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**COLORADO HOMESTEAD RANCHES-OUR SUCCESS STORY:
HOW DO WE SELL BRANDED BEEF DIRECT TO THE CONSUMER**

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INTRODUCTION

Colorado Homestead Ranches (CHR) markets natural beef, pork and lamb direct to Western Slope consumers. CHR is a partnership of six ranches that own their own USDA packing plant, a wildgame processing facility, and two storefronts. CHR markets direct to consumers via retail and farmers markets, restaurants, and wholesale distributors. CHR produces and markets value added sausage, jerky, meat sticks, and ready to cook entrees. The current strategic position of CHR is marketing of a niche, differentiated line of beef products, targeted at consumers who want a consistent quality product, raised on Colorado ranches, with natural production practices.

BACKGROUND

CHR began in November of 1996 as a group of ranchers from the Western Slope of Colorado seeking to provide a healthful, quality beef product marketed directly to the consumer. CHR markets frozen beef quarters, halves, wholes, individual cuts, processed beef products (jerky and polish sausage), pork processed sausages and ready-to-heat entrees through several direct

marketing channels throughout the Western Slope of Colorado. All of the CHR cattle are born and raised on family-owned ranches, then fed on open range and finished at a medium sized feedlot near the ranches. CHR program cattle are raised without the use of additional hormones, antibiotics and are never fed animal bi-products. These cattle are processed at a USDA inspected packing plant owned by CHR. CHR ranches have a long history of cattle production and environmental stewardship in the Paonia, Crawford, and Hotchkiss, Colorado area.

In 2002, CHR purchased the USDA-inspected packing plant that had been processing CHR beef since its inception. This purchase included the facility, equipment, labels, and customer base. The plant was old and had been renovated numerous times over the years. It soon became apparent that in order to grow CHR, additional renovations would have to be made. Before that step was taken, alternative packing facilities were evaluated. A newer beef packing facility located in Delta, Colorado was available and after further analysis, it was determined that for a similar dollar output, a newer, more structurally sound facility with better access could be purchased. In November 2006, CHR opened the doors of its new USDA packing plant located in Delta, Colorado. The new plant has allowed CHR to grow, increase capacity and improve its visibility within the business community. There are a total of 13 employees and 1 general manager at the Delta facility.

Approximately 400 head of cattle from the six ranches are being marketed through CHR Program. This accounts for one-third of the CHR groups marketable cattle. The remainder of cattle follows traditional routes to commercial feedlots. To obtain year-round supply, cattle are placed into the feedlot every two months. All CHR ranches are spring calving and therefore the age of cattle going into the feedlot varies throughout the year. Heavier calves, lighter calves, long yearlings and heiferettes are all used to spread the supply throughout the year.

VALUE ADDED MARKETING SURVEY

In 2004, CHR received a USDA Rural Development Value Added grant and contracted with Colorado State University to conduct market research to pinpoint customers and plan for directed marketing. The data were collected from a national online survey conducted by the National Family Opinion organization in April 2004. A total of 1840 households were surveyed including 400 in Colorado of which 120 were from the Western Slope of Colorado.

CSU identified five clusters that were named based on how they vary in terms of demographics, buying behavior and attitudes about important factors in meat production. The first cluster is labeled High-Income Professional Quality Seekers (Quality Seekers), and make up 52 of the 412 surveyed Coloradans (12%). The second cluster is labeled Health and Natural Consumers (55 individuals, or 13% of all consumers). The third cluster is labeled Moderate Consumers, and is the biggest cluster with 123 respondents (30% of the consumers). The fourth is Empathetic Value Seekers (94 individuals or 23%), and the last cluster is the Price Conscious segment(92 or 22%).

Demographics continue to be a primary source of market analysis but they are only part of a good consumer profile since there is some evidence that psychographics (beliefs and lifestyle

choices) are also linked with consumer behavior. Not surprisingly, survey results reported that a consumer's choice to buy natural beef in the past, was an important indicator of a consumer's willingness to directly buy alternative food products, such as CHR's meats. CHR may choose to target consumers who prefer to shop in less traditional food marketing channels but traditional supermarkets are still the dominant food shopping location. Table 1 indicates the importance of issues that shoppers may consider when choosing their meat shopping outlet and CSU noted that the High-Income Professional Quality Seekers prefer superior products while Health Conscious Parents were most concerned with safety and Empathetic Value Seekers were more willing to support local producers.

