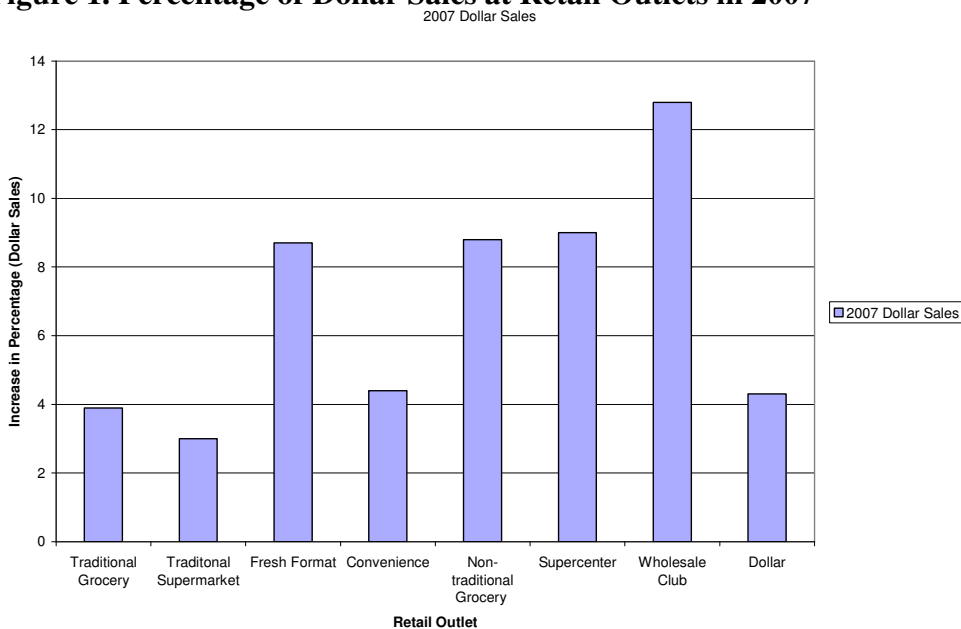
## Chapter Two

### Background

#### 2.1 Consumer Demand for New Attributes

Consumers choose food that maximizes their utility and contributes to their sense of well being (Kohls, 2002). Over the past few years, many changes in consumer demand and lifestyles have taken place driven by demographic shifts, economic factors, increasing ethnic diversity, and consumers' evolving tastes and preference (Kinsey and Senauer, 2006). The attributes that are increasingly being sought by today's consumer include nutritional benefits, food safety, convenience, animal welfare, environmental welfare, locally raised, and quality (Huang, 2006; Abdalla and Shaffer, 1997). This is leading to changes in how and where consumers do their food shopping with consequent changes for agri-food market structure.

**Figure 1. Percentage of Dollar Sales at Retail Outlets in 2007**



Source: Willard Bishop Retail Report (2008).

For more than 75 years, supermarkets have been the main place for grocery shopping for Americans (FMI, 2004). Today, consumers have options to shop at traditional and non-traditional grocery stores that are offering non-food options such as gas and banking, traditional supermarkets, natural stores (e.g. Whole Foods), convenience stores, supercenters (e.g. Walmart), wholesale clubs (e.g. Sam's Club), and dollar stores depending on what they are looking for in a shopping experience as well as the attributes they demand (FMI, 2004). Figure 1 represents the growth in sales during 2007 among these food outlets according to a 2008 study conducted by Willard Bishop, a retail consulting company. Traditional supermarkets and groceries have seen little sales growth while non-traditional groceries, wholesale clubs, supercenters, and natural food stores (referred to as "fresh format" in the graph) had an increase in sales during 2007. Non-traditional groceries are taking sales from traditional outlets because of their ability to offer customers the convenience of one-stop shopping including non-food options such as gas, a pharmacy, even banking within one store while wholesale clubs and supercenters offer customers the ability to offset the rising price of food. (Sowka, 2008).

Even though market share is small for natural stores, sales are growing rapidly. This growth is attributed to the growing trends of consumers' interest in natural and organic foods (Sowka, 2008). The sale of food purchased directly from the farm or from farmers' markets is also increasing (USDA, APHIS). Even though direct marketing accounts for less than 2% of the food market share, consumers are attracted to direct market outlets because they can support local farmers, can obtain fresher products, can make a personal connection with how their food was produced (USDA, APHIS).

An important factor consumers base their purchase decisions on is the need for convenience in both their food and the food outlet (Farm Foundation, 2006). Convenience is provided by traditional supermarkets and groceries because they are considered to be easy to get

in and out of quickly due to their simple and convenient store layout (Davis and Stewart, 2002). Consumers have also shifted their preferences to convenient “mealtime solutions” which have caused an increase in purchases of foods that require minimal preparation (Kinsey, 1998).

Lifestyle changes affecting food shopping and preparation behavior include an increasing number of women in the workforce, limited commitment to food preparation, and a greater number of single heads of households. These changes are not only driving the demand for convenience in food preparation but are also attributed to the rise of food safety concerns in the food chain due to improper handling and preparing of foods (American Meat Institute, 1996 apud Collins, 1997). Food safety is a vital factor driving consumers’ purchasing decisions for meat in particular (Davis and Lin, 2005, Flake and Patterson, 1999) and food-borne illnesses have been shown to decrease the demand for meats including beef significantly (Flake and Patterson, 1999). In recent years beef food safety recalls have been on the rise and have caused consumption of beef to decline; therefore it is critical to maintain a safe supply of beef to maintain consumer confidence (Mintert et al, 2009). For example, the discovery of Bovine Spongiform Encephalopathy (BSE) or “mad cow disease” in the United States in December 2003 and then again June 2005, resulted in reduced domestic demand for beef as well as bans on U.S. beef by major beef importers such as Japan and Korea (Mattson et. al, 2005).

Within the past decade, consumers have also significantly increased their demand for products that provide enhanced health benefits. Consumers demand products that are low in fat, low in calories, can help to lower cholesterol, and are also healthy for their hearts (Davis and Stewart, 2002). According to a recent study done by the Food Marketing Institute (2008), 41 percent of retail shoppers are “very concerned” about the nutritional content of the foods they eat, and 47 percent are “somewhat concerned.” In a study done by Colorado State University (2000), consumers ranked no hormones and no antibiotics as well as environmentally friendly

production practices as the most valued attributes in livestock production (Grannis and Thilmany, 2000).

Many consumers are increasingly concerned with how animals are raised, transported, handled, and processed and seek assurances that food animals are treated humanely during their lifetimes (Rollin, 2004). For example, an incident of animal abuse such as the highly publicized 2008 video of workers at the Hallmark Meat Packing Co. in California trying to get cattle to walk into the slaughter house increased consumer sensitivity to animal welfare issues (USDA, 2008). As the issue of animal welfare has become increasingly prominent, consumers have taken an increasing interest in farm animal living conditions, management practices, transportation, and slaughter (Farm Foundation, 2006). In the 2008 election, California voters passed Proposition 2, an animal's rights measure that prohibits the confinement of farm animals in a manner that does not allow calves raised for veal, egg-laying hens, and pregnant pigs to lie down, stand up, fully extend their limbs, and turn around freely (California Election, 2008). Thus, there is a lot of consumer pressure to address animal welfare issues in North America which will likely result in continuing demands for change in some existing animal production systems (Rollin, 2004).

To help meet the growing demand for products produced in a way that protects animal welfare, there are certified humane programs available for livestock producers in the United States. Examples of these programs include *Animal Welfare Approved* from the Animal Welfare Institute and the *Certified Humane Certificate Program* from Humane Farm Animal Care which provide certification to farmers who have complied with and followed the standards and rules set to ensure animal welfare and humane treatment of animals on their farm (Animal Welfare, Institute, 2008; Humane Farm Animal Care, 2008). Examples of practices that qualify a product as certified humane include not using cattle prods or all terrain vehicles while working cattle in a

chute; as well as only touching and interrupting the herd's environment when absolutely necessary.

Concern for and preservation of the environment is another major issue facing animal agriculture in the United States (Farm Foundation, 2006). Consumers want a product whose production and marketing cause minimal environmental impact (Flake and Patterson, 1998). The public is greatly concerned with the air and water quality around them and is becoming less tolerant of animal production processes which impede their perception of desired environmental welfare (Abdalla and Sahffer, 1997). In particular, the public is becoming more concerned with pollutants associated with manure at Concentrated Animal Feeding Operations (CAFOs) (Centers for Disease Control and Prevention, 2004).

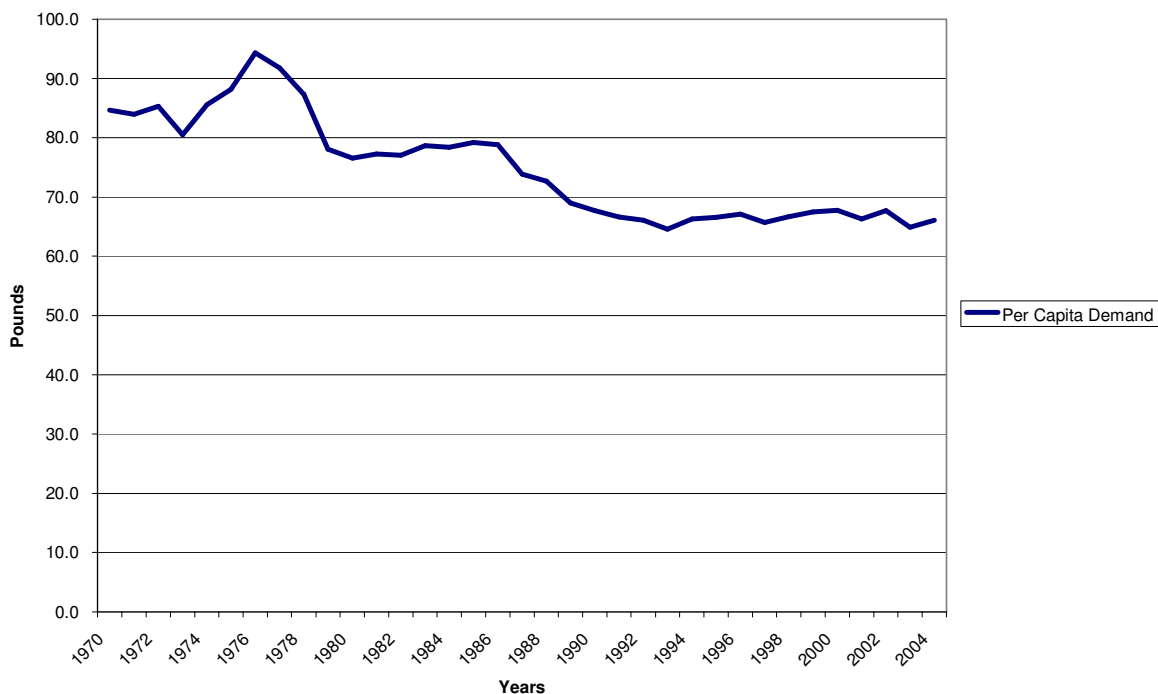
A final trend affecting demand for food and meat in particular is the growing local foods movement. Today's consumers often associate the term "local" or "family farm" as a measure of product quality (Flake and Patterson, 1998). Many consumers also associate locally produced products with other attributes they desire including food safety, animal welfare, and environmental welfare (Roosevelt, 2006; Hastings, 2006; Palm Beach Post, 2008; Nair, 2007). Consumers feel that by purchasing local foods, they are playing an important role in the economic sustainability of agriculture as well as their community (Roosevelt, 2006; Hastings, 2006; Palm Beach Post, 2008; Nair, 2007).

## **2.2 Consumer Demand for Beef**

Americans consume 67 pounds of beef per person in a year (USDA, ERS, 2004). In fact, according to the National Cattlemen's Association (2008), nearly nine out of ten U.S. households consume beef at home at least once every two weeks. Beef is rich in Vitamin B12, iron, and zinc

helping to fulfill recommended daily requirements (Davis and Lin, 2005). Beef is the most popular of all red meats, accounting for 56% of all red meat (beef, pork, lamb, and veal) consumed in 2004 (USDA, ERS, 2005). For years, beef has also been regarded as an excellent source of protein as a 3 ounce portion of lean beef can provide a person 50% of the daily value of protein needed (USDA, 2002).

**Figure 2. Change in Per Capita Demand for Beef**  
Per Capita Demand of Beef



Source: Red Meat Yearbook (USDA, ERS 2004).

However, as shown in Figure 2, beef demand declined more than 10lbs per capita dropping from 78lbs to 64lbs between the years of 1986 until 1993 (USDA, ERS 2004). This decline is attributed to a number of reasons including the increasing concern about fat and cholesterol in meat, the beef industry’s inability to meet consumers’ demand for convenience, and the increase in the demand for poultry products (National Cattlemen’s Beef Assoc., 1998).

This long-run decline spurred the industry to design more effective marketing strategies and programs to better meet the demands of consumers which are credited with helping to stabilize beef consumption since 1994 (Davis and Lin, 2005).

The concern about calories, fat, and cholesterol is a major factor influencing the demand for commodity beef and the preferred cuts of beef (Davis and Lin, 2005). From 1982 through 2004, beef demand declined about 9% because of an overwhelming response to medical studies linking fat in the diet with cholesterol and heart disease. However, the low carbohydrate diet craze that began in 1998 boosted beef demand by 2% though its effects were temporary and dissipated within a few years when negative information was published regarding the diet (Mintert, et al. 2009).

