In recent years there has been significant interest in building new meat processing facilities to serve local farmers and ranchers as consumer demand grows for “local,” “organic,” “natural,” “grass-fed,” and “humane” meats.

Farmers and ranchers often point to a lack of slaughter and processing facilities as an obstacle in serving these growing markets, and significant time and money has been spent trying to crack this difficult nut around the country.

In California alone, the feasibility of building a new processing plant has been studied in Mendocino, Sonoma, Napa, Lake, Marin, Tuolumne, Inyo, Mono, Del Norte, Siskiyou, San Diego, and Calaveras counties. Right now, there are two additional studies proposed for the South San Francisco Bay and East San Francisco Bay regions.

Yet not one of these studies—including those that concluded a new plant would be feasible—has resulted in a new plant.

What is going on?

The primary reason it is so hard to build new processing facilities—at least facilities that have a chance at being economically viable—is that the demand for processing services from local farmers and ranchers is often not sufficient to support a new facility, let alone encourage a meat processing entrepreneur to invest the substantial upfront capital needed to build one.

A significant volume of processing (or “throughput”) is required to generate enough revenue to pay operating and fixed costs of a small plant and provide enough year-round work to retain skilled meat cutters. And the work can’t just come part of the year: Processors need year-round work to pay year-round expenses.

How much throughput a processing plant needs to break even (let alone make a profit) depends on its costs, which
depend on the services it offers. A wide range of custom cuts, portion cutting, multi-colored product labels with exact weights, the thermoform packaging you see on grocery store shelves, and so on require more expensive equipment and more experienced employees, which means higher operating costs.

We came up with three different scales of processing plants offering slaughter and processing services, and ground-truthed (or double-checked) them with small and mid-sized processors across the country:

Table 1. Annual Expense/Throughput Models for Three Scales of Processing Plants
Excerpted from Tables 3 & 4, pp. 6-7, of Gwin, Thiboumery,

<table>
<thead>
<tr>
<th>Type of Inspection</th>
<th>Very Small</th>
<th>Small</th>
<th>Regional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom-exempt (livestock owner’s personal use only)</td>
<td>USDA or State “equal to,” some custom-exempt</td>
<td>USDA</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Services (other than slaughter/cut &amp; wrap)</th>
<th>Very Small</th>
<th>Small</th>
<th>Regional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited sausage-making, smoking, curing; Raw meats packaged in butcher paper, frozen</td>
<td>Sausage-making, smoking, curing; Most raw meats in butcher paper, frozen; some vac-pack; v. basic scale labeling</td>
<td>Third-party audits (GMPs, animal welfare, certified organic); Quality Assurance monitoring, testing; sausage-making, smoking, curing; exact-weight retail portions; vacuum- and thermoform packaging; complex scale-labeling; 4 color labels</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th># of full-time employees</th>
<th>Very Small</th>
<th>Small</th>
<th>Regional</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>10</td>
<td>60</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Annual expenses</th>
<th>Very Small</th>
<th>Small</th>
<th>Regional</th>
</tr>
</thead>
<tbody>
<tr>
<td>$231,000</td>
<td>$565,000</td>
<td>$4.5 million</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Annual # of head (beef-equivalent) for break-even</th>
<th>Very Small</th>
<th>Small</th>
<th>Regional</th>
</tr>
</thead>
<tbody>
<tr>
<td>462</td>
<td>1130</td>
<td>8500</td>
<td></td>
</tr>
</tbody>
</table>


Often, when we present these tables, the “annual number of head for break-even” is seen as a goal: “If we have that many animals in our county, we can open a processing facility!” The value of collecting accurate demand data cannot be stressed enough. Assessments of demand for slaughter and processing services are often inaccurate in three important ways.

First, demand for slaughter and processing services is not the same as demand for meat products.

Second, there is a big difference between perceived and actual demand for these services. Farmers and ranchers who already sell branded meat products have actual demand for services. Farmers and ranchers who sell live animals and do not sell meat but are considering it have perceived demand: Until they know they have a quality product and serious, committed buyers (at a sufficient price), they are not able to be counted as reliable demand processing services.

Cow-calf operators who mostly ship calves to feedlots, 4-H kids who raise a few market lambs each year, and consumers who buy halves and quarters that can be processed at custom-exempt facilities do not represent steady, reliable demand for a processing facility.

Third, demand is only demand at a given price: Processing on a fee for service basis costs more than commodity processing. A processor won’t survive unless farmers and ranchers are able to pay what processing costs at a smaller scale, especially with the additional services often desired such as scale labeling of exact weights, vacuum packaging, extensive customization of cuts, boneless cuts, and so on.

And farmers and ranchers can only pay what processing really costs, and provide sufficient and steady throughput to a processing facility, if they have sufficient and steady markets for their meats. These markets must pay enough of a premium across the entire carcass, not just for the high-end cuts, to cover these costs.

“Second, there is a big difference between perceived and actual demand for these services.”

Finding and keeping these premium markets is extremely challenging. In addition, historic highs in commodity livestock prices are a serious disincentive to anything but selling calves and yearlings for top dollar. Both factors increase risk for small processors: While producers can fairly easily transition out of the meat business and back into the livestock business, a processor with no customers is stuck with an expensive facility and a debt load (often personally guaranteed).
We do understand the conundrum: How can you start selling meat and establish your markets if you can’t get your animals processed? You have to haul livestock to the nearest suitable processor, even if it’s hours away, while you prove your product and build your market. Hauling is a cost for producers, but it need not be shouldered alone: producers can contract with livestock hauling services or can even share transportation with other producers in the same boat (we’ve seen it work).

Once enough producers in a region have enough committed demand for their meat that they can keep a new processing facility busy year-round and pay the actual cost of processing services, that region may be ready for a new facility that can be financially viable in the long run.

For more information about this issue, please visit our website: www.nichemeatprocessing.org.

Lauren Gwin and Kathryn Quanbeck are director and program manager respectively of the Niche Meat Processor Assistance Network.

What is Meat Processing?

Meat processing is all the steps involved in turning a live animal into meat for sale. This includes three primary activities:

- Slaughter: stunning, skinning, evisceration, and cleaning; end products are carcass halves or quarters, which go into a cooler for immediate chilling.
- “Cut and wrap”: cutting chilled half/quarter carcasses to desired end size (primal, subprimal, or retail cuts) and packaging as desired (e.g., vacuum-packed subprimals, “case-ready” retail packages).
- Value-added processing: grinding, casing, smoking, cooking, drying, and otherwise transforming meat and trimmings from the cutting step into sausage, ham, bacon, jerky, and other products; includes “portion cutting,” cutting subprimals into fixed-weight steaks, roasts, and other retail cuts.

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