Niche Marketing Considerations: Beef as a Case Example

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For the typical agricultural producer, the marketing function stops when the product leaves the farm or ranch. The competitive system in which producers operate is referred to by economists as pure competition. This system is characterized by many producers of relatively homogeneous products and freedom of entry and exit. Given these characteristics, the producer operating in this type of market is described as a price-taker. Through good marketing practices, the manager attempts to time sales and use the most advantageous outlet to obtain the highest possible price under existing supply and demand conditions in the industry. Furthermore, in a purely competitive setting, increasing profits depends largely on management's ability to reduce costs of production and to use the firm's resources efficiently.

Those agricultural firms which operate in the food and fiber system outside production agriculture are often labeled the "middlemen," and they generally carry out their business activities in a much less competitive environment. This imperfect competition environment, as defined by economists, refers to industry structures where with one or a few firms often selling similar but differentiated products. For example, buyers of ag commodities can often get cattle or grains in bulk from many different sellers, but once those commodities are transformed into a product for home consumption different features and packaging may be used to help sell the product to consumers.

During times of relatively low prices, many producers consider opportunities which may add value and profitability to their cattle. One such alternative available to producers is niche marketing. Niche marketing can be thought of as providing a product to a small segment of consumers. This approach can add value to cattle marketed this way because it can allow producers to capture much of the margin otherwise going to middlemen in the marketing chain. Of course, the producer also "captures" much of the work and associated costs, as the producer must identify and attract customers, perhaps provide added feed, arrange for slaughter, distribute the product to customers, and secure payment (Lesser, 1993). This can be profitable, but the number of head sold this way is necessarily limited for most producers because of the added time, labor and resources needed to perform these added functions beyond producing a calf or yearling. Marketing management expertise also is required, along with the traditional knowledge of the production side of the business.

Marketing Your Product

Some important marketing management fundamentals must be considered and implemented to make this alternative work. These considerations center around the customer, the product, place, promotion, and

price. Once these concepts have been considered, you should have a good idea of how to develop a profitable niche marketing strategy (McCarthy and Perreault, 1984). A marketing strategy specifies a target market and the mix of product, place, promotion and price to be used to satisfy customers and make a profit.

The Customer

At the center of having a profitable niche marketing strategy is the customer. If you do not have a customer for your product, there is no sale and the hope of added profits can quickly turn into the nightmare of added losses. At least two out of every three new food products introduced fails (Currier, 1986). The reasons for this high failure rate are numerous, but the quickest way to fail is to develop a product which has no consumer appeal. Consumer appeal means the product must offer significant and desirable benefits to the consumer (Angelus, 1969). Perhaps the best question to ask yourself is, "What attributes does my product offer consumers that they can not already get?"

When answering the question of offering something different to consumers you should remember that a niche market implies there is a small group or segment of consumers which have preferences that are not being met. You must identify the target segment and meet their needs with your product to be successful in providing a product for a niche market. Too often products are developed because they seem different to the producer or may help the producer get rid of a by-product. However, those products often fail because consumers do not want them. For example, a producer may decide that a good way to add value to cull cows would be to make them into a canned meat product. But who wants to buy canned cull cow? If the producer does not answer that question, financial disaster may follow the decision to produce canned cull cow. If you find a segment of consumers looking for a high quality canned meat product, then perhaps a canned cull cow product could meet their needs and be a profitable product.

The point to this discussion is that the customers which make up your target market must be considered before developing a product. Angelus (1969) suggests identifying the target market, developing the brand name, packaging and marketing strategy first. Once that is done, develop the product concept which fits the needs of the market segment. The brand name, packaging and marketing strategy will all be used to communicate the product's appeal to the market segment. This approach can reduce wasted resources or lost capital compared to development of a product first and then trying to figure out who to market it to.