In 2003 and again in 2005, the United States beef industry faced major problems with the discovery of bovine spongiform encephalopathy (BSE) or “mad cow disease” in U.S beef animals. This caused beef consumption to draw major attention from a food safety perspective and in fact, according to Mintert et. al. (2009), the 2007 recalls caused a 2.6% decline in beef demand. The issue of food safety has been growing according to a Kansas State (2009) study that showed beef food safety recalls have also increased in recent years; with nearly a doubling of the number of recalls (from 20 to 38) between 2006 and 2007. Many consumers feel these recalls reflect a failure of the food safety assurance system to ensure consumers’ access to safe food (Mintert et. al. 2009.)

### **2.3 Relevance of Specialty Beef to the Evolving Demand Trends of Consumers**

The United States commodity beef market is broadly recognized as lagging in responding to the changing and diversifying of new attributes demanded by consumers (Kohls and Uhl 2002;

Purcell 2002). In contrast, specialty beef including organic<sup>1</sup>, grass-fed<sup>2</sup>, and natural<sup>3</sup> when direct marketed to consumers or sold to local buyers addresses changing consumer demand and provides consumers and producers with alternatives to commodity beef markets.

Organic beef farming relies on ecologically based practices such as cultural and biological pest management, and the exclusion of synthetic chemicals, antibiotics, and hormones during production (USDA, 2006). According to the USDA, organic farming is one of the fastest growing divisions of U.S. agriculture (Dimitri and Greene, 2002). Consumers look to organic beef for attributes including health benefits, food safety, animal welfare, environmentally-friendly production, and other social benefits (Huang 1996). The USDA's National Organic Program Standards must be met if beef is to be certified organic. Acquisition and maintenance of organic certification requires strict documentation of methods and inputs used during production, handling, harvest, and processing (USDA, 2002).

Natural beef is also growing more popular. The USDA defines natural beef as beef from livestock that have been raised entirely without growth promotants, antibiotics or given animal by-products in their feed (USDA, AMS, 2009). More commonly, consumers associate natural beef as beef raised without the routine use of antibiotics or growth hormones (Boland and

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<sup>1</sup> Certified organic beef must meet USDA National Organic Program standards (2008). The USDA standards were set for all food labeled organic by the Organic Food Production Act in October 2002.

<sup>2</sup> The USDA's definition (2007) of grass fed beef states that grass and forage shall be the feed source consumed for the lifetime of the ruminant animal, with the exception of milk consumed prior to weaning. The diet shall be derived solely from forage consisting of grass (annual and perennial), forbs (e.g., legumes, *Brassica*), browse, or cereal grain crops in the vegetative (pre-grain) state. Animals cannot be fed grain or grain byproducts and must have continuous access to pasture during the growing season. Hay, haylage, baleage, silage, crop residue without grain, and other roughage sources may also be included as acceptable feed sources. Routine mineral and vitamin supplementation may also be included in the feeding regimen. If incidental supplementation occurs due to inadvertent exposure to non-forage feedstuffs or to ensure the animal's well being at all times during adverse environmental or physical conditions, the producer must fully document (e.g., receipts, ingredients, and tear tags) the supplementation that occurs including the amount, the frequency, and the supplements provided.

<sup>3</sup> The USDA's definition (2009) for naturally raised beef is livestock used for the production of meat and meat products that have been raised entirely without growth promotants, antibiotics (except for ionophores used as coccidiostats for parasite control), and have never been fed animal (mammalian, avian, or aquatic) by-products derived from the slaughter/harvest processes, including meat and fat, animal waste materials (e.g., manure and litter), and aquatic by-products (e.g., fishmeal and fish oil). All products labeled with a naturally raised marketing claim must incorporate information explicitly stating that animals have been raised in a manner that meets the following conditions: 1) no growth promotants were administered to the animals; 2) no antibiotics (other than ionophores used to prevent parasitism) were administered to the animal; and 3) no animal by-products were fed to the animals. If ionophores used only to prevent parasitism were administered to the animals, they may be labeled with the naturally raised marketing claims if that fact is explicitly noted.

Schroeder, 2002). Either way, Natural beef provides many of the attributes that consumers leave commodity markets to seek in specialty beef markets.

Pasture-fed beef must be fed only grass and forage for the ruminant's lifetime with the exception of milk consumed prior to weaning (USDA, AMS, 2007). Pasture fed beef is also associated with many of the attributes that includes: positive effects on human health, the environment, and animal welfare as its production system is based on cattle fattened on forage-only diets with little or no grain (Abbot, 2004). Pasture-fed beef, when managed properly, is also considered environmentally friendly as its production has been shown to reduce greenhouse gasses, reduce top soil erosion, and increase soil fertility relative to conventionally produced beef (DeRamus et al., 2003; Horrigan et. al, 2002). Beef that is exclusively raised on pasture also has nutritional benefits compared to conventionally produced beef. These benefits include higher concentrations of  $\beta$ -carotene, higher concentrations of vitamin E, higher levels of both Omega-3 fatty acids, and Conjugated Linoleic Acid (CLA) all of which are associated with various health benefits including bone growth, prevention of heart disease and cancer, enhancement of the immune system, and reducing development of diabetes and fat body mass (Daley et. al., 2005).

In general, the methods used in specialty beef production and marketing meet consumer's demands for safe, healthy food by providing nutritional benefits as described above. Consumers also associate specialty beef with food safety, environmentally friendly production, and animal welfare because specialty beef is associated with being raised on farms which have strong farm philosophies dedicated to a personal connection with the farming system, producers are more aware of what goes into the animal and the smaller farms produce less air pollution (USDA, 1998; Farm Foundation, 2006).

Another important factor in the link between specialty beef and meeting the demand for new attributes is the way specialty beef is marketed. Supplying beef through a direct market

outlet such as a farmer's market, or an on-farm store or selling beef to a local buyer meets consumer demand for local food. Consumers want to be able to put a face and "story" to their specialty beef purchase. Consumers want to be more connected with the food they eat and by purchasing directly from the farmer or having the knowledge of where the food directly came from supplies this demand (Sherer, 2008.)

#### **2.4 Current Supply and Market Structure for Direct Market Specialty Beef in Virginia<sup>4</sup>**

Specialty beef producers in Virginia are located in 30 different counties throughout the state. The majority of the producers in the study have a background in beef or a background in agriculture other than beef. The study reported that only a few farms are certified organic or are seeking organic certification. The remaining operations market their farms as pasture-fed and/or grass-fed, local, and/or natural. A typical specialty beef farm in Virginia is around 230 acres with 164 acres devoted to pasture. The majority of the producers are raising cattle birth to slaughter, with the average cow herd being thirty head. A producer normally devotes 70% of his farm specifically to the production of pasture-fed beef. Pasture feeding and finishing is the most popular choice among surveyed producers. A typical farm will have at least one additional type of animal besides beef. When the farms that raise strictly beef cattle are removed, the farms have an average of two additional value-added animal products in addition to beef, typically pork and chickens.

In Virginia the average producer does not use feed additives or sub therapeutic antibiotics and utilizes a vet's services to treat sick animals. An average finishing weight for steers is 1,100 pounds and for heifers is 1,000 pounds. A typical producer uses the age and fat thickness of the

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<sup>4</sup> This section draws heavily from results of a survey of producers that are reported and discussed in Mainville, et al. (forthcoming) *Characterization of Direct Market Beef Production in Virginia*. Virginia Cooperative Extension, and Mainville, et al. (forthcoming) *Characterization of Direct Market Beef Processing and Marketing in Virginia*. Virginia Cooperative Extension.

animal to determine the optimal time for slaughter. Processing is typically done in a USDA inspected facility. The producers typically drive an average 60 miles to the slaughter facility. A producer typically sells their products frozen and a little over half sell individual cuts compared to the whole carcass or sides.

Virginia specialty beef is primarily marketed through selling from the farm or at farmers' markets. Other market outlets include natural food stores, restaurants, and buyers' clubs as well as wholesale markets and internet sales. Producers in Virginia rely heavily on word of mouth for advertising while their own internet site or personal flyers are other predominant ways to publicize their product. Most Virginia producers market their beef using the terms pasture-fed and/or grass-fed, local, and/or natural (Mainville, et al. forthcoming).

In a study completed by Webb in 2008 through Virginia Tech categorized the Virginia specialty producers into three categories; "diversified" "add on" and "specialty beef only." These three clusters of producers will be used to appropriately match supply with the demand of the outlets found in the research. The cluster analysis allows for further classification of specialty beef producers in Virginia.

The "diversified" specialty beef producers cluster encompasses 18% of the Virginia producer sample studied. The "diversified" cluster is producers who direct market a larger proportion of their sales of beef and other animal products. Producers in this cluster raise on average 2.5 additional direct marketed animal products besides beef. The average of 33 animals they slaughtered last year represents 55% of their farm sales. In this cluster, almost 70% of the producers have at least \$20,000 in off-farm income.

The "add-on" cluster is the largest cluster with 67% of the sample of Virginia producers categorized as "add-on" producers. This cluster consists of producers who are direct marketing beef in addition to an existing conventional beef cattle operation. Members of the add-on cluster

are somewhat diverse, with the average producer raising one additional direct marketed animal product in addition to beef. Additionally, producers in this cluster have the smallest proportion of sales from direct marketed beef (22%), but slaughter an average of 13 animals last year. This majority of this cluster's income comes from the farm rather than off of the farm like the other two clusters.

The smallest cluster represented in Virginia is the "specialty beef only" cluster that makes up 15% of Virginia producers in the sample. The cluster represents producers who are experimenting with the production and selling specialty beef directly to consumers, but do not operate at the level of the "diversified" or "add-on" clusters. The majority of producers in the "specialty beef only" cluster only raise beef. While 100% of their farm sales come from specialty beef, these producers only slaughter an average of 4 animals per year. Individuals in this cluster also have significant levels of off-farm income.

## **Chapter Three**

### **Conceptual Framework**

#### **3.1 Introduction**

Producing specialty beef is a way for a farmer to diversify production and gain a premium price. This study will help determine whether there is a demand for specialty beef in alternative market outlets such as large chain supermarkets, specialty and small chain stores, restaurants, and direct sales to consumers. In order to understand what alternative outlets demand and the requirements and potential for producers to meet that demand, retailers' merchandising and procurement practices must be understood.

#### **3.2 Merchandising**

Merchandising is the planning and promotion of sales by presenting a product or service to the right market at the proper time, in the right quantities at the appropriate price while also carrying out organized, skillful advertising (Samson and Little, 1993). Food retailers base their merchandising decisions on their understanding of what customer's want, thus merchandisers' demand is derived from consumer demand. Therefore, the common problem for all outlets is to design a merchandising strategy that effectively provides these attributes and services while also minimizes the costs encountered by the customer.

Consumers demand a combination of attributes and service from the retail outlet and seek to maximize value. Conceptually, value can be understood as the difference between the utility obtained by the consumer from enjoying the benefits of purchasing and consuming the product and the total cost of the product including the purchase price, transaction costs such as product

preparation and other costs. The consumers' perception of value is based on what benefits including the attributes and services provided by the outlet as well as what limitations such as the time available, purchase needs, and preparation demand that are incurred during the process. Retail merchandisers must take this concept of maximizing customer value into consideration when determining what products they will sell and how they will market them. When delivering value to customers, retailers know that value differs by each customer's individual demands. Many factors contribute to what attributes and service the consumer will demand including age, health, household size, time availability, income level, religious beliefs as well as other social and economical factors. Currently discussed in Chapter 2, consumers are increasingly seeking new attributes. The costs incurred in making a purchase at a retail outlet depend on the cost of the product, and also vary among consumers depending on what type of purchase they wish to make, the opportunity cost of their time, and what the preparation for the food product is. These costs, relative to the benefits gained from the products and the service of the retail outlet determine the value perceived by customers as they choose different market outlets and what to buy in those outlets. Retailers seek to compete on value through their merchandising.

### **3.2.1 Merchandising Approaches of Alternative Outlets**

The alternative outlets researched in this paper all seek to compete on value. They are all unique in how they can best deliver value and meet the consumer's demand. The different value combinations that each outlet demands determine the approach they will take in order to effectively market their products and store.

### **3.2.2 Large Chain Retailers**

Large chains are defined in this study as those operating five or more stores. They typically add value through convenience, lower cost, and a larger volume of products and supply the demanded attributes and services customers' desire. Large chains strive to supply value to

customers by striking a middle ground between benefits and costs. They work to supply a balance of benefits and costs that are not as high at outlets such as specialty stores but not as low as those presented in superstores. They have the finances available to constantly stay on top of the changing demands of consumers and remain competitive (Smith, 2002). Supermarkets also have the technology available to understand what their customers' value when it comes to the shopping experience and products available at their store. For example in recent years, supermarkets have relied heavily on tracking customer's purchasing and shopping behaviors through shopper cards that are scanned at each visit to the supermarket and record the products purchased by the customer. Supermarkets can also offer a broad range of products because they operate on a large scale. By offering more products and meeting the demands of a diverse clientele, as well as offering "one-stop" shopping, supermarkets meet the increasing demand for convenience sought by consumers.