It is interesting to note which attributes are most important for each consumer segment, so that CHR can develop marketing strategies for consumers with the most compatible profiles. Figure 1. depicts attributes by consumer category. Health and natural consumers were named specifically for their high ratings on natural production practices. Similarly, empathetic value seekers seem concerned with alternative practices. Price conscious males and moderate consumers were less concerned, with the exception of BSE testing. Thilmany, Umberger and Ziehl noted that, in terms of tangible meat and quality attributes, there were fewer differences among consumers. Good value was the highest ranked issue followed by leanness, freshness, size of package and nutritional value. Meat being boneless, branded, ready to heat, pre-seasoned, aged or organically certified were much lower ranked, suggesting that value, health and safety issues are generally more important than process-oriented value added claims.

Quality seekers are less likely to shop at meat shops than moderate consumers are; however, they shop more at farmer's markets than moderate consumers do. Health and natural consumers are more likely to shop at health food stores than all other groups. Price conscious consumers were more likely than any other group to buy meat directly from producers. Quality seekers were primarily interested in the local attribute of beef and have a desire to support their local economy. The health and natural consumers and empathetic value seekers were willing to pay a premium for the local, natural beef product.

TARGETED MARKETING FOR COLORADO HOMESTEAD RANCHES

Natural meat consumers are diverse and the CSU consumer survey and analysis provided valuable marketing direction for CHR. Subsequently, there is now a CHR marketing plan for each group from which business decisions are made.

QUALITY SEEKERS (12.5% OF THE MARKET)

CHR primarily serves quality seekers by having a wide variety of more exclusive products available in one shop. Consumers in this group can purchase seafood, tenderloin, lamb and seasonings with one stop at the storefront or farmers' markets. Two of the three farmers' markets are targeted toward the quality seeker audience (Glenwood Springs and Aspen). The meat is graded at the packing plant and is consistently a higher quality product than what could be purchased at a supermarket. Year round deliveries are available to this group and they can place their orders via email. In addition, the pork sausage products are a premium

product that many in this group use on a regular basis. To reach a greater number of this segment, CHR products are available at many smaller, specialty markets that quality seekers would patronize. CHR will cut meat directly for special orders on a weekly basis. For example, if a consumer needs a specific size, quantity or cut, they can place an order at the beginning of the week and have it available by the end of that week. Quality seekers will pay a premium for the extrinsic quality of natural beef product and customer service and this is what CHR provides.

HEALTH AND NATURAL CONSUMERS (13.2% OF THE MARKET)

Health and natural consumers value the natural production practices that are standard protocol for CHR. Producer-members of CHR have used their sustainable practices (no antibiotics, no hormones and humane treatment as a product differentiation strategy since its inception. The local aspect of CHR is very important to this group. They want to know that their beef is from their area. They value that CHR has “gate to plate” control of the animal and product. Health and natural consumers feel altruistic when buy CHR products and appreciate customer service with a premium product. CHR services this consumer at the farmers markets, local retail outlets, and supplying local natural markets with our product.

MODERATE CONSUMERS (29.6% OF THE MARKET)

CHR serves moderate consumers by having a wide variety of products, many of which are available at competitive price points. Products available from CHR include eight different types of sausages and two breakfast sausage links. Moderate consumers value buying local product and feel a connection to local farmers and ranchers. In addition, moderate consumers generally have a freezer and will purchase bulk meat in the winter and steaks in the summer. CHR has recently built a “box offering” that includes steaks, roasts, ribs and hamburger. The boxes range from \$100 to \$200 and will fit in the freezer that the majority of these households have. The CHR product consistently scores higher in taste panel tests and our consumers indicate the same when comparing it to meat purchased at the supermarket. This is due to the quality grading and dry aging process that CHR utilizes. The moderate consumer values one stop shopping that CHR offers and the periodic sale promotions on certain cuts, i.e. T-Bone and Rib-eye steaks. The moderate consumer is targeted via a local radio show, newspaper and direct mail marketing.

EMPATHETIC VALUE SEEKERS (22.6% OF THE MARKET)

This group is similar to the moderate consumer in that they value the local aspect of CHR meat, wide variety of products available at the market and superior product. In addition, they are more willing to purchase quarters, halves and/or whole animals since they are offered at affordable prices. The margin for CHR is actually highest for marketing halves, wholes and quarters. We consistently market to this group by having by newspaper ads, radio spots, farmers markets and word of mouth promotion. This group has also taken advantage of our sampler boxes, especially if they do not have an additional freezer. In addition, all CHR producers and employees are trained to tell customers how to defrost, cook and utilize freezer beef. This direct customer service, plus the value of buying in bulk, improves the number of

customers that purchase CHR product. This group values the natural production assurances, local availability and affordable prices. They want to be able to buy in bulk and understand how to cook freezer beef. They also value the customer service and superior product provided by CHR.