Linneman and Stanton (1991) point out that today's customers are looking for products and services developed especially for them. They suggest several things to consider when identifying and meeting the needs of a niche market. First they recommend aiming for a specific target and allocating resources just for that target. They suggest talking to potential customers one at a time. Find a solution for that customer and then determine how many others might be interested in that solution. They recommend you do some market research to verify your findings and to always be collecting data about customers or potential customers. They suggest finding out what kinds of characteristics your potential customers value? Do they want high quality, low price, convenience features, reliability, or any other product characteristics you are interested in learning about, and who makes the purchasing decisions? All these pieces of information may affect the identification of your niche market segment and the development of your product and overall marketing strategy.

The Product

A product is simply a good which satisfies the needs of the consumer (McCarthy and Perreault, 1984). The product is not just the physical features of the good. It includes all the characteristics such as service, packaging, and price along with the good itself. All these characteristics comprise the good which satisfies the needs of the target market. Thus, once the needs of the consumer are identified you must produce a product which meets those needs. For example, let's say you've done some checking and consumers in your area desire something different than or in addition to the beef they get at the local grocery store. Maybe there is an opportunity to feed out some cattle on your own and sell quarters or halves through the local locker plant. Will consumers you talked to be interested in this type of product? Perhaps your background work indicates potential customers in your area would like to buy some high quality cuts such as steaks and filets. Is there an opportunity for you to sell some high quality packs and then sell the rest of the carcass another way? Maybe you can add the service of delivering right to their door, if there is a segment of consumers interested in that service. You have to produce a product which has the right mix of characteristics that your target customers want.

All these characteristics will be important if you want your customers to buy your product. If they can not get this particular combination of product and characteristics or services elsewhere, you have a much better chance of selling your product to your target market. This concept of making your product seem different than anybody else's is known as differentiation.

Angelus (1969) states that insignificant product differences can lead to poor product sales and even failure. There are several strategies you can use to differentiate your product. Linneman and Stanton (1991) discuss five strategies that can be used to differentiate a product. One strategy is to make your product very different from everyone else's simply by making its physical features different. For example, a partially prepared food product is much different to a consumer than a product which must be prepared from scratch. An example might be ribs that come pre-packed in a sauce and ready to heat in the oven. Another strategy is to provide customer service not available elsewhere. The distribution channel used can help differentiate a product as well. The question here is, how can I make my product more accessible to consumers? An example of this might be delivering the product right to the customer's door. Most grocery stores or food outlets do not provide this service. This is an example of differentiating through both service and a different distribution channel. Linneman and Stanton (1991) point out that if you are targeting two different market segments, different communication strategies may be a good way to differentiate your product. Perhaps you may sell specialty packs of steaks delivered to your customer's door and then sell hamburger through the locker plant. You may want to use different types of advertising for these different market segments to sell your beef. The last strategy mentioned by Linneman and Stanton (1991) is through pricing. Perhaps you price your product less than your competitor's to make it more attractive to your customers, but this type of strategy should be used last or in combination with other strategies. Your competitors can more easily match your price than other unique characteristics or services.

One last consideration in the product category is providing consistent quality and supply. Once customers become repeat buyers of your product, they want to be able to have the same quality and be able to purchase it as they desire. The quickest way to lose customers is to be out of product or provide them with a lower quality product. This is extremely important in the case of a different beef product. If you start to sell steaks to your customers, you do not want to only have steaks available during a particular part of the year. Customers will quickly switch to another product which is available when they want it. Thus, if you start selling a branded product you must be prepared to supply that product year round. This may be less important if you decide to just sell quarters or halves of beef from the locker plant.

Customers can buy in bulk amounts and stock up. You may be able to only sell fed beef once a year this way.

Price

Pricing your product is perhaps the most important, and yet the most difficult part of the marketing mix to manage. Price level decisions affect both the amount of product sales and how much profit is earned (McCarthy and Perreault, 1984). If you are targeting a market which expects a high quality product, that segment may be willing to pay a higher price. On the other hand, if you are selling beef in bulk quantities such as quarters or halves, customers may expect a price discount compared to buying from the grocery store. Different market segments may have different perceptions and sensitivities about price (Linneman and Stanton, 1991). Abrams (1974) states that pricing a product too high compared to substitutes is a major cause of new product failure. Additionally, you must price your product so you can make a profit which meets realistic management goals for the product.

