Section 1.1
Marketing Niche Beef: Is It An Alternative For Your Operation?

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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:
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