

USDA CERTIFIED SPECIALTY VALUE ADDED BEEF & PORK PROCESSING FACILITY

Concept Summary

In order to serve beef and pork producers in the Huntington, WV area, Tri State region, and beyond, a local entrepreneur could receive resources and assistance to create a value-added processor with services that are not yet existing in the area. This facility would receive raw beef and pork product from a USDA slaughterhouse or processor that would be further processed on site to create specialty value added products.

This processing facility would serve an existing demand for meat processing in the region, provide additional product opportunities for local farmer/producers, and create new local small batch products and therefore marketing opportunities.

Mission: To “Beef Up” the local economy by creating an entrepreneur-friendly opportunity to start a valuable enterprise that will create opportunities for jobs and improve the market opportunity for local sustainable livestock farmers.

Objectives: To partner with a local entrepreneur and investor to build a locally focused USDA certified beef and pork value added processing facility.

Strategies: The following strategic approach would apply:

- Attract entrepreneur-operator and investor
- Execute market study and focus groups with producers to determine the appropriate product line for launch
- Partner with industry experts to develop detailed budget, HACCP plan, and operations procedures from cold transport to pricing to sales and plant scheduling.
- Recruit the best local talent and engage a training program for quality assurance.

Type of Ownership: Various forms of ownership would suit this model such as a corporation with shareholders (investors) or an LLC. An entrepreneur could own this operation and fund via a loan, investors, grants, self funded or a combination of those funding strategies.

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Employees

Jobs are created in this business concept within the processing facility for local skilled butchers, training for new butchers, cooks, administrative, marketing, sales, and logistics staff. At startup, this operation would need a General Manager, Salesperson, and Office Manager/bookkeeper (part time initially). The production floor would also need skilled butchers and chefs, with a quality assurance team leader and USDA inspector.

Product/Service Description

Improved value-added products would be manufactured using smoking, cooking, dry aging, fermenting, curing, slicing, and packaging of high end or novelty products not currently produced locally. Some examples of products that could be produced include specialty cured charcuterie, smoked sausages, deli meat, or cooked recipes such as meatballs, meat pies, and more. An initial product line would be developed after a series of focus groups with local farmers and live consumer surveys at farmers markets and retail shops.

The business model is custom processing as a service to farmers/processors, which could also serve the end consumer by bolting on a marketing and distribution enterprise at a later time to sell product via wholesale and/or e-commerce.

Market Analysis

Nationwide, there is a trend towards knowing more about where your food comes from and how it is raised. After surveying local livestock producers in hogs and beef cattle, and also local retail buyers, we are aware that specialized marketing claims are being made by these farmers, based on their practices. We also know that 62% of local retailers surveyed are sourcing local beef and pork. Buyers that are sourcing local meats are interested in the marketing claims of local, grass fed, animal welfare, and naturally grown, and the movement for these products is growing. A value added processor would allow these producers to sell more than raw cuts of meat, but also other specialized products with the locally focused marketing claim, as well as other production focused claims to strengthen their value.

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Market Analysis

Research conducted in this area has shown that:

- the vast majority of livestock farmers raising beef and hogs are selling a limited line of products directly to the customer (over 80% of beef and 100% of hog producers), with some wholesale (38% of beef producers and 80% of hog producers). DTC allows for the highest price point, and the largest budget to cover processing cost.
- the vast majority of livestock farmers are making specialized marketing claims about their practices that could be leveraged to create higher price points and offset processing costs, such as grass fed or antibiotic free (100% of hog farmers and 76% of beef farmers).
- the vast majority of livestock farmers would be interested in finishing more animals on the farm (increasing volume) if the market opportunity existed (100% of hog farmers, 75% of beef), creating more volume locally.
- about half of farmers interviewed stated that if the market opportunity were proven, they would be interested in selling meat (as opposed to live animals) from animals raised on their farm, creating more volume locally.

The targets of our marketing efforts are *local and regional Tri State Area livestock farmers embracing sustainable practices that create a higher dollar value product* and are looking to diversify their product line via value added processing. Their products could be sold locally, or via wholesale and e-commerce with USDA certification.

Currently there is no competition for this kind of processing in the region, and farmers are rather limited on what products they can sell.

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SWOT ANALYSIS

STRENGTHS

- Unique service opportunity with no competition with data supporting demand
- Various local organizations to support outreach efforts and market research
- Precedents in other regions showing successful models

WEAKNESSES

- Need to build demand from scratch (no competition or market share currently)
- Lack of local training resources
- Capital intensive

OPPORTUNITIES

- Boosts local meat economy
- Creates jobs and therefore economic development opportunities
- Future potential to bolt on a marketing and distribution company by buying and processing local meats to sell

THREATS

- Changing regulations (USDA, etc)
- Future competition
- Challenges of managing contractors across the board - HACCP plan consultants, building contractors, equipment vendors, etc.

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Build on Strengths

The company can plan to build on strengths by creating a robust outreach plan to connect with regional farms via local organizations, and visit other models in other regions to engage with best practices and lessons learned.

Resolve Weaknesses

The company can plan to resolve weaknesses by not taking on too much - starting with a discrete line of products, training the staff to do them well, and working with farmers to commit to a production schedule for the year based on their livestock harvest projections. And once mastered, then building on new product recipes and opportunities.

Exploit Opportunities

The company can plan to exploit opportunities by taking advantage of any economic development funding opportunities with job creation and as a farm industry value added producer.