Recent trends of diversification of product offerings particularly specialty products are a reflection of supermarkets efforts to attract customers by offering diverse products in a convenient format. Supermarkets are continually changing and recreating their merchandising strategies in order to provide the attributes and services their customers are demanding and at the same time, offering this value at the lowest price possible, in the most convenient and efficient way for the customer.

For example, large chains have increased their stock keeping units (SKUs) particularly in their organic and natural product sections. In fact, supermarkets are expanding their stores for the sole purpose of offering a larger volume of natural and organic products. A survey conducted by the Organic Trade Association (2006) showed that while the organic food sector has been growing at a rate of 15% to 21% annually since 1997, large retailers are selling an increasing portion of organic products relative to specialty natural stores. The study found that in

2005, 46% of the organic food dollar was sold at large retail chains, 47% at specialty stores and the remainder at farmer's markets and non-retail outlets. Large chain retail merchandisers also compete in the cost side because they can purchase products in bulk and therefore reduce the price for the customer, making their products more attractive to the customer who seeks to balance price as well as quality in their purchasing decision. These cost aspects are discussed further in the section on procurement.

### **3. 2.3 Specialty Stores**

For the purpose of this research, specialty and small chain stores are defined as those that specialize in healthy and natural foods as well as non-food products. The stores are operated either by single units or in groups of no more than four stores. Merchandising is normally done by the store's manager who in many cases is also the store owner. These stores specialize in supplying consumers with specific attributes they demand such as products that are grown and raised naturally and organically, are produced locally, as well as offering other health and natural supplements and products. These stores focus their merchandising strategies on consumers concerned with their health, enhanced nutrition, being environmentally friendly, as well as animal welfare. Specialty stores not only supply the specific attributes consumers are demanding but they can also offer service that is valued by their customers. Because they operate on a smaller scale and cultivate strong relationships with their clientele a high quality of service and personal relationships with their customers are key elements of their merchandising strategies. Nevertheless, many specialty stores are not able to supply the convenience that consumers enjoy shopping at chain supermarkets. Specialty stores carry a relatively limited assortment of products so that the customer may have to make additional visits to other stores in order to fulfill all their shopping needs. Specialty stores are also faced with the constraint of having limited hours of operation and are more difficult to access because they have fewer locations than chains

that operate stores in many locations. Thus, while specialty stores maximize the benefits they provide their customers, they typically do so at a higher total cost to customers than large chains.

Price is also a constraint to the specialty store because they operate on a much smaller scale than large retailers and don't have the storage space available to large scale retailers, which can make it hard to compete on cost in the retail food sector. Specialty stores tend to have higher operating costs than chains which can provide a similar product with many of the same attributes but at a lower price.

### **3.2.4 Restaurants**

The amount of money the average consumer spends on food away from home is growing each year. With this trend, the value of convenience, preparation, as well as the obvious demand for quality and taste are recognized as the main attributes sought by restaurant customers.

Restaurants have the unique ability to diversify their menus and their service to ensure they will continue to have a strong clientele and be able to set their restaurant apart from the competition.

In most cases, the chef of the restaurant is in charge of purchasing the food and products once the menu has been created. The different types of restaurants included in this study include national chain restaurants which operate a number of restaurant chains in a large geographical area and independent restaurants which examined both popular and family-oriented restaurants and white tablecloth restaurants.

#### **3.2.4.1 National Chain Restaurants**

Chain restaurants, like large supermarkets, want to provide their products needed at a high volume at the lowest cost possible. Chain restaurants operate numerous outlets and each outlet must be consistent and alike in their menu, atmosphere, and quality attributes. Cooks at individual chain restaurants have little to no autonomy in their merchandising decisions or opportunity to diversify their menus. That is, the cook cannot personally go about making

changes; rather the changes are made by the top of the administration because if a change or addition is made to one menu, it must be made to all menus. Customers of chain restaurants are normally more concerned with the price of their meal and want to obtain the best possible price and value while dining at the chain. Therefore, many national chains are faced with the limitation of maintaining a menu that is affordable for their customers.

#### **3.2.4.2 Independent Restaurants**

Independent restaurants include both local white tablecloth restaurants and popular and/or family-oriented restaurants that operate independently or in a small chain. Local chain restaurants that only operate two or three locations within one geographic location have a much smaller administration and the flexibility to change their menu more frequently as consumers' demand changes. Smaller restaurants do not always have the finances or marketing tools available that large chains have; but if they can offer the attributes and the personal service customers want from the small, local atmosphere, then small chains will be able to compete in the restaurant sector. Smaller chains may not always be able to purchase their products at high volumes because of storage space limitations and shorter shelf life of perishable foods; therefore, they need smaller volumes more frequently.

White tablecloth restaurants attract a higher income customer willing and able to pay a higher price for specialty products. Chefs at white tablecloth restaurants put a lot of consideration into the value they offer in their menu selections because it reflects highly on their personal reputation. Like specialty food stores, the chef is usually also the merchandiser who decides what products to purchase, when to purchase, and how much to purchase. Chefs at white tablecloth restaurants seek products that will enhance the menu by offering new items that meet consumer's demand and compete with other white table cloth restaurants in the area.

### **3.2.5 Direct Sales to Consumers**

Like other outlets discussed, producers making direct sales to consumers seek to offer their customers a product with the highest benefits possible at an affordable price for their clientele. Producers selling direct to consumers have the unique opportunity of being very aware of what attributes and services consumers are demanding because of the direct relationship between them and the customer. They are therefore able to supply the consumers with a product that has very high benefits. They are also uniquely able to supply these benefits. The attributes and services important to consumers include health, enhanced nutrition, environmentally friendly, food safety, and animal welfare as well as buying locally, forming a relationship with the farmer, and supporting their local economy. Direct marketers may not offer convenience or time efficiency but their clientele is purposely demanding direct marketed products because they supply the attributes they demand as well as the valued service and personal relationship that direct sales outlet offers that other outlets may not.

Producers who sell directly to consumers supply high benefits to their customers but in the process of increasing value have higher costs. Costs increase because, by their nature, direct marketers vertically integrated the responsibilities of production, wholesale, processing, and retail, yet lack the economies of scale and specialization seen by larger operators.

### **3.2.6 Merchandising Hypotheses**

**General merchandising hypothesis:** The more an outlet's clientele care about specific attributes and can afford them, the more likely the outlet will carry specialty beef.

**Supermarket:** Large chain supermarkets will be a good market for specialty beef because they can provide the attributes and value that consumers demand at a more affordable price, meet the demand for convenience, and decrease consumers' costs.

**Specialty Stores:** Specialty stores will be able to supply specialty beef because it meets the demanded attributes they want to deliver to their customers and can also help meet the local and personal relationship attribute that sets the specialty store apart from the large retailer. Specialty beef acquired at a specialty store cost more compared to beef purchased at a large chain, but if the consumer values the unique benefits of the product bought at the specialty outlet over price in making the purchase then specialty beef will certainly be a part of specialty stores merchandising.

**Restaurants:** Independent and small chain restaurants have an opportunity to supply specialty beef because they operate on a smaller scale as well as have the ability to be more flexible when making menu decisions. White tablecloth restaurants are also hypothesized to be good potential markets for specialty beef because their clientele demands high quality and is willing to pay a higher price for their food while dining out. Chain restaurants are less likely to supply specialty beef because they operate on a much larger scale and do not have the flexibility in merchandising compared to small, local chains or white tablecloth restaurants as well as the fact that chain restaurant customers are more concerned with the cost of their meal compared to customers at white table cloth restaurants.

**Direct Sales to Consumers:** Producers selling to consumers have an opportunity to be a strong market outlet for specialty beef because they can offer many of the attributes consumers demand including the aspect of buying locally and having a personal relationship with the seller. Customers are willing to pay the premium price for specialty beef in this alternative outlet because the value of the attributes and services they demand from the product and direct marketer compensates for the higher price.

### **3.3 Procurement**

Procurement is the sourcing and purchasing of goods and services from preparation and processing through to receipt and approval of the invoice for payment. Excellence in procurement strategies is a key component to create value and a competitive advantage for retailers (McLaughlin and Fredericks, 1994).

#### **3.3.1 General Objective of Procurement**

Retail market outlets' main objective is to supply their firm's merchandising needs at the lowest possible cost. In food purchasing, the least expensive buy is not always the best buy; therefore, retailers must supply the customer with the attributes they demand while maintaining value by keeping costs as low as possible for the product and service mix that is being supplied. Procurement of goods entails the organization, relationship, and coordination involved in obtaining the product. In this study, the factors and issues of procurement include risk mitigation, food safety, handling and delivery, labeling, volume consistency, and payment. In the retail food industry, it is vital to know the labeling requirements for a product prior to procuring the product. Country of Origin Labeling (COOL) and Universal Product Code (UPC) are two labeling requirements that are often required by large chain retail outlets and may also be implemented in other marketing outlets' procurement plans. Labeling requirements vary with individual products and retailers. Another aspect of procurement that many large retail buyers want from suppliers is promotional collaboration and the ability to help promote sales of the product in the store. This financial obligation varies among retail outlets but in some cases can be expected to be part of the supplier's responsibility.

#### **3.3.2 Organization of Procurement**

The organization of procurement is usually characterized by three different strategies; centralized, decentralized, and out-sourced. A centralized approach typically involves the use of

a distribution center which supplies a store with many different goods from many different vendors. When it comes to supplying goods, distribution centers are the foundation because they are able to stock a vast number in large volume of products from numerous of vendors making it highly efficient to ship multiple products at a time rather than ship each product directly from each vendor to each retailer individually. Distribution centers operate within a specific area and supply all the retail stores within their territories. Many retailers own and run their own distribution networks; however smaller retailers may share a distribution center with a number of other companies. This sharing allows for retailers to design and market their retail food stores individually but have their support within a central location shared with other companies and organizations. Centralized procurement can be easier to manage and has a higher accountability because all products are in one place.

Decentralized procurement is another type of organizational strategy used when making retail food purchasing decisions. In a decentralized approach, a buyer purchases goods and services directly from the supplier and the products are delivered direct to individual retail outlets. This type of procurement allows a retail outlet to customized purchases to what each individual store needs. In most cases, there is a designated buyer for each department which makes the purchasing decisions. A decentralized approach allows for more control over supplying the individual store's needs which increases flexibility in merchandising.

Another procurement approach in the retail food sector is to outsource procurement to an intermediary. The intermediary acts as a liaison for goods or services offered by a supplier to a buyer. Typically the intermediary offers some added value to the transaction that may not be possible with purchasing directly from the supplier for example they may help a retail outlet to

promote, sell, and deliver a good or service. In most cases, the intermediary receives the item at one price point<sup>5</sup> and moves it to the next higher price point until the item reaches the final buyer.

### **3.3.3 Relationships with Supplier**

The sourcing of a food product involves a relationship between a buyer and seller which is a very important element in a procurement strategy. The relationship will vary depending on the retail outlet and its purchasing strategies. Some purchasing approaches require a more personal relationship and connection between the buyer and seller where others are only a formal relationship that is strictly business.

As specialty products continue to grow and change the way the market operates, the transition to vertical integrated systems used in coordinating and managing of the specialty market will increase significantly in the agriculture sector (Peterson, et al, 2001). King (1992, 1217) describes vertical coordination as “the alignment of direction and control across segments of a production and marketing system.” According to Peterson et. al (2001), vertical integration is characterized as a strategy mainly dominated by “managed” coordination in which the coordination is built upon a mutual interest that is considered long-term between those involved in the relationship. The relationship shares benefits and information of the coordinated system and are stable and supportive of interdependence.

Along with coordination, comes a contract between the buyer and seller for the negotiation of the purchase. Almost all decisions have contracts and can be either a written or verbal commitment. Each party decides and agrees upon the information, stipulations, and requirements in the contract. The contract finalizes many of the same points discussed during a coordination agreement but the contract will hold both the buyer and producer accountable for their actions and obligations. In some cases, a contract may not be used and the integrity of the

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<sup>5</sup> Price Point: The standard price set by a manufacturer for a product. (Merriam-Webster)

purchase is relied upon solely by a verbal commitment between the buyer and seller. The importance of a relationship between a buyer and seller whether it is personal or formal cannot be over emphasized in procurement in the retail food sector.

A fault in the upholding of food safety at the retail outlet can create an enormous problem for a retailer as well as all individuals involved in the procurement process. Therefore, in procurement of food products, a top priority of a retail buyer is to mitigate risk. Buyers require suppliers to have food safety certification; appropriate food safety labeling, good agriculture practices (GAPs), good manufacturing practices (GMPs), hazard control programs such as Hazard Analysis and Critical Control Point (HACCP), traceback systems, and liability insurance for the product. All of these requirements should be discussed in the initial meeting between the two parties and are possibly the most important to understand and follow during procurement.

Product liability insurance is normally discussed in the beginning of a business relationship between a buyer and seller. Insurance coverage is important for suppliers to have in case of an unforeseen circumstance or food safety problem that would not allow the supplier to fulfill the contract with the buyer. Retail buyers have different requirements for the amount of a liability insurance plan the supplier must have but in most cases, there is a predetermined amount. For example, one producer interviewed reported paying \$5,000 per year for a 5 million dollar liability insurance policy.