PRICE CONSCIOUS CONSUMERS (22.1% OF THE MARKET)

When evaluating CHR prices, they are not priced out of the price range of the local consumers. CHR beef is not priced to the lowest common denominator; however, it is competitive with the higher end product available in the supermarket. The price conscious group also purchases some product in bulk, especially the hamburger and roasts. They primarily purchase through our retail stores and will buy steaks when they are on sale. They value the local concept and that CHR has complete control over the processing of the beef. It has always been important to CHR that locals could afford the product; however, we do not try to compete with commodity beef as it is essential that we remain economically sustainable.

FUTURE DIRECTION

The purchase of the larger updated packing plant in 2006 was a huge undertaking for CHR. As of this month, CHR will have been operating from the new facility for one year. It has been a growing year for CHR and the next five years promises even more growth.

The first USDA Rural Development Value Added grant showed that the ready-to-eat entrees were feasible and provided a higher margin than selling roasts and rounds through retail outlets. The entrees are currently being sold direct but not made at a large enough scale to market through additional outlets. CHR is determining specifically what equipment is needed to commercially produce the ready-to-eat entrees and begin marketing this convenience product on a larger scale.

CHR has developed two jerky products to expand their product line further. This has taken a product that would have traditionally been made into hamburger or roasts and added significant margin to this product. This product is being marketed through retail outlets, convenience stores and farmers markets. Meat sticks, marinated tri-tip, smoked beef cuts, and additional further processed entrees are currently in the research and development phase. The USDA must approve labels and quality control plans and this takes considerable time. CHR is moving into other retail markets and collaborating with specialty meat shops in larger markets.

CHR offers a local, high quality, healthy product to a diverse group of consumers and will continue to do so into the next generation of Colorado Homestead Ranches.

Website: www.homesteadbeef.com

Excerpts from this paper were taken from Thilmany, D., Umberger, W., and Ziehl, A., 2005. Strategic market planning for value-added natural beef products: A cluster analysis of Colorado consumers. *Renewable Agriculture and Food Systems*: 21(3); 192-203.