Avoid Threats

The company can plan to avoid threats by joining niche meat processing groups online and staying abreast of any changing regulations, and using strong vetting and project management procedures with contractors at all times.

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Strategic Sales Plan

The processing services of the plant will be sold to regional livestock farmers, and the products produced will be sold via the farmer's sales channels, such as farmers markets, CSA's, online stores and wholesale operations. Strategies to reach regional farmers and create demand include direct marketing, person to person sales consulting to walk through pricing and cost-benefit analysis with the farmers, hosted workshops and discussion groups throughout the region, and building relationships with local farm service organizations. The plant sales director can also work with local retail buyers to be able to serve as a connector and refer farmers to interested buyers. Eventually, once the plant operations are up and running and profitable, the plant could consider adding on a marketing and distribution enterprise that purchases meat from local farmers and markets the value added goods under a house brand.

Financial Plan

This business plan requires \$300,000-\$500,000 in start up capital for equipment, building a processing line with a rail system, walk in coolers for aging and storage, walk in freezer, a kitchen for processing cooked foods, and special processing machines for smoking, turning trim to deli meat, or whatever other services the plant wants to offer. This equipment could be purchased used in many cases.

Start up capital for the first year should also cover at least 1 month of of operating expenses as a one time expense, adding \$57,000 to start up capital requirements.

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Income Statement Summary

Basic assumptions in the business model:

- 1 Million in sales could be achieved in year 1.
- The GM and Salesperson would be paid 40K plus benefits, including any bonuses.
- The office manager would start part time at 20K/year.
- Butchers and chefs would make \$15/hour, or 30K plus benefits at full time.
- Processing fees would be stepped: all meat would be assessed a cut and wrap fee, and then basic value added, fancy value added, and slicing/retail packing would all be additional charges.

Charts Showing Scenario For **ACHIEVING \$1 MILLION IN SALES**

Processing Fees

Cut & wrap base price, plus value added charges by service

	Average lbs per head	Cut + wrap per lb	Basic value add per lb	Fancy cure per lb	Sliced pack per lb	Revenue forecast per animal
Beef	750	\$0.70	\$1.50	\$3.00	\$0.60	\$1,256.25
Pork	300	\$0.70	\$1.50	\$3.00	\$0.60	\$502.50
% of meat by processing service:		100%	45%	10%	20%	

Sales + Revenue

If Sales are \$1 Million	% of sales by type	Sales by type	Revenue per animal	Head per year	Head per week
Beef	65%	\$650,000	\$1,256.25	517	10.0
Pork	35%	\$350,000	\$502.50	697	13.4

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Sample Pro Forma Income Statement \$300K in Debt Service

GROWTH FACTOR

30%

30%

	Driver	Year 1	Year 2	Year 3
Income				
Processing services		\$1,000,000	\$1,300,000	\$1,690,000
COGS				
Ingredients & packaging	10%	\$100,000	\$130,000	\$169,000
Direct Labor	48.30%	\$483,000	\$627,900	\$816,270
USDA inspector & HACCP		\$80,000		
Total COGS		\$663,000	\$757,900	\$985,270
Gross Margin		\$337,000	\$542,100	\$704,730
		34%	42%	42%
Labor				
Management Labor		\$100,000	\$100,000	\$120,000
Taxes and benefits	15%	\$15,000	\$15,000	\$18,000
Total Labor		\$115,000	\$115,000	\$138,000
Operating Expenses	7.5%	\$75,000	\$97,500	\$126,750
General & Administrative	5%	\$50,000	\$65,000	\$84,500
Overhead	fixed	\$65,000	\$65,000	\$65,000
Debt Service	\$357,000	\$46,233	\$46,233	\$46,233
Total Expenses		\$351,233	\$388,733	\$460,483
Net Operating Cash Flow		-\$14,233	\$153,367	\$244,247
		-1.4%	11.8%	14.5%

Footnote: High level pro formas are for discussion purposes and general guidance, a full detailed pro forma should be developed prior to starting any project.

*Debt Service funds include a \$300,000 start up budget and \$57,000 in operating cash.

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Sample Pro Forma Income Statement \$500K in Debt Service

GROWTH FACTOR

30%

30%

	Driver	Year 1	Year 2	Year 3
Income				
Processing services		\$1,000,000	\$1,300,000	\$1,690,000
COGS				
Ingredients & packaging	10%	\$100,000	\$130,000	\$169,000
Direct Labor	48.30%	\$483,000	\$627,900	\$816,270
USDA inspector & HACCP		\$80,000		
Total COGS		\$663,000	\$757,900	\$985,270
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Taxes and benefits	15%	\$15,000	\$15,000	\$18,000
Total Labor		\$115,000	\$115,000	\$138,000
Operating Expenses	7.5%	\$75,000	\$97,500	\$126,750
General & Administrative	5%	\$50,000	\$65,000	\$84,500
Overhead	fixed	\$65,000	\$65,000	\$65,000
Debt Service	\$557,000	\$72,134	\$72,134	\$72,134
Total Expenses		\$377,134	\$414,634	\$486,384
Net Operating Cash Flow		-\$40,134	\$127,466	\$218,346
		-4.0%	9.8%	12.9%

Footnote: High level pro formas are for discussion purposes and general guidance, a full detailed pro forma should be developed prior to starting any project.

*Debt Service funds include a \$500,000 start up budget and \$57,000 in operating cash.

Prepared for:



Prepared by:

KITCHEN TABLE
CONSULTANTS