The relationship between the retail buyer and the supplier reflects heavily on how the logistical aspects of procurement are coordinated. These logistical aspects include meeting arrangements between the buyer and seller, how often these will occur and how they will be carried out for example via telephone, on-site visit, or email. Both parties must have an understanding of what the other is looking for in the particular product attributes, the quantity the supplier wishes to purchase, and when the product needs to be delivered. Delivery may be an

option or the buyer may have to pick up the product from the suppliers warehouse. Also, when coordinating a purchase, the time that the invoice must be paid will be decided. In general the bill is usually paid upon delivery of the product or at a set time during the month where everything is paid at once.

### **3.3.4 Procurement Hypotheses**

General procurement hypothesis: In general, larger retails and those operating on a national or regional level will have more formal and involved procurement requirements than smaller more local outlets.

**Large chains:** Large chains will require more formal and strict requirements. Large retail chains generally use a centralized approach to procurement but in the case of specialty beef, they may allow for decentralized distribution due to supply limitations on the volume of product available from individual producers.

**Specialty Store:** Specialty stores will require a personal relationship and the requirements to supply will be much more flexible and moderate. Specialty stores, because they normally operate only a single store use a decentralized approach to procurement and get their products directly from the individual suppliers and therefore this same method is expected for procurement of specialty beef.

**Restaurant:** Restaurants are known for using intermediaries, often a wholesaler which delivers food products directly to their venue. Restaurants' requirements are strict and normally require a written or verbal contract to ensure that the product they purchase is supplied at the appropriate time in the needed quantity to fulfill the demands of the menu.

**Direct Sales to Consumers:** Direct sales to consumers are different than the other market outlets because the direct marketer is the supplier and the customers are the buyers of the

outlet. Therefore the producer is vertically integrating the wholesale and retail functions. Those who sell directly to consumers are solely responsible for the coordination and logistical aspects of moving and marketing the product from the farm to the consumer. Direct market procurement is really about integration of supply chain activities so that they can be performed, are not cost prohibitive, and meet consumer demand for various attributes like health, food safety, environmentally friendly, locally grown, and a personal relationship.

### **3.3.5 Hypotheses Regarding Virginia’s Specialty Beef Producers’ Potential to Market to Outlets**

**Large Chains:** If the field research supports the first and second hypotheses that says there is a demand for specialty beef at large chains because they can provide the attributes and value consumers demand and the requirements to enter a large chain are very formal and most use a centralized approach to procurement but may allow for decentralized distribution due to supply limitations. Given the structure of the specialty beef industry in Virginia, it is hypothesized that large retail outlets will be good for producers classified as “diversified<sup>6</sup>” direct marketers because according to Webb’s study (2008), they slaughter more animals per year and also have the highest percentage of producer’s certified organic which is what some large retailers demand. Overall they are potentially able to provide what large retailers want such as volume requirements and insurance coverage. Producers classified as “add-on<sup>7</sup>” or those marketing “specialty beef only<sup>8</sup>” are not in a situation to successfully market their product to a large retail chain because they cannot meet the volume of beef demanded.

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<sup>6</sup> Producers who sell beef direct to a larger proportion of their sales of beef and other animal products. Producers in this cluster produce an average of 2.5 additional direct marketed animal products besides beef (Webb, 2008).

<sup>7</sup> Producers who sell beef direct to consumers in addition to an existing conventional beef cattle operation. Members of the add-on cluster are somewhat diverse, with the average producer raising one additional direct marketed animal product in addition to beef (Webb, 2008).

<sup>8</sup> Producers who market “specialty beef only” only raise beef and receive 100% of their farm sales come from specialty beef (Webb, 2008).

**Specialty Stores:** If the field research supports the first and second hypotheses stating that there is a demand for specialty beef at specialty stores because the beef meets the demand attributes they want to deliver to their customers and the requirements to sell to the market more flexible and require a more personal relationship with the producer than large chains. Given the structure of the specialty beef industry in Virginia, it is hypothesized that specialty stores will be the most appropriate outlet for “diversified” as well as “add-on” specialty beef producers characterized in the background chapter. These two groups of producers have a larger herd that can meet the consistent volume requirement that specialty stores want and form a personal relationship with the buyer.

**Restaurants:** If the field research supports the first and second hypotheses stating that restaurants have an opportunity to supply specialty beef because their customers demand a high quality product and have the ability to be flexible when making menu decisions and requirements will normally require a contract to ensure the purchased product is supplied at the appropriate time. Given the structure of the specialty beef industry in Virginia, it is hypothesized that restaurants will also be the best outlet for the “diversified” as well as the “add-on” specialty beef producer as described by Webb (2008). However, those producers who only market specialty beef may also have a chance of selling to restaurants if the volume demanded from the restaurants is smaller and matches the supply the producer has available.

**Direct Sales to Consumers:** If the field research supports the first and second hypotheses that producers selling to consumers have an opportunity to be a strong market outlet for specialty beef and because the procurement is about integration of the supply chain, producers can succeed in this market. Given the structure of the specialty beef industry in Virginia, all three clusters of producers in Virginia classified by Webb (2008) are in a position to successfully compete through selling directly to consumers. Depending on how well they market

their product will result in the producers' success of selling directly to consumers. However, those who operate on a larger production scale may choose to market to one of the other outlets studied rather than sell directly to consumers because of the costs related to selling direct.

## **Chapter Four**

### **Methods and Data**

#### **4.1 Overview**

This paper takes a qualitative approach to determine if there are alternative market outlets that will supply specialty beef in Virginia. A semi-structured survey instrument was used in data collection with interviews conducted face-to-face with beef buyers and merchandisers and direct marketers of the alternative outlets. Three versions of the survey instrument were tailored to the specific types of alternative outlets. A total of 21 surveys were conducted with large chain retailers, specialty stores, restaurants, and producers who sell direct to consumer.

#### **4.2 Methods**

Ethridge (1995) gives a general overview of the research process. The design of any study begins with the selection of a topic and a research methodology. These initial decisions reflect assumptions about how science should be conducted and what constitutes a valid problem. Different approaches to research encompass both theory and method. The two general approaches that are most widely recognized are quantitative research and qualitative research. The decision of which research approach to use should be based upon the problem of interest, resources available, the skills and training of the researcher, and the audience for the research.

Quantitative research methods analyze an identified problem using statistical techniques with the overall goal of determining whether a theory tested holds true and why things happen in an objective world (Ethridge, 1995; Peterson, 1997). Quantitative research is beneficial because it focuses on measurable phenomena; and because normally all aspects of the research are carefully designed before data is collected. It is derived from theory and is tested in a cause and effect order that will allow a researcher to understand a phenomenon (Peterson, 1997). Large

sample sizes can be used when using quantitative data and this approach is also argued to be very efficient and able to test a hypothesis although it may miss related detail in relation to the study (Ethridge, 1995; Peterson, 1997).

Qualitative research analyzes a social or human problem from multiple perspectives. The goal of qualitative research is to discover patterns that help explain a phenomenon of interest in a natural setting (Peterson, 1997). Unlike quantitative, a qualitative approach uses words, pictures and objects to analyze the data (Ethridge, 1995). Qualitative research is useful when there are small samples that need to be studied in depth. It's also inductive in that categories of interest may become known during the research process, which allows for the design of the research to evolve as the study unfolds rather than being identified prior to the research beginning.

Qualitative research is appropriate when research results are not derived by means of statistical procedures or other means of quantification. It is also appropriate when researchers use exploratory methods to find results and seek to enhance understanding in their findings rather than determination of the results.

For this study, a qualitative approach is used to measure the demand for specialty beef in alternative outlets, the requirements to enter into those outlets, and whether Virginia producers can compete in the markets. Using a qualitative analysis for this study allows the researcher to interact with those being studied and become personally immersed in the study which results in a better understanding of implications of the study allowing for a very detailed and complete description of the subject matter of the research (Peterson, 1997). This study must allow for changes in the survey questions as well as those the study anticipates to interview as research develops because the interpretation of subject's experiences is very important and new knowledge and ideas will be discussed during in depth interviews.

The major approaches to qualitative research are case studies, ethnographic studies, and phenomenological studies. Case studies consist of an exploration of a specific phenomenon such as a program, person, event, process, or social group. Detailed information is collected through a variety of data collection procedures over a period of time. An ethnographic study observes a cultural group over a specific time period in a natural setting. A cultural group is any group of individuals who share a common social experience, location, or other social characteristic. Finally, a phenomenological study is where human experiences are examined where the goal is to understand the actual living experience of the person or people being studied. This type of study usually occurs intensively over a long period of time (Creswell, 1994; Peterson, 1997).

The pasture-fed beef study uses a case study approach, examining the Virginia specialty beef market; the market outlets as well as those producers who direct market their product. A case study is appropriate because a specific sector of the agriculture industry is being explored by interviewing a variety of potential specialty beef market outlets as well as diverse direct marketers, a case study approach is most appropriate to successfully accomplish the goals of the research.

#### **4.3 Data Collection**

Choosing the appropriate survey method for research is very important to make the most efficient use of time and labor available, and to determine the best way to approach the specific research topic and population to ensure the most reliable results (Salant and Dillman, 1994). The three general types of surveys most often used are mail surveys, telephone interviews, and face-to-face interviews (Salant and Dillman, 1994). Internet surveys are also becoming very popular as a way to gather information when conducting research. Internet surveys allow for convenience and a quick turn around of information for the researcher. Internet surveys will be utilized more and their popularity will continue to grow in the years to come.

Mail surveys are beneficial because they have relatively low staff requirements and may be best for projects where money and staff are scarce. Mail surveys do not require immediate decision making but allow the person being surveyed to think and evaluate each question for as long as he wishes. An additional strength of mail surveys is that they are less sensitive to biases since there is no interviewer and no perceived pressure for the respondents to give answers to please the interviewer. Researchers may also choose to use mail surveys because they create a sense of privacy for the respondent and respondents are more than likely to answer truthfully to questions about income, mental health, political affiliations, and other private issues in writing rather than through a face-to face or telephone interview (Salant and Dillman, 1994).

Telephone interviews can be beneficial when questions require interpretation and the telephone interviewer can clearly convey the question to the respondent so that there is little room for error. Telephone surveys greatest strength is the ability to have a quick turnaround of the information being acquired (Salant and Dillman, 1994). Nevertheless, researchers are often reluctant to use telephone interviews because of people's reaction to unsolicited telephone calls, larger use of cell phones, and call identification, all leading to a potentially biased sample. .

Face-to-face interviews are beneficial when an interviewer is collecting information from respondents who may not be willing or able to accurately reply to mail or telephone surveys. This survey approach is expensive and is best suited for experienced interviewers that have knowledge of the research, understand the format of the questionnaire, and have been trained in interviewing. When complex questions are involved, face-to-face interviews are the best choice because interviewers can make questions easier and less threatening during the personal interview (Salant and Dillman, 1994).

For this study, face-to-face interviews were conducted. This type of interview method was more effective in this study rather than a mail or telephone survey because it allowed for the

interviewer to visit the specialty beef farm or market and observe first hand what was going on. It also allowed for the complex questions in the survey to be understood better by the respondent and answered more accurately. A face-to face interview for this project is helpful because other questions or points brought up during the personal interview could be discussed further in order to get the best possible explanations. A telephone survey does not allow for interaction because of time limitations and a mail survey would not have the benefits of personal interaction. A face-to-face interview also allows the interviewer to get a true perception of the alternative outlet or the direct marketing operation, the products available, marketing tools used, and the overall atmosphere. In this particular survey, appointments were set up for the visits to ensure that there was plenty of time to conduct a thorough face-to-face interview.

In this study, beef buyers or beef merchandisers rather than beef consumers were selected for interviews. Despite the fact that consumers are demanding specialty beef and the attributes it provides, beef buyers in retail stores or direct marketers are able to observe and act on these demand trends and begin supplying specialty beef in their stores. While interviewing consumers would allow measurement of the demand for the attributes of specialty beef, interviewing beef buyers permitted an assessment of their perception of the opportunities and constraints in supplying specialty beef to alternative market outlets which was the objective of the study. There is also another Virginia Tech study that is strictly looking at consumers.

#### **4.4 Survey Instrument**

Well designed survey instruments take time to develop but their payoff from the information gained is enormous. In face-to-face interviews, questionnaires should be written and organized so that people can respond based on what they hear from the interviewer (Salant and Dillman, 1994). Two types of interviews can be conducted to obtain necessary information; structured or semi-structured. Structured interviews collect data for statistical purposes. Formal

questions are presented in the same order and the questions are closed-ended. A structured set of questions in this form minimizes preceding questions influencing the respondent's answers. Semi-structured interviews; however, are flexible. The interviewer has objectives and themes to cover, but the questions are very open-ended with new questions and discussion brought up during the interview. A semi-structured interview approach is best suited for the goals of this research project. The survey was thought out very thoroughly in advance of conducting the interviews where questions and specific objectives that needed to be discussed were decided on and included in the survey. However, a semi-structured interview because of its flexibility allows for new ideas to be brought up and approached during the interview which may lead to more understanding about marketing specialty beef or a more in-depth understanding of a predetermined objective.