There are several different approaches to setting retail prices for meat products (McCoy and Sarhan, 1988). One way used by many large operators is known as "percentage gross margin." Here the retailer calculates an average weighted selling price such that gross margin over wholesale cost is some predetermined percentage of the selling price. For example, let's say the cost of producing a side of beef (or the wholesale cost in the case of a retailer) is $1.35/lb. and that 1.41 pounds of carcass yields 1 pound of retail beef. If you want a 25% gross margin, the average retail price would be equal to ($1.35 * 1.41)/(1 - 0.25). Average retail price per pound in this example would be equal to $2.53. If you are selling individual cuts you would need to figure out what average price per type of cut would have to be to get an average of $2.53 per pound.

Some retailers use a "percentage mark-up" over wholesale cost (McCoy and Sarhan, 1988). Several studies have found this to be the most widely used method for pricing in food retailing according to McCoy and Sarhan (1988). Assume that the cost and cut-out are the same as the above example, and that the retailer wants a mark-up of 33%. Retail price would be calculated as follows in this pricing method. Retail price is equal to ($1.35 * 1.41) + (0.33 * ($1.35 * 1.41)). A third strategy used by retailers is a "cents-per-pound mark-up" over wholesale cost or the cost to produce a side of beef.

Retailers sometimes use a prepared "retail meat pricing chart." These charts are available from various agencies and usually have a similar format (McCoy and Sarhan, 1988). The problem with this approach is that it may not take into account any special characteristics or services provided with your product. It provides a guideline, however, if you are selling retail cuts. Another strategy is to be guided by prices of competitors offering similar products. If the price of your product is a lot higher than prices of your competitors, consumers may not to continue to purchase your product. It depends again on the degree of differentiation and your target segment's preferences. Finally, you need to know the breakeven cost of producing your product. Once you know the breakeven price you can decide on a mark-up strategy. It would probably be a good idea to compare the price of your product to similar products to see if it is priced within your competition's price range.

Promotion

It is important to remember that "people won't buy your product if they've never heard of it" (McCarthy and Perreault, 1984). Promotion should be done to influence the attitudes and buying behavior of your customers. The objective of promotion is to tell target customers that you offer them the right product at the right price and the right place. It is important to remember that advertising is only effective if you have the product people want (Mamis, 1986). It is not a cure all for a mediocre product.

There are many different ways to communicate the message that you have a product that meets your customers' needs. You can do this through commercial advertising in the newspaper, on the radio or television. You can carry the message from door to door with a personal sales pitch. You can set up in a central location where there are a lot of people and offer samples of the product to entice them to buy. The promotion method or methods you choose are dependent on your resources such as time, labor and financial capital. The method of promotion is also dependent on your target market and sales objectives. You may not have a lot of money to spend on advertising or time to sell door to door. You must decide on the best way to reach your target market given your resources. For example, if you choose to sell to middle aged people you might choose to advertise in the paper and on a radio station that plays music for that age group.

If you decide to advertise in the media, it is probably wise to hire someone to help you put together the right message about your product to the target market. You can often get help from the radio station, newspaper and or television station. They usually have demographic information on how many people they reach, the age and gender of their customers and peak listening or viewing times for various demographic groups. If you choose to advertise on the radio or television, you might consider paying for ads played during times most likely to reach your target market. If you wish to save money on advertising in that media, you could purchase what is called a broad rotator which guarantees a certain number of spots played at various times. If you choose to advertise in the newspaper, you will have to decide whether to get a full page ad or something smaller. All these things depend again on your goals and the resources available to spend on promotion. Obviously, you want to get the biggest bang for your promotion buck. You can do that by effectively communicating to the most people in your target market for the least amount of money. Skimping on advertising is not a good strategy, but you need to be wise about expenditures on promotion.

Place

Place refers to where the customers purchase the product. You may build a "better mousetrap," but if it's not in the right place at the right time, it won't do anyone any good (McCarthy and Perreault, 1984). Place involves making products available in the right quantities and locations when customers want them. The question becomes how to get the product to the customers. Some possibilities have already been mentioned such as delivery to the home. Another method might be through retail outlets. In the case of meat, perhaps you could make arrangements for the customer to pick up quarters or halves at the local locker plant. Place will need to be based on the attitudes of customers in the target market.