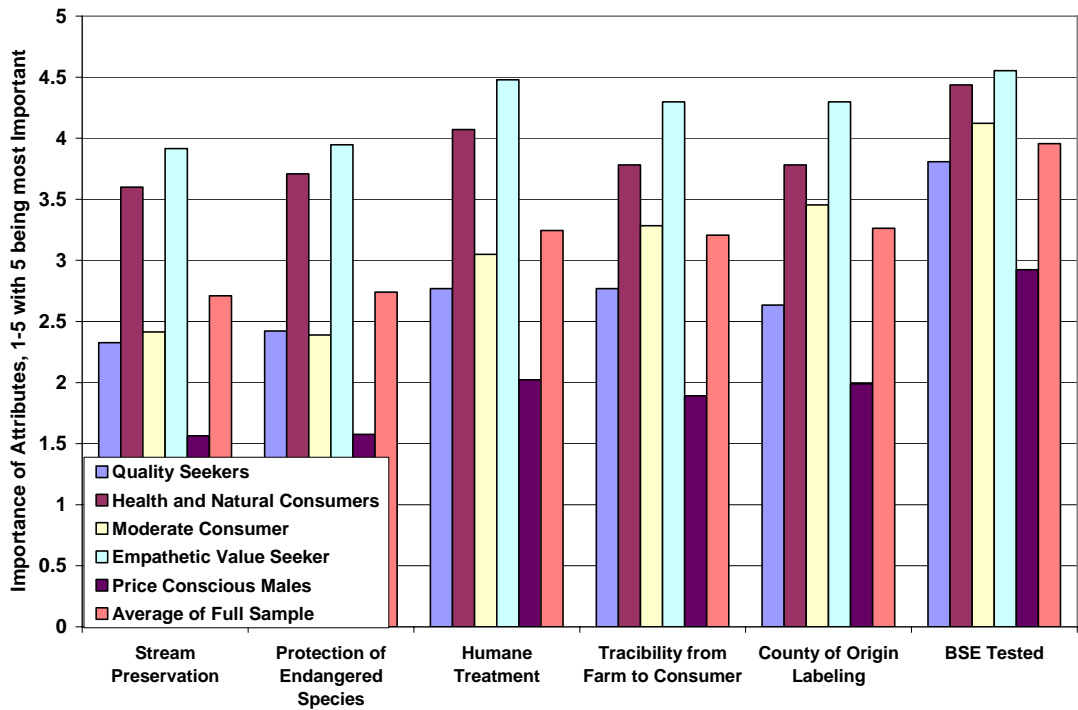
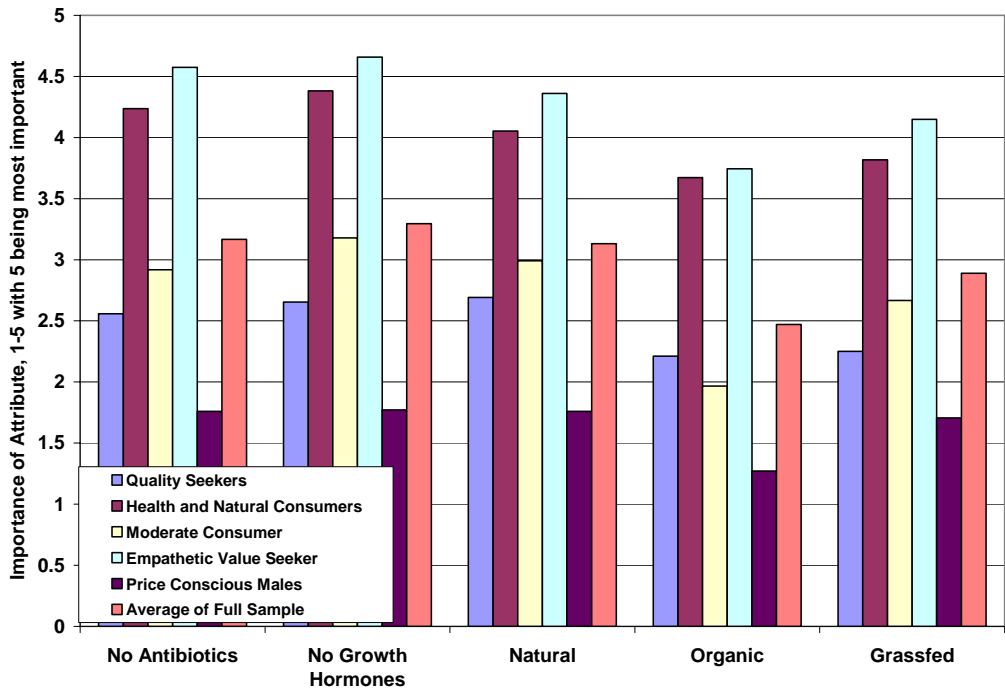
Table 1: Importance of factors on choice of meat shopping outlet, average for all consumers

Considerations	Extremely	Very	Motivated	Somewhat	Not at all
Meat Offerings	22.7%	37.0%	26.0%	11.2%	3.1%
Superior Products (taste and flavor)	47.2%	34.1%	14.8%	2.9%	1.1%
Safety	47.0%	28.9%	15.5%	6.0%	2.6%
Local producers	8.8%	16.4%	30.5%	24.7%	19.6%
Convenient location	26.6%	36.6%	23.5%	9.7%	3.6%
Aesthetic	13.7%	29.7%	32.2%	16.5%	7.8%
Family/friend suggestion	7.5%	21.6%	35.9%	21.3%	13.7%
Reasonable prices	42.2%	35.7%	15.2%	5.0%	1.9%

Table 2: Importance ratings for various production practices, average for all consumers

Practice	Extremely	Very	Motivated	Somewhat	Not at all
Open Range	14.7%	18.1%	26.7%	22.4%	18.2%
No Antibiotics	22.0%	23.3%	23.6%	18.3%	12.7%
No Hormones	29.0%	20.7%	22.1%	16.9%	11.2%
Natural	18.9%	21.1%	28.9%	19.8%	11.3%
Organic	9.2%	12.3%	24.3%	26.7%	27.6%
Grassfed	11.7%	18.9%	29.2%	22.3%	17.9%
Protects Streams	11.9%	15.5%	28.5%	23.8%	20.3%
Protects Endangered Species	12.8%	16.8%	25.6%	24.2%	20.5%
Humane Treatment	24.8%	19.7%	27.6%	17.0%	10.9%
Traceable to Producer	21.0%	24.0%	26.0%	16.5%	12.5%
Country of Origin	24.1%	25.2%	24.7%	14.5%	11.5%

Figure 1. Importance of Attributes by Consumer category.



REFERERENCES

1. Thilmany, D., Umberger, W., and Ziehl, A., 2005. Strategic market planning for value-added natural beef products: A cluster analysis of Colorado consumers. *Renewable Agriculture and Food Systems*: 21(3); 192-203.