This study has three versions of semi-structured interviews tailored to each specialty beef outlet. A chain retail survey (Appendix A) evaluated the retail chains or supermarkets that operate more than four stores, often in different states. The specialty retail survey (Appendix B) evaluated specialty food stores such as Whole Food stores or health food stores that specifically specialize in products attributed to improving people's health and offering foods that are all natural. The owners of specialty stores normally only operate one store. This survey also evaluated restaurants that have specialty beef products on the menu. The final survey evaluated direct marketers (Appendix C) who market specialty beef directly to the consumer through farmer's markets, on-farm stores, or customer delivery. The surveys not only included open-ended questions, but also questions asking for exact numbers and percentages related to marketing, questions that involved ranking answers from greatest to least; as well as, questions that asked the respondents to check all answers that applied. Even with these more structured questions, the respondents had the option to further discuss any of the answers to the more

structured questions allowing the researcher to receive as much information as possible in the context of the particular question.

The retail interviews with supermarkets, specialty stores, and restaurants asked questions that covered the general information about the respondent or retailer including information about the meat department, volume of perishable foods, brands of beef sold, if the beef is fresh or frozen, and how the beef is sold (e.g. boxed, custom cuts, wholes, halves, etc). The survey asked about the marketing and promotion of beef in the retail outlet as well as the beef procurement and requirements of entry into the outlet. The last area covered in the retail interviews was Virginia producer's current and potential contribution to sourcing at the market outlet. The direct marketing survey was organized slightly differently as it requested an overview and snapshot of the operation including the enterprises on the farm, why the producer chose to direct market, and what percentage of specialty beef was sold at each direct marketing outlet. The survey objective explored information about the supply of specialty beef as well as the demand and also investigated the coordination and logistics required to direct market specialty beef.

National chain restaurants were not included in the study because of anecdotal evidence and previous research leading to the expectation that this outlet is not a potential outlet for specialty beef. It is also important to note that direct sales to consumers required a different approach than the other alternative outlets. Producers who sell direct must focus on marketing their product to the customer rather than forming a procurement plan to obtain the product like the other market outlets. Therefore, this is the reason that the survey questions in the direct sales to consumers' interviews focus more on supply and demand.

Overall, there were a total of 21 surveys collected during May 2007 until February 2009. The retail interviews included three large chain supermarkets, five small chain specialty stores, and five restaurants. There were six direct marketers interviewed who either sell at a farmer's

market or have an on-farm store. Interviews were conducted with market outlets throughout the state to capture the geographic and demographic diversity present in Virginia. Interviews represented the southwest, southeast, north, northeast, and central regions of the state to appropriately embody the state of Virginia. The discussion and results helped to conclude whether or not the retail and direct marketed outlets are potential market outlets for specialty beef in Virginia.

## **Chapter Five**

### **Results**

#### **5.1 Large Chain Retailers**

##### **5.1.1 Large Chain Merchandising**

It was hypothesized that large retail supermarkets would be a good market for specialty beef because they provide the attributes that consumers demand at a relatively affordable cost; specifically these can meet consumers' demand for convenience while competing on cost with retailers supplying similar attribute bundles. Field research, however, failed to support this hypothesis.

Among the large chains researched, beef merchandisers reported a slight demand for natural and locally raised beef, and a somewhat larger demand for organic beef but no demand for pasture-fed beef. Several supermarkets sell natural beef. One supermarket sells two national brands of natural beef, Coleman's Beef and Laura's Lean. However, these two brands make up less than 10% of beef sales at the large chain. Another supermarket surveyed has begun its own line of all-natural beef products. This beef is purchased in bulk from one major supplier, but grown to the supermarket's standards. The program is 59% of their total beef sales and is marketed very well using flash cards hanging around stores, case cards, nutritional information; as well as, brochures to promote the natural beef program. This program is an exception to the findings that there is limited demand for natural beef possibly because the beef in this program is bought through a distribution center and there is no premium price therefore more customers can afford it.

One large chain conducted an online survey with 2,123 respondents which determined customers' demand for "locally raised beef." The information obtained from the survey is currently helping the supermarket work on launching a program to sell a pasture-fed beef patty that would emphasize "locally grown" and promote the health of the product. The suppliers of the pasture-fed beef would be various producers in the region which the large chain serves.

### **5.1.2 Large Chain Procurement**

It was also hypothesized that large chains will require more formal and strict requirements to enter the market. Large retail chains generally use a centralized approach to procurement but in the case of specialty beef, it was hypothesized that they may allow for decentralized distribution due to supply limitations that limit the volume of product available from individual producers. Field research supported this hypothesis that the requirement to enter a supermarket are strict, but failed to support the hypothesis that large chains would allow a specialty beef producer to sell through a decentralized system.

The supermarkets interviewed use large regional distribution centers which supply all stores with products. The beef buyers pointed out that one main supplier for all the stores' beef is preferred in the large chain format. The respondents in the research suspect that meat merchandisers at large chains may have a lack of knowledge in the area of specialty beef which causes a concern when purchasing beef from a supplier. This concern goes back to the priority of guaranteeing quality to customers; therefore, large chain buyers want to ensure the beef product they have in their stores supports their assurance of value in their products.

Some large chains organize their purchases in phases with the first phase being obtaining the beef from a supplier, usually at the national level. The second phase includes promotional collaboration and subsidized sales with the supplier. In all large chains, the supplier must agree verbally or in writing to have a consistent supply to all stores specified. One large chain does not

have a contract with their main beef supplier because they want to have flexibility so that they can purchase from other buyers if they wish to do so.

Large chains researched also require their suppliers to have product liability insurance coverage of 2-4 million dollars. One large chain also requires an affidavit for all beef suppliers specifying that they support animal welfare and humane practices including how the animal is raised, the specifics of feed used, how the animals are treated, the cleanliness of the operation, crowding of the facilities, and the kill process. All large chains researched demand their beef to be U.S.D.A certified though other requirements such as labeling are negotiable between the buyer and supplier.

The volume requirements are particularly strict and almost impossible for a specialty beef producer in Virginia to supply. In one case, a producer would have to supply 130 stores in six states. To supply to another large chain, a producer would need to supply a minimum volume of 10-20 head per week. One buyer did say that a supplier would not always have to service all stores within the region and their volume requirements were negotiable. Seasonality of demand is also a concern when purchasing specialty beef as the large chains researched vary their purchases based on this seasonality. The large chains researched see trends in beef consumption and must find a way to balance this seasonality in their procurement plans. For instance, the large chains researched sell more steaks and hamburger in the summer months and roasts and london broil in the fall and winter. Therefore, they buy their beef products based on this consumption pattern and therefore do not always purchase the entire cow leaving it up to the supplier to have the means to sell the entire beef.

### **5.1.3 Virginia Producers' Potential**

Large chains interviewed do not see a potential for specialty beef from Virginia producers because of many factors. Large chain beef buyers expressed concerns that it would be

a challenge for a Virginia producer to supply a large chain with specialty beef because of the requirements to enter the market and because of large retailers perception that Virginia specialty beef producers are smaller and cannot meet the volume requirement. First, large chains' top priorities are quality and consistency of the taste of the beef and they believe specialty beef from Virginia producers may lack consistency of taste causing a decrease in quality for the customer. Two supermarkets were interested in discussing the opportunity to purchase beef from Virginia specialty beef producers; one supermarket expressed the opinion that it could be a potential risk for a small company to jump into the specialty beef market and therefore they would want to try out a specialty beef program with a larger supplier first and if it catches on then they could move to a local Virginia supplier so they wouldn't be facing as much risk of market failure. In contrast, the large chain that is currently working on launching the "locally grown" program showed the most interest in purchasing from Virginia's specialty beef producers and is interested in working with Virginia suppliers to get their program started.

## **5.2 Specialty Stores**

### **5.2.1 Specialty Store Merchandising**

It was hypothesized that specialty stores would be a good market for specialty beef because it provides the attributes the store wants to deliver to their customers and can also help meet the growing consumer demand to purchase locally that often sets the specialty stores apart from the larger retailers. It was also hypothesized that specialty beef acquired at a specialty store will cost more compared to beef purchased at a large retailer, but if the consumer values the unique benefits of the product bought at the specialty outlet over price in making the purchase then specialty beef will be a part of specialty stores merchandising. Field research supported this theory.

Specialty beef is a highly demanded product at specialty stores. All specialty stores in the study explain that over the past five years, specialty beef demand has consistently grown. Store owners say it is demanded by some people because they consider it upscale and because of its gourmet appeal. One beef buyer attributes the media for helping to promote the product. However, specialty store buyers believe that the main reason it is demanded and purchased is because of the health benefits it provides as well as the natural, “clean” idea of a meat produced without chemicals and raised without hormones or antibiotics. One specialty store manager pointed out that it is not only the local farmer producing the meat but because the animal is being raised in the customer’s ecosystem that attracts customers. Like the supermarket chain buyers, specialty beef buyers report that demand for specialty beef is highly seasonal. Hamburger and steaks are most popular in the summer months while roasts are sold mostly during the holidays and during the winter.

The specialty stores researched want to supply all types of specialty beef such as natural, organic, or pasture-fed and do not prefer one type over another. Beef buyers at the specialty stores are advocates for the attributes and services that the beef provides and want to promote all specialty beef. One beef buyer at a specialty store said pasture-fed beef had been sold at the store for ten years but just in the past few years, other types of specialty beef like natural and organic have become prevalent so the store now carries all types. In the words of this buyer each type of specialty beef supplies “nothing but benefits to the customer.”

Specialty store buyers take great pride in their business and work hard at educating themselves about the specialty beef products they are selling. Many of the specialty stores personnel attend workshops, conferences, and other educational programs to continuously educate themselves about specialty beef and the demand from consumers. Some buyers visit the farms prior to making the first purchase in order to have a better understanding of a specialty

beef operation. Specialty stores get a wide variety of questions about the specialty beef they sell so being thoroughly educated about the product not only allows them to answer customers' questions but also helps to more effectively market the product. All specialty stores find it beneficial to make background information about the farm and the producer that produced the beef available to their customers. The specialty stores researched also typically shared a philosophy or promise guaranteeing to deliver the highest quality beef that supplies the attributes their customers demand and supports locally raised food.

### **5.2.2 Specialty Store Procurement**

With respect to procurement, it was hypothesized that specialty stores would require a personal relationship and the requirements to supply will be much more flexible and moderate compared to large chain retailers. Specialty stores, because they normally operate only a single store use a decentralized approach to procurement and get their products directly from the individual suppliers and therefore this approach was expected for procurement of specialty beef. Field research supported this hypothesis.

Of those specialty stores interviewed, all buyers believe that timing and knowing what to purchase are critical to the procurement success. Specialty stores operate on a much smaller scale than large chains and normally only place an order every 3 to 4 weeks. Specialty stores always have ground beef on hand as well as a few sirloin steaks and top rounds. Other products such as roasts and other cuts are carried during the season they are demanded.

Specialty beef buyers participating in this study did not report being constrained by supply limitations due to seasonality of production or a supplier not being able to meet the volume demanded. All the specialty stores interviewed reported that their relationships with other producers allowed them to purchase beef from another farm if the store were to run out, ensuring there would still be beef on the shelf.

The labeling and packaging requirements are very important to all specialty stores. The package must have the U.S.D.A certified label from the slaughter house and all specialty stores participating in this study reported that they always purchase beef with the producer's label on the beef and add the store's own label to the package before stocking it on the shelf. The price of the beef varies and is either set by the supplier or by the retailer.

Most of the specialty stores in the study have at least two suppliers of specialty beef each of whom is a Virginia producer. One store reported that it decides in advance whether to purchase individual cuts or wholes and halves. After coordinating with the producer, an estimated delivery date is set and the specialty store then pays the supplier upon delivery. A specialty store included in the research and its buyer explains that producers have always contacted their store; they have never had to recruit suppliers. The store currently purchases from three producers. The buyer coordinates with the producer, compares prices of products, and then orders depending on what is needed. The beef buyer stays in constant contact with the producer and pays when the specialty beef is delivered to the store. Other specialty beef buyers are given a price list from the supplier with what beef products are available as well as how far an order must be placed in advance to be delivered to the buyer on time. The research shows that all payments are made to the supplier after the product has been delivered.

### **5.2.3 Virginia Producers' Potential**

The specialty stores included in the study already purchase from Virginia specialty beef producers. When asked about whether the specialty store was interested in incorporating additional Virginia producers into their specialty beef sector, some of the buyers reported not wanting to damage their established relationship with the specialty beef suppliers they already worked with. However, if another producer were able to offer a product not currently sold and help in the promotion of the product; then buyers reported that they would take advantage of the

opportunity. One specialty store reported that it was unable to take on new suppliers because of limited freezer space. Other specialty stores said they are willing to acquire new suppliers and are always willing to sit down with specialty beef suppliers and discuss the potential of selling their product to the specialty store.

## **5.3 Restaurants**

### **5.3.1 Restaurant Merchandising**

It was hypothesized that independent restaurants have an opportunity to supply specialty beef because they operate on a smaller scale as well as have the ability to be more flexible when making menu decisions. High-end restaurants were hypothesized to have the greatest opportunity to market specialty beef because their clientele is already demanding high quality and is willing to pay a premium price for food providing the attributes they seek while dining out; therefore, they were expected to be more likely to supply specialty beef than other types of restaurants.

Specialty beef is, indeed, demanded by independent restaurants. The research found that chefs and managers who offer specialty beef on their menus are extremely passionate about the product and what it has to offer. The majority of chefs believe that specialty beef is not only demanded by the motivation that the beef is healthier, less harmful to the environment or animals, and because it supports the local economy. One restaurant reports that specialty beef has “sex appeal” because of its health attributes. This particular chef is focused on promoting the glamorous image of specialty beef; believing that by eating beef, people feel better, look better and have healthier children. The majority of restaurants researched want to merchandise specialty beef and have already incorporated it into their menus. Beef buyers at restaurants explain that they are seeing strong and increasing demand for specialty beef from their customers. One restaurant included in the study only serves specialty beef periodically and has yet to fully integrate the product into its everyday menu.

Restaurants also do not show preference to one type of specialty beef over another. Only one restaurant in the study explained that they only buy specialty beef that is certified organic. This restaurant sees the greatest demand for organic products and wants to supply customers with what they ask for.

Like specialty stores, restaurant buyers also want to be educated about the specialty beef product they have on their menu in order to correctly answer any questions about the product their customers may have. Many of the chefs and beef buyers interviewed visit the farms prior to purchasing the beef and all respondents stated they have to understand how the operation works and develop a trusting relationship with the producer before they are willing to incorporate the beef into their menus.

When discussing promotion, restaurants believe that they receive a lot of free press from hometown magazines, newspapers, and local news stories and that carrying specialty beef enhances their overall image. A few of the restaurants utilize free internet sites, but most believe specialty beef is so demanded that little advertising is necessary and the attributes of the beef are what sell it. One restaurant included in the study offers a “Free Burger Monday” which is a buy one, get one free special. This special has caused their fresh, local, organic product to become 30% of their hamburger sales in just one year. A few of the restaurants did proclaim that the only constraint to the specialty beef is that some customers cannot afford its premium price.

### **5.3.2 Restaurant Procurement**

This study hypothesized that restaurants’ regulations are strict and normally require a written or verbal contract to ensure that the product they purchase is supplied at the appropriate time in the needed quantity to fulfill the demands of the menu. Restaurants are known for using intermediaries, often a wholesaler which delivers food products directly to their venue. Field research supported this hypothesis.

Beef buyers demand a trusted and personal relationship between the restaurant and the supplier. All restaurants included in the study only have a verbal agreement with their suppliers and most are flexible in their requirements. All restaurants require that all processors who slaughter the specialty beef purchased must be certified by the U.S.D.A. but other procurement requirements and procedures differ depending on the restaurant's clientele and genre. The restaurants included in the research operate very similarly to specialty stores. The majority of restaurant owners believe that buying beef from local sources helps to lower the risk of having an epidemic beef scare from a disease outbreak.

Restaurants demand specialty beef as an enhancement to their menus and many of the restaurants in the study believe that a decentralized approach to purchasing specialty beef from local producers has a lot of benefits. The study found that all restaurants value the personal relationship they have with the supplier and are very comfortable with the procurement process. The study also found that the restaurants stay in constant contact with their supplier and one restaurant said that the buyer and producer check in with one another nearly every day even if there is no order to be placed or shipment to be delivered. The study found that when restaurants begin to sell specialty beef, successful procurement is "hit or miss" in terms of getting the right product and volumes to meet demand and it took some restaurants up to three months before a successful strategy of what and how much to order was finalized.

As discussed earlier, restaurants need a high-quality supply of beef on a consistent basis. The research finds that restaurants, particularly the high-end sector have never had a problem with poor beef quality. Chefs and restaurant managers make it known that obtaining quality beef which supports the restaurant's individual product standards is a top priority when it comes to requirements for the supplier. They ensure this by visiting farms and understanding the operation as well as forming personal relationship with the suppliers before making a purchase.

Like specialty stores, specialty beef is delivered to restaurants by the supplier and payment for the purchase is typically made at delivery. The restaurants in the study all have product liability insurance and consequently do not require individual suppliers to have a plan, but rather put more trust in the relationship that producers only supply a product of the highest quality. Most of the restaurants stated that when discussing supply requirements, there is no need to negotiate because the producers are already supplying what is necessary and demanded and take pride in their product and are committed to making certain their beef represents attributes demanded by consumers and meets the restaurants needs.

### **5.3.3 Virginia Producers' Potential**

Restaurants in the study already purchase specialty beef from Virginia producers. The majority of restaurants are willing to discuss purchases with potential suppliers even though they are already satisfied with their current procurement procedures and their suppliers. Purchasing from additional producers will help buyers ensure they are selling a product that meets the demands of their customers. Only a few of the restaurants interviewed were not willing to discuss supply opportunities with new Virginia producers because they don't want to jeopardize their relationship with their current producers. The study also asked how they would meet their beef requirements if they expanded. One restaurant said that if they were to expand, they would want to purchase from a farm where specialty beef is the sole enterprise and is more organized in their operation compared to a producer who produces specialty beef in addition to a full time job. Another restaurant stated that if they were to franchise and become a chain, they would still continue to buy locally with each franchise sourcing within a maximum radius of 60-100 miles.

## **5.4 Direct Sales to Consumers**

### **5.4.1 Direct Sales to Consumers Merchandising**

It was hypothesized that producers selling direct to consumers have a prime opportunity to sell specialty beef because it offers many of the attributes consumers demand including buying locally and having a personal relationship between the buyer and seller. It was also hypothesized that customers would be willing to pay the premium price for specialty beef in this alternative outlet because the value of the attributes and services they demand from the product and direct marketer compensates for the higher price. Field research supported these hypotheses.

The clientele of direct-to-consumer outlets includes a diverse group; however, they all demand the specific attributes that specialty beef supplies. Producers characterized the majority of their customers as housewives or middle-aged mothers. Producers in the northern Virginia area see a higher-income customer than those in other parts of Virginia who see the typical consumer as middle class. Producers also have customers who are cancer survivors or have health problems or allergies that attract them to the health benefits of specialty beef. One producer believes that people are recognizing that clinical medicines are not always the right way to go and health issues are pushing them to find alternatives such as dietary choices to maintain their health. Another producer reported that the attributes of a natural product are what the customers are looking to buy. This producer explains that there are customers who purchase their pasture-finished beef that had never eaten beef until they found specialty beef products. All producers in the study reported that their customers value a locally raised product and the ability to meet the farmer who produced their beef. One producer pointed out that in her experience, the term organic is a “word game” that many consumers have lost faith in and nothing satisfies customers more than getting to know the farmer they purchase from. One producer has surveyed middle-aged women in the area to find out what attributes they are looking for and found that the

beef produced with no artificial hormones and no antibiotics is increasing in demand. The producer also explains that by getting people to realize how much energy is used to truck cattle to feedlots, they can promote specialty beef on the basis of the benefits that specialty beef can bring to the environment compared to conventional beef.

Producers who sell directly to consumers are quite different from the other alternative outlets in terms of their passion about their enterprises, unique goals for their operations, and efforts to differentiate themselves from their competition. The majority of producers interviewed use a farmer's market as their main market outlet. Other outlets producers in the study use include on-farm stores, buyer's clubs, restaurants, and a few will deliver to customers. Producers agree that generally demand far outweighs supply in direct marketing. They benefit because they receive more money per animal when compared to commodity beef; however, there are more overhead expenses at the outset. Producers who sell at farmer's markets believe that selling this way is beneficial because no advertising is necessary; the customer is already there. The constraints of the farmer's markets are knowing what products are going to sell each week, limitations with frozen meat, the time spent traveling and preparing for market, and the increase in traveling costs due to rising gas prices. The research found that producers have very mixed thoughts about on-farm stores. The benefits of an on-farm store are that the inventory is on hand and there is no travel involved and that, customers can visit the farm and get a better understanding of how the beef is produced. In contrast, producers who are located in more rural areas find that an on-farm store is not as beneficial because it is hard to get people to come visit the store. Delivery is utilized by few producers in the study, but those who do deliver believe it saves a lot of time because they don't have to wait on customers to come and pick up their purchases. Restaurants are also a growing outlet for the producers in the study. Direct marketers believe that restaurants are useful because the restaurant often buys the entire animal and

provides free advertising when the chef puts the farm's name on the menu. Nevertheless, restaurants can be difficult because they do not have a consistent schedule of purchases and can have large lags in time between deliveries. Producers who sell to restaurants also said that working with a chef is much harder than the average customer because chefs are very particular about what they want from the specialty beef. Overall, producers believe that selling specialty beef direct to consumers is a very rewarding way to market the product. However, they were all quick to point out that it takes time to work through the initial challenges and develop a consistent operation that delivers quality. That is, producers in the study agree that the business does not develop overnight that it takes time to fully evolve into a successful business operation.

One producer interviewed also felt her operation was scrutinized by vendors of the farmer's markets and were not able to diversify their products as they wished. This producer no longer sells at farmer's markets and now sell the majority of her specialty beef at her on-farm store and to white tablecloth restaurants in the Washington DC area. The producer believes that when customers do visit the farm, they see the evolution of the farm over the course of the year which enhances their appreciation of the product. This farmer has become creative and found ways to let their customers participate in the farm activities; allowing them to get a better understanding of how things work. This particular farm has also found ways to use the entire animal, making broths, beef stock, and soups which are also sold in the on-farm store. The producer claims that simply by engaging the customer and making the enterprise unique has allowed her clientele to quickly grow.

Finally, an exceptional example of beef direct marketing was encountered in the research in the case of a group of five farmers that have come together to collectively form a specialty beef operation. This group produces nearly 600 head of cattle and is currently setting up guidelines and standards for each producer to abide by. This group of producers found that the

farmer's market outlet was not working out for them because they never knew what to expect and reported not having the business they wanted. They have now begun selling to white tablecloth restaurants and also pursuing universities as a potential market. The group proclaims that having trust in the entire group is most important as well as putting trust in the market manager who is responsible for marketing the beef. The group delegated all marketing tasks to one producer in the group and pays him a salary. As market manager, this producer recruits clientele and investigates market outlets which makes the operation run smoothly. The marketing manager points out that there are many difficulties to work out with running a new business like this; it's a different enterprise than farming. Despite the challenges, the five producers strongly believe that the only way to develop a successful niche is by operating with a group of producers and designating one to be in charge of marketing the specialty beef.

#### **5.4.2 Direct Sales to Consumers Procurement**

It was hypothesized that in order to succeed in marketing specialty beef direct-to-consumers direct marketers must build a strong personal relationship with their clientele and follow the guidelines to operate the enterprise so that customers remain loyal and demanding of their products. Field research supported this hypothesis.

The study found that the major investments that must be made in order to operate in this market outlet are freezers to store the beef in. A refrigerator truck for traveling convenience is also a large investment for some producers and those that have not made this purchase are hoping to do so in the future. Other investments that were made by almost all producers in the study include signs for advertising, business cards, and a customized label for products. Nearly all producers have websites or are beginning one soon and this also requires a monthly payment to maintain. One producer new to farming had to build an additional building on the farm for storage of the coolers and freezers. The study found that the five producers who operate as a

group have already invested in liability insurance to ensure they have the ability to supply any alternative market outlet that may require liability insurance.

Just as the study hypothesized, all producers emphasize the importance of a personal, trusted relationship with their customers. Over half of those interviewed believe that the product has to have a “story”. A producer must paint a picture of the farm and the operation when talking to customers. Nevertheless, they must remain down to earth, that is, instead of being a salesman, be a producer who is selling a product. One producer pointed out that if the goal of the operation is to only make money in the business then there is no longer a “story” and the business will eventually fail. Producers in the study have found that consistency is the best way to build a relationship. Consistency is demonstrated by going to farmer’s markets regularly, having regular hours of operation for on-farm stores, and on-time deliveries. Such activities are vital in building a reliable business and respected clientele. Most of the producers also try to stay away from making claims about their products but rather invest in their relationship with their clientele by inviting customers to visit the farm and see first hand what is happening. Many of the producers selling at farmer’s markets send out a weekly e-mail to their customers to explain what products they will be bringing to the market and to check if there are any specific items a customer needs that particular week. Most producers also give discounts to customers who are loyal to their business and will offer specials around the holidays or when they are trying to sell of an excess supply of a particular product.

Producers agree that the requirements to sell direct to consumers are not as strict as other outlets but should not be taken lightly. It takes planning and good organization to be successful, a strategy that is as simple as possible and built upon as the business grows, and an understanding that there is a lot of trial and error involved and changes often happen without warning. When coordinating the business plan, it is important to be observant of what works and

doesn't work. The study found that there are a variety of issues related to investing in this business. Processing is one of the big issues with specialty beef. One producer has found that using two processors is the best way to avoid a problem with not being able to make an appointment for slaughter. Using two processors does have a drawback though because the quality of the packaging is not the same. Another producer in the study is afraid the processing in the area is unreliable because it is performed by a much older generation who is experiencing health problems and may be forced to close at anytime. Another producer emphasized the difficulty in marketing the product because each animal is going to taste different depending on the feed ration each animal has. Therefore, it is important to try to alleviate pre-conceived notions about the product among consumers. With the exception of the five producers marketing in association, all of the producers interviewed are not interested in selling to a large retail chain because they believe once a producer sells to a large retail outlet, the producer will be cutting the profit margin and therefore have to increase production which results in operating in the commodity business all over again, which is what direct marketers want to escape.

All requirements and issues associated with marketing specialty beef can be improved, producers believe, it just takes time and hard work to make the transaction work. One producer highlighted the importance of "thinking outside the box" while all producers stress that continuously building a reliable, trusting relationship with customers and processors is the most important component in constructing and maintaining a profitable and rewarding specialty beef enterprise.

## Chapter Six

### Discussion and Recommendations

#### 6.1 General summary of major results

Specialty beef is in strong demand among alternative market outlets in Virginia. There is limited demand and very little potential for Virginia producers to supply large retailers but there is a great opportunity to supply specialty retailers and restaurants. There is also a unique opportunity for producers to sell directly to consumers through farmer's markets and on-farm stores.

#### 6.2 Implications for VA producers

##### 6.2.1 Matching Producers to Markets

Specialty beef in Virginia is diverse and no similarities in demographics, farm characteristics, production methods, and marketing tactics. This research did not identify any universal strategy suitable for every producer to follow but rather each producer individualized their production to best suit their ability to supply an identified market segment. In a previous study completed by Webb (2008), Virginia specialty beef was categorized into three clusters. These clusters included "diversified," "add-on," and "specialty beef only."

"Diversified" producers direct market a larger proportion of their sales of specialty beef and other animal products and raise on average 2.5 additional direct marketed animal products besides beef. "Add-on" producers market specialty beef in addition to an existing conventional beef cattle operation and on average raise one additional direct marketed animal product in addition to specialty beef. Producers who market "specialty beef only" raise only beef and obtain 100% of their farm sales from this product. In general, "diversified" farmers are in a better

position to supply outlets that demand a higher volume and can also supply more than one outlet. Because they rely less on income from off the farm, they normally have a variety of markets they sell beef. “Diversified” farmers are also typically in a better position to afford the investments required for entry into the specialty beef market. Because they raise and produce a number of agriculture products, “diversified” farmers can use diversification to their benefit as a marketing tool which allows them better access to alternative markets if they can offer a variety of products besides only beef. If they choose to continue selling directly to consumers, they are in a position to be very creative with their enterprise and are able to take more marketing risks allowing them to be more creative than “add-ons” and those who market “specialty beef only” because they have other sources of income to rely on if their beef enterprise fails. This group is also better suited to supply a larger geographical area because they can cover the costs of transportation and delivery.

“Add-on” producers should focus on supplying outlets within their means. They rely more on off-farm income than diversified producers and only have one additional enterprise and therefore should not take the risk of getting to big too quickly or trying to supply more outlets or supply a higher volume than they effectively can. They should find one or two dedicated alternative outlets to which they supply to and then also utilize an on-farm store or farmer’s market clientele as well. Expanding and using both types of market outlets will require a little more cost on the producers’ behalf but is the ideal way to begin a successful business. This producer may also choose to further diversify their operation as they become successful and develop more into a diversified operation with more than one additional enterprise than beef.

Those producers who market “specialty beef only” because of their smaller farm size and on average only slaughtering four head of cattle per year are best suited to direct consumer sales. This outlet relies heavily on off-farm income and the only revenue received from the farm is

through the specialty beef and producers should make sure they do not take on additional supply risks with selling to larger alternative outlets. They should focus on marketing creatively to their known customer base and expanding locally based on strong personal relationships and exploiting “locally grown”. This specialty farm is in operation because it believes in something more than just making a profit and therefore can really market their “story” that customers demand as discussed in Chapter 5.

### **6.2.2 Recommendations for entering into and competing in the specialty beef market**

Producers entering market should consider the appropriate product form for beef sales. While selling individual cuts may provide the highest returns, this method is often the most labor intensive. Additionally, some producers may find it challenging to sell the entire animal and may experience difficulty moving cuts such as hamburger and stew-meat. Producer’s considering this enterprise should also implement a record keeping system that will allow them to track all financial components of their operation. This will allow them to analyze capital expenditures and asses profitability of each aspect of their operation. Each producer must evaluate their own personal situation and determine where their operation fits within Virginia’s supply and carefully select the best strategy to market specialty beef choosing the most attractive and appropriate alternative market outlet.

### **6.2.3 Product**

Producers selling specialty beef must have comprehensive knowledge of the product they are selling and understand what attributes and benefits are demanded by their targeted customer base. In addition producers must be able to successfully communicate how their product meets the individual needs of that customers. When working with customers who have specific needs such as cancer patients, customers with allergies or cardio-vascular disease, it is important to explain the benefits of specialty beef to customers with such diet restrictions. In addition,

producers must also know their customers and recognize what attributes and services they demand. Unlike the commodity market which uses price to evaluate demand, a producer in the specialty beef market must look at non-price signals such as changing customer demands in attributes to evaluate the demand for the product. Like most business structures, before a producer can market the product to alternative outlets, a consistent production system must be in place. While all producers seek some level profitability, other motivations for producing specialty beef may include a personal belief in certain production practices and guidelines, the operation of an environmentally sustainable agriculture operation, and consider the operation not as a job but rather as a lifestyle where they are serving their customers by selling a product they are passionate about. Producers selling specialty beef should utilize free advertisement anytime possible. A good way to market the product when the operation is just beginning is to donate the beef to community barbeques or church functions. This opportunity can really catch customers' attention and engage them in the product and the attributes it supplies leading to forming a customer base that will purchase the specialty beef. One of the biggest constraints in the specialty beef market is finding ways to sell the entire animal. It is important to approach this issue initially by finding populations who will use the offal parts of the cow and create ways to use the undesired cuts of the cow to make soups, stews, and other products to sell.

#### **6.2.4 Market**

A problem producers often face in the specialty beef market is that they are unfamiliar with how to market and advertise a product. Unlike the commodity beef market, specialty beef takes a different approach to marketing and selling the product and is more time intensive. Therefore it is important to understand marketing before entering the business; continuous education about what is going on in the market is important so that the producer will not fall short to competition when marketing the beef. It is also important to be aware that even though

there is a premium price received for specialty beef, there are also additional costs and risks involved in this market that must be taken into consideration. In this market, it is imperative that the producer set prices to cover costs and investments in order to run a successful operation. To evaluate success, producers should examine their current coordination and strategic plan regularly and be willing to change any objectives and strategies currently in place depending on the demand of the market, their customers' requests, and their competition.

Talking with producers who have an established operation in order to gain valuable information and avoid making the same mistakes is an important task for a good producer. A profitable producer will offer recipes, educational resources, and cooking tips to customers when they purchase specialty beef; these actions are rewarded because the better a producer portrays the product, making the purchase as simple as possible, the more opportunities there are of for success .

Today's direct marketer must ensure that there is a market for their product long before they begin growing or producing their product. The need to merchandise in the direct sales sector cannot be over emphasized. In direct sales to consumer outlets, consumer-focused marketing is normally the best approach to take when organizing a successful and manageable business plan. Direct sales to consumer outlets must take advantage of their relationship with their customers and consistently and successfully deliver the new attributes and services such as healthier products, environmentally friendly products, those that support animal welfare, as well as those that support the increasing demand for locally raised agriculture products.

Understanding this new era of consumer demand is vital when differentiating their enterprise from competitors. A market plan and the environment a direct marketer creates has a strong influence on the quality of the business. When merchandising, the producer must have a clear vision and understanding of what consumers demand and how to most effectively supply

their demands through the various direct sales to consumer outlets. A producer grows crops and livestock based on what the customer demands and is willing to pay for the agriculture good and its attributes. A direct marketer must merchandise his products so that the sales of the products meet short and long term goals including a reasonable strategy of how to reach these goals, how to promote and advertise the new product, and how to differentiate his enterprise from the competition. A producer directly marketing a product is supplying many demanded attributes that customer's value in their purchase.

It is also important to understand that if over-supply of specialty beef hits the Virginia market then certain producer types will be more vulnerable than others depending on their ability to handle this situation. Caution is advised to evaluate this possibility when entering and operating in the Virginia specialty beef market.

### **6.2.5 Organization**

In the specialty beef market, the location of the farm relevant to the market outlets and processing facilities is a key factor affecting the sustainability of the producers' direct sales to consumers. When given a choice, new entrants should locate their operations near population centers to ensure a market, and near a processor to ensure a timely harvest, preferable more than one processor. Additionally, sources of inputs such as feed, supplies, and veterinarians should be within a reasonable distance. Location of the operation will be increasingly important as the variability of transportation costs increases. Because of the limited number of processors, it is important for producers to have a contingency plan in case they are forced to use an alternative processor in their specialty market. To the extent possible, specialize within the enterprise delegating specific tasks and work to those involved in the business whether it is a group of producers or a family operation. A profitable and thriving producer in the specialty beef market

learns how to appreciate the entire market chain's challenges; looking at the big picture of the operation and finding ways to alleviate the challenges.

### **6.2.6 Tips for Success for Producers**

Consistency is imperative. Not only must a producer have a consistent product, but consistency in relationships such as always attending the farmer's market on Saturday mornings or consistency in service such as delivering beef to a restaurant at the same time every week is important in order to maintain a quality operation that is respected by customers. When working with alternative market outlets, a producer must not over-extend themselves and spread their business among too many markets. As discussed above, starting off slow and gradually expanding the market is a successful strategy identity by the producers.

The attributes that customers demand will change so flexibility in the business is valuable to producers as well as the need to seek and gain specific education on these trends. The importance of taking advantage of every opportunity to constantly learn more about the specialty beef market cannot be over emphasized. A producer must initially define the philosophy of their farm. This market is different because producers must also be aware that their farm and the "story" behind their operation is a key tool in promoting the beef. Customers want to connect with the producer and are not always looking just to make a purchase but rather form a relationship. Producers may want to consider that the beef is the currency to establish and maintain a relationship.

Being profitable is certainly top priority but no producer can earn a living off specialty beef if the producer does not fully engage in the enterprise and take advantage of every opportunity available. In the beginning, start slow because a successful business will not develop overnight but rather will take time and flexibility. Don't make any unnecessary investments initially until the goals and objectives of the specialty beef enterprise have been carefully examined. Also,

before a producer begins analyzing, the ability to cover cost with the price of the beef is imperative and should not be overlooked.

## **Chapter Seven**

### **Conclusions**

#### **7.1 Summary of Thesis**

Virginia specialty beef producers have many opportunities to sell to alternative market outlets as a way to reduce their reliance on the commodity market. Consumer demand is changing and consumers are seeking food from alternative production systems based on attributes related to human health, environment, animal welfare, and other social concerns. Consumers are also interested in increasing their consumption of locally produced foods. Specialty beef such as natural, organic, and pasture-fed addresses the changing consumer demand and provides alternatives to commodity beef production. Specialty stores, restaurants, and sales direct to consumers are currently the best alternative outlets for producers to sell to. Large retailers have many more limitations and requirements of the supplier and see little potential for Virginia producers to supply specialty beef to large retail outlets.

Results show that large retailers are not a potential outlet for Virginia producers because of the consistent volume they require for each store as well as other large investments such as product liability insurance. Specialty beef producers have an opportunity to supply specialty stores. There is high demand for specialty beef in these outlets and the producer is able to supply the volume and meet the necessary coordination and relationship requirements of the specialty store compared to large retailers. Restaurants are also becoming a potential outlet for specialty beef producers, more chefs and cooks are incorporating specialty beef into their menus and looking to purchase from a producer who supplies a product that is highly desired by the restaurant's customers. The outlook for producers who sell directly to consumers is seen as positive in the specialty beef market. Producers in this outlet can create their own unique

enterprise and receive a premium price for their product, but must also be aware of the initial costs and investments to enter the market.

Each outlet in the study has specific requirements they demand of the supplier, but all want to supply the customer with the attributes and services they demand. Producers must evaluate their individual operations and characteristics to determine which market outlet is the best. Producers who sell directly to consumers must create a market that supplies attributes consumers demand and remain on top of the competition.

## **7.2 Limitations of Study and Future Research**

One limitation of this study was the relatively small number of interviews conducted in the large retail sector. It was very difficult to speak with the appropriate persons at large retailers. Due to this difficulty and because the responses were very similar among those already interviewed, the decision was made to terminate interviews with the large retail outlets since there was very little potential for Virginia specialty beef producers to sell and compete in this market outlet.

A second limitation of the study is that specialty store or restaurants that already incorporated specialty beef into their menus were interviewed. Future research could include market outlets that do not currently sell specialty beef and determine if those outlets are seeing a demand for specialty beef and if they are potentially looking to purchase specialty beef from Virginia producers as well as why they have not sold it previously.

Further research may also attempt to quantify some general conclusions, for example, to explore how many more producers can enter the market before it becomes saturated and there is no longer a premium price received for specialty beef. Is this called market saturation???

### **7.3 Dissemination of Research Results**

The results from this study can be used to guide extension outreach efforts for current and future specialty beef producers in Virginia. The results of this analysis provide valuable information to Virginia specialty beef producers who seek opportunities to sell at alternative market outlets. Publishing extension publications, utilizing existing listservs, a website with valuable information and appropriate contacts, and conducting farm tours throughout Virginia are a few suggestions of ways to successfully use the results to create an extension curriculum for Virginia specialty beef producers who want to market to alternative outlets.

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## Appendix A

### Large Chain Retail Survey

#### Large Retail Chain Beef Buyer Survey

Date \_\_\_\_\_

Name \_\_\_\_\_

Company \_\_\_\_\_

Job Title \_\_\_\_\_

Address \_\_\_\_\_

Phone \_\_\_\_\_

Email \_\_\_\_\_

#### General Information about Respondent and Retailer

What is your role in the company?

Is the company a supermarket chain \_\_\_\_\_ or independent supermarket? \_\_\_\_\_

If a chain, is distribution centralized \_\_\_\_\_ or decentralized \_\_\_\_\_?