Several important points to remember about place relate to market area and volume of product needed. For example, if you market through a chain of grocery stores, the volume and consistent supply issues are more important than selling out of the local locker plant. It is usually difficult to gain access into a chain, as the supplier decisions are usually made at some centralized location rather than at the store. Selling in a local outlet may limit the chance for growth in sales. All these considerations must be taken into account in your niche marketing strategy.

It is important to remember that these concepts are related to developing a niche marketing strategy. They are all interrelated. The customer is at the center of the process, and the four P's (Product, Price, Promotion and Place) are all arranged around the customer's needs with the objective of satisfying those needs with your product. Selecting the target market and developing the marketing strategy are interrelated.

Market Research

Information is the key to a successful marketing strategy. Information about the potential customers, costs of production, and competitors' products are all vital to developing the four P's into a profitable niche marketing venture. The first step is to gather initial information such as analyzing your business situation. Do you have the time, the capital, the labor and the expertise to do this project? You may have to plan for hiring someone and or borrowing some money to do this. Some easy things you can do is to talk informally with managers of some retail outlets and the local locker plant about selling to the public. What are things you need to consider? What arrangements would have to be made with these possible distributors? If you are thinking about selling a specialized branded product, look at the current retail meat counter and determine if consumers are already getting that type of product. Looking at the space devoted to a product in the meat counter or on the shelf may be an indication of how well that item sells. For example compare how much space is devoted to beef versus the other meats. If a good substitute for your product is not available, there may be sales potential or it may have already failed. Again talking to the retailers may give you a chance to determine if that type of product has ever been sold in their store.

You can also do some informal talking with potential customers. Ask some people at church or social functions about the kind of products they would like to see or if they would be interested in the type of product you are considering. Be careful though, you want to get honest answers and not "kind" answers from friends. You can also contact your Extension Service for names of people who might be able to help you. You may want to consider contacting the Small Business Development Center or the Department of Agriculture for additional secondary data. Find out about consumption and production data for the type of product you are interested in through one of these sources and potential funding available if you need capital for this new venture. This informal process will give you good background information and help you assess whether to investigate further.

Once you gather background information you will need to assess whether to go further with the process. Once that is done you will probably want to gather some primary data from consumers to assess the product's potential and give you information about the target market, and the four P's. This can be done by hiring someone to do the job for you, or perhaps the volume is small and you want to save some money on the research and do it yourself. You can call the Small Business Development Center, the Department of Agriculture or your Extension Service for ideas and possible help in developing a survey to meet your needs. Once you develop that survey, you may want to call people on the phone, or interview people as they walk by in the store. It may be best to hire someone to ask these questions for you. Regardless of how you go about it, some investment in market research can arm you with the information you need to be successful and perhaps prevent you from entering into an unsuccessful venture. Without any information to guide you, you won't be able to address the four P's, and your product will likely be in the two out of three category that failed.

The following case study is provided to help illustrate the marketing concepts discussed in this piece. As

you read the case study, try to decide what was right and what was wrong about this product.

Wyoming Lean Beef: A Case Study In Marketing

Background and Situation

By the mid-1980s cattle producers had faced a period of low prices, severe financial stress and declining demand for beef. Consumers were expressing more concerns about health issues. These health concerns, coupled with lower priced substitutes such as poultry, contributed to consumers shifting away from red meats, particularly beef.

These changes in consumer attitudes toward red meats, coupled with the financial stress facing Wyoming cattle producers, prompted some Wyoming legislators to ask - "Is the situation with respect to changing consumer attitudes toward red meats an opportunity rather than a problem?" Can grass-fed beef produced on Wyoming ranges or short-fed cattle both of which contain little fat, be marketed at a premium price to enhance the profitability of cattle enterprises in Wyoming?

Objective

To answer the above questions, Wyoming legislators, in March 1985, enacted legislation which charged the University of Wyoming, College of Agriculture, to "develop a preliminary feasibility study of the marketing of low-fat and reduