



# **Section 1.1**


## **Marketing Niche Beef: Is It An Alternative For Your Operation?**



**Wendy Umberger and Dawn Thilmany**  
**Department of Agricultural & Resource Economics**  
**Colorado State University**



# Section Summary

- 
- Define niche marketing
  - Determine why others choose to market their product as a niche (pros & cons)
  - Discuss types of niche markets
  - Assess risks associated with niche marketing
  - Examine steps to determine if niche marketing is the right decision for you



# What Is Niche Marketing?



- Involves developing and marketing products or services for a targeted group of consumers
- Typically target market consumer dissatisfied with conventional supply and willing to pay a premium
- Niche marketing turns price takers (perfect competition and commodity marketers) into price makers (differentiated product market with fewer competitors)




# Reasons For Niche Marketing



- Penetrate untapped market
- Add value to cattle that have been produced in a specific manner or with superior genetics
- Use feed resources on the farm and lower production costs
- Increase profit for producers with marketing and customer service skills



# Determining Prices More Complex In Niche Production

- 
- Involves more work than typical commodity production pricing:
    - ▶ More management intensive, must account for time when adding costs
    - ▶ Requires more labor and resources than producing commodity beef
    - ▶ More risky, prices vary with time and are much different than local grocer prices




# Niche Market May Change Or Disappear

Presence and structure of niche market influenced by changes in:

- ▶ Supply: as competitors and substitute goods increase, niche product loses its competitive advantage
- ▶ Demand: changing tastes and preferences or income levels also impact niche status of a product; target market must want to purchase niche item



# Don't Forget The Downside

- 
- New or increased costs
    - ▶ Production: finishing, processing, labor
    - ▶ Marketing: packaging, advertising, labor
  - Time commitment: cost that is often ignored
  - Risks
    - ▶ Limited demand
    - ▶ Market saturated with other niche products
    - ▶ Competition too strong



# Niche Classification Types



- Safety of the product (organic, product origin, antibiotic/hormone-free)
- Animal welfare (free-range, cruelty-free)
- Environmentally safe (protect land/streams)
- Protect others from harm (predator friendly, free-trade)
- Help other people (locally-raised, Colorado Proud)
- Religious beliefs (Kosher, Halal)






# Two Types Of Niche Beef Markets



1. Large alliance niche
  - ▶ Large number of producers - usually from several states, use contractual agreements and specifications
  - ▶ National or international distribution of product and wide-spread consumer base
  
2. Micro-niche
  - ▶ One or several producers
  - ▶ Regional distribution of product, may only have seasonal production




# Large Alliance Niches

- 
- Offer producers an opportunity to tap into already discovered market. Examples: Oregon Country Beef, Coleman Natural Meats, Maverick Ranches
  - Producer responsible for meeting program specifications, but not usually marketing
  - One individual producer cannot serve these markets
  - Producers typically receive a premium




# Large Alliance Niches

- 
- Product less vulnerable to substitution due to characteristics such as lean, organic and natural that appeal to specific consumers
  - Alliances may have production verification programs, labeling standards, and/or other requirements such as uniformity
  - Participation risks include fulfilling requirements and supply requests



# Micro-Niches

- 
- Individual producer can service this market
  - Farmer's markets, specialty stores, freezer beef, restaurants, community supported agriculture (CSA)
  - Knowledge of who is producing their beef is important to consumers
  - Unique production attributes may include grass-fed, humane treatment of animals, fresh, local, environmentally safe production, specifically aged



# What Makes A Niche Market Accessible For Producers?



- Information must be available about consumers comprising the target market
- Consumers must be willing and able to purchase your product
- Loyal and committed customers
- Target market should be sufficiently profitable and large enough to make producing a niche product worthwhile for the producer



# Risks Of Producing For A Niche Market



- Production risk
- Managerial risk
- Financial risk
- Marketing and price risk
- Legal risk




# Production Risks



- May involve new production practices or require skills to produce unique goods
- Small producers have difficulty producing steady quantities (consistent quantity)
- Beef products are sometimes difficult to keep uniform (consistent quality)
- Finishing, processing, seasonality
  - ▶ Difficult and costly to change finishing program, special processing hard to find, seasonality of breeding program



# Managerial Risks

- 
- Niche marketing often involves direct involvement with consumer
  - More time intensive, greater labor investment
  - Must be prepared to change product to fit consumer demand
  - Saboteurs do exist and may cause problems (may report false information about your product, contracts may be breached)





# Managerial Risks




Traceability can be a double-edged sword:

- Guarantees origin of product to consumers
- Improves food safety:
  - ▶ Consumers know who produces a safe product
  - ▶ Allows tracking contamination problems to source (E-coli, BSE)
- Liability may become an issue if producer found to be source of contamination problems



# Financial Risks

- 
- Capital investment is generally higher to start up a niche business (organic certification, labeling)
  - Reaching consumers in certain niche markets may require considerable capital investment
  - Costs may be higher (labor, processing, promotion, transportation)
  - May need to deal with bad checks or timely payment from consumers



# Marketing & Price Risks



- New supply participants increase competition
- Prices fluctuate due to changing demand
- Must supply volume to meet demand
- Need to produce consistent product & maintain uniform pricing
- Must determine how to price different cuts




# Marketing & Price Risks



- Seasonality affects sales (steak more popular during summer)
- May be able to sell some cuts of beef better than others
- Market access- “getting in the door”



# Legal Risks

- 
- Food safety regulations
  - Product liability
  - Regulatory compliance (USDA, HAACP, labeling claims)
    - ▶ See the following website about labeling claims:  
<http://www.ams.usda.gov/lsg/stand/claim.htm>




# Legal Risks

## Contractual agreements:

- ▶ USDA Grain Inspection, Packers and Stockyards Administration (GIPSA) has information on contractual agreements online at: <http://www.usda.gov/gipsa/>
- ▶ Contracts not always economically enforceable (i.e., breach of contract by a large wholesaler, difficult for a small producer to take legal action because of limited legal & financial resources)




# Considerations In Choosing A Marketing Strategy

- 
- In general, joining a large alliance niche tends to be lower risk
    - ▶ Risk will increase if producer is unable to meet product conformation and supply specifications of the alliance
  - Micro-niche is more complicated & risky but there is potential for greater rewards for individual producer



# Steps To Help In Decision-Making

- 
1. Identify specific niche market
  2. Identify necessary resources: land, labor, capital, knowledge, skills, talent, cattle
  3. Conduct market analysis: characteristics, demographics, location, market size, expected obstacles
- ➔ Refer to marketing sections 3.1 - 3.4 in this workbook





# Evaluate Current Business Plan Or Develop New One



- Does niche marketing fit mission statement & goals?
- Will niche marketing help improve your current operations?
- Conduct a feasibility analysis and evaluate your ability to produce a niche product



# Conduct Feasibility Analysis



- Are you able to produce a niche product?
  - ▶ Goal-setting: ensure final work plan & investment are consistent with family & business goals & objectives
  - ▶ Financial plan: develop enterprise/partial budgets
  - ▶ Production plan: determine how cattle will be managed to get desired product
  - ▶ Marketing plan: determine product, pricing, promotion and distribution
  - ▶ Sensitivity analysis: look at different outcomes for niche product & determine their feasibility