Please describe general procurement and distribution system for beef:

If centralized, how many stores by the current distribution center? \_\_\_\_\_

What is the geographic area covered by the DC?

What percentage of your company's total sales are food products? \_\_\_\_\_

What percentage of your company's food sales are perishables? \_\_\_\_\_

What share of the company's perishable sales are from the meat department? \_\_\_\_\_

What share of the company's meat sales are from beef? \_\_\_\_\_

For each of the types of beef named in the column to the left, please indicate

1. Whether you sell it (a check mark will do). If you do sell it, please indicate too:
2. If sold, what % of beef sales it represents
3. What the approximate volume of sales is (per week or month or year, please specify)
4. What specific brands, if any, you carry
5. Whether you sell it fresh and/or frozen (check marks will do)
6. Whether you sell boxed, custom cuts, whole carcasses, sides and/or quarters (again, check marks will do)

	1	2	3	4	5		6		
	Sell?	% sales	Volume	brands	Fresh	Frozen	Boxed	Custom cuts	Wholes/sides/quarters
Natural									
Pasture-fed									
Organic									
Other (specify)									
Other (specify)									

### Marketing and Promotion of Beef

To the extent you are able, please can you characterize the buyers of PFB, Natural, or Organic Beef in terms of demographics and/or motivation?

What types of questions do you get about PFB, Natural, or Organic Beef from your customers?

What point of sale marketing tools do you use to promote beef, Pasture Fed Beef in particular?

Do you promote specific brands?

Is there seasonality in beef demand in terms of the total volume demanded, or types of cuts or products sought? Please describe.

Is there seasonality in beef supply? If so, please describe.

Does seasonality affect high value products (organic, natural, pasture-fed) differently than conventional?

What trends have you noticed in each of the following over the past few years?

- Types of beef sought by consumers
- Volumes of beef purchases
- Seasonality of beef purchases
- Changes in the attributes sought in beef, such as natural, pasture-fed, organic, fat content, tenderness, etc.
- Any concerns among your customers about other attributes such as food safety, traceability, country of origin, etc.

### **Beef Procurement and Requirements of Entry**

Are there any supply-side limitations that affect your sales of high value beef? Please specify

Have any of the following constraints prevented your company from selling beef in recent years?

Please check all that apply

Product availability

Product prices

Product quality

Food safety issues or concerns

Product origin

Other (please specify)

Other (please specify)

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For each of the following types of beef (that you sell), how many suppliers do you have, and where are they located (for example state or country)

Type of Supplier	Number of Suppliers	Types of suppliers, location
Conventional Beef		
Natural		
Pasture fed		
Organic		
Other (specify)		
Total		

What percentage of your company's beef purchases are through the following?

Contractual agreements	
On consignment	
Cash sales	
Other (specify)	
Total	100%

What percentage of your company's beef purchases are from each of the following geographic sources? (Where do they originate?) Does this vary by season? How many suppliers fit into each category?

	% supply	# suppliers
Virginia		
SE Region		
Other United States (specify state)		
Imported from other country (specify)		
Total	100%	

Is your company on the look out for new suppliers of beef?

If someone approaches your company to ask about selling you beef, what do you consider about the supplier in deciding whether or not to try them out?

Does your company require any of the following services from your beef suppliers? If yes, specify the requirement.

- Minimum volume
- Slotting fees
- Promotional support, payments, etc.
- Food safety certification
- Product liability insurance
- Production and post-harvest technology
- Labeling
- Country of origin labeling (COOL)
- Specific Packaging requirements
- Universal product code (UPC)
- Traceability
- Promotional or educational materials
- Other

Where do your company's suppliers deliver their products?

- Directly to store \_\_\_\_\_
- A centralized distribution center \_\_\_\_\_
- Other (specify) \_\_\_\_\_

**Virginia producer's current and potential contribution to sourcing**

Does your company sell any beef produced in Virginia?

If yes, where in Virginia does it come from?

How is it marketed? (natural, local, specific brand, etc.)

How do local (Virginia or regional within Virginia) suppliers fit into your beef procurement strategy?

Would your company increase the share of procurement from Virginia producers if more were available?

If yes, why, if not, why not?

Do you think that there are Virginia producers who could feasibly meet your needs as beef suppliers? Please provide detail...

Are there any specific products (organic, pasture-fed, etc.) that you feel would be of particular interest to you and promising to Virginia producers?

What are the strengths and weaknesses of suppliers of beef from Virginia?

## Appendix B

### Specialty Store and Restaurant Survey

#### Specialty Store and Restaurant Beef Buyer Survey

Date \_\_\_\_\_  
Name \_\_\_\_\_  
Company \_\_\_\_\_  
Job Title \_\_\_\_\_  
Address \_\_\_\_\_  
Phone \_\_\_\_\_  
Email \_\_\_\_\_

#### General Information about Respondent and Retailer

What is your role in the company?

Please describe general procurement and distribution system for beef:

What percentage of your company's total sales are food products? \_\_\_\_\_

What percentage of your company's food sales are perishables? \_\_\_\_\_

What share of the company's perishable sales are from the meat department? \_\_\_\_\_

What share of the company's meat sales are from beef? \_\_\_\_\_

For each of the types of beef named in the column to the left, please indicate

7. Whether you sell it (a check mark will do). If you do sell it, please indicate too:
8. If sold, what % of beef sales it represents
9. What the approximate volume of sales is (per week or month or year, please specify)
10. What specific brands, if any, you carry
11. Whether you sell it fresh and/or frozen (check marks will do)
12. Whether you sell boxed, custom cuts, whole carcasses, sides and/or quarters (again, check marks will do)

	1	2	3	4	5		6		
	Sell?	% sales	Volume	brands	Fresh	Frozen	Boxed	Custom cuts	Wholes/sides/quarters
Natural									
Pasture-fed									
Organic									
Other (specify)									
Other (specify)									

### Marketing and Promotion of Beef

To the extent you are able, please can you characterize the buyers of PFB, Natural, or Organic Beef in terms of demographics and/or motivation?

What types of questions do you get about PFB, Natural, or Organic Beef from your customers?

What point of sale marketing tools do you use to promote beef, Pasture Fed Beef in particular?

Do you promote specific brands?

Is there seasonality in beef demand in terms of the total volume demanded, or types of cuts or products sought? Please describe.

Is there seasonality in beef supply? If so, please describe.

Does seasonality affect high value products (organic, natural, pasture-fed) differently than conventional?

What trends have you noticed in each of the following over the past few years?

- Types of beef sought by consumers

- Volumes of beef purchases
- Seasonality of beef purchases
- Changes in the attributes sought in beef, such as natural, pasture-fed, organic, fat content, tenderness, etc.
- Any concerns among your customers about other attributes such as food safety, traceability, country of origin, etc.

**Beef Procurement and Requirements of Entry**

Are there any supply-side limitations that affect your sales of high value beef? Please specify

Does your demand outweigh your supply or vice versa?

Have any of the following constraints prevented your company from selling beef in recent years?

Please check all that apply

- Product availability \_\_\_\_\_
- Product prices \_\_\_\_\_
- Product quality \_\_\_\_\_
- Food safety issues or concerns \_\_\_\_\_
- Product origin \_\_\_\_\_
- Other (please specify) \_\_\_\_\_
- Other (please specify) \_\_\_\_\_

What percentage of your company's beef purchases are through the following?

Contractual agreements	
On consignment	
Cash sales	
Other (specify)	

Total	100%
-------	------

Is your company on the look out for new suppliers of beef?

If someone approaches your company to ask about selling you beef, what do you consider about the supplier in deciding whether or not to try them out?

Does your company require any of the following services from your beef suppliers? If yes, specify the requirement.

- Minimum volume
- Slotting fees
- Promotional support, payments, etc.
- Food safety certification
- Product liability insurance
- Production and post-harvest technology
- Labeling
- Country of origin labeling (COOL)
- Specific Packaging requirements
- Universal product code (UPC)
- Traceability
- Promotional or educational materials
- Other

Where do your company's suppliers deliver their products?

- Directly to store \_\_\_\_\_
- A centralized distribution center \_\_\_\_\_

- Other (specify) \_\_\_\_\_

### **Virginia producer's current and potential contribution to sourcing**

Does your company sell any beef produced in Virginia?

If yes, where in Virginia does it come from?

How is it marketed? (natural, local, specific brand, etc.)

How do local (Virginia or regional within Virginia) suppliers fit into your beef procurement strategy?

Would your company increase the share of procurement from Virginia producers if more were available?

If yes, why, if not, why not?

Do you think that there are Virginia producers who could feasibly meet your needs as beef suppliers? Please provide detail...

Are there any specific products (organic, pasture-fed, etc.) that you feel would be of particular interest to you and promising to Virginia producers?

What are the strengths and weaknesses of suppliers of beef from Virginia?

## Appendix C

### Sales Direct-to-Consumer Survey

#### Marketing Specialty Beef Direct-To-Consumers Survey

Date:

Name: \_\_\_\_\_

Farm: \_\_\_\_\_

Job Title: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_

Provide producer with an overview of the project, how this interview will be used, and ask if he or she has any initial questions before beginning. Snapshot, Supply, Demand, Coordination/Logistics

Snapshot:

1. What is your enterprise mix?

Livestock \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_

Crops \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_

Other \_\_\_\_\_

2. How long have you been direct marketing your beef?

3. Why do you choose to direct market your beef?

4. What percentage of your beef do you market to these outlets

Outlet Name	Percentage
Farmer's Market	
On-farm Store	
Buyer's Club	
Delivery	
Other _____	

Notes:

## Supply:

### 1. Of the direct marketing outlets that you work with:

- a. What are the benefits of direct marketing at these specific outlets? (list separately)
- b. What are the difficulties of direct marketing at these outlets? (list separately)
- c. Are there any specific investments (equipment, trucks, billboards, signs) you have had to make in order to market to these outlets?
- d. How do you coordinate your marketing strategy and plan of action? (ie who do you coordinate with, are there any rules and regulations you must adhere to on a weekly basis, who makes decisions on what cuts to sell, when to sell, and where to sell, weekly meetings, product decisions, management and marketing decisions)
- e. What are the major issues you are faced with when direct marketing to these outlets (processing, supply, labor)?
- f. Are there any aspects of your direct marketing of beef that you are thinking about changing, improving, or doing away with particularly in your marketing strategy?

## Demand

1. Can you give me an overview of your clientele -Who they are, where they come from, what are they demanding, a generalization of them?
  2. What are customers mainly looking for when buying your beef? (attributes such as locally raised, natural, animal and environmental welfare etc)
  2. High value beef that is direct marketed is highly demanded by today's consumer. Do you feel you have to recruit your customers or do they usually find you and your product?
1. What types of advertisement and marketing tools do you use to promote your business?

- i. Word of mouth
- ii. Newspaper
- iii. Radio
- iv. Website
- v. Flyers
- vi. Community Events
- vii. Ads in publications
- viii. Other\_ \_\_\_\_\_

2. How do you see your business changing in the future as far as marketing?
  
  
  
  
  
  
  
  
  
  
3. Are you interested in becoming larger and selling at a higher volume at a larger scale? If so, are you able to do that with your current production and marketing or would you have to expand before that could happen?
  
  
  
  
  
  
  
  
  
  
4. What advice or suggestions would you give to other producers who are just beginning to direct market their high-value beef?
  
  
  
  
  
  
  
  
  
  
5. Is there anything I have failed to ask or mention in this interview that you feel is very important and relevant to the industry?

## **Appendix D**

### **IRB Approval**

DATE: July 6, 2006

MEMORANDUM

TO: Denise Mainville  
Ashleigh Waddle

FROM: Carmen Green 

SUBJECT: IRB Exempt Approval: "Promoting the Development of Economically and Ecologically Sustainable Pasture-Fed Beef Markets", IRB # 06-351

I have reviewed your request to the IRB for exemption for the above referenced project. I concur that the research falls within the exempt status. Approval is granted effective as of July 5, 2006.

As an investigator of human subjects, your responsibilities include the following:

1. Report promptly proposed changes in previously approved human subject research activities to the IRB, including changes to your study forms, procedures and investigators, regardless of how minor. The proposed changes must not be initiated without IRB review and approval, except where necessary to eliminate apparent immediate hazards to the subjects.
2. Report promptly to the IRB any injuries or other unanticipated or adverse events involving risks or harms to human research subjects or others.

cc: File

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DATE: March 19, 2008

MEMORANDUM

TO: Denise Mainville  
Ashleigh Waddle  
Wen You

FROM: David M. Moore 

SUBJECT: **IRB Amendment 1 Approval:** "Promoting the Development of Economically and Ecologically Sustainable Pasture-Fed Beef Markets", IRB # 08-351

This memo is regarding the above referenced protocol which was previously granted approval by the IRB on July 5, 2008. You subsequently requested permission to amend your IRB application. Approval has been granted for requested protocol amendment, effective as of March 18, 2008.

As an investigator of human subjects, your responsibilities include the following:

1. Report promptly proposed changes in the research protocol. The proposed changes must not be initiated without IRB review and approval, except where necessary to eliminate apparent immediate hazards to the subjects.
2. Report promptly to the IRB any injuries or other unanticipated or adverse events involving risks or harms to human research subjects or others.

cc: File

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vtti dept reviewer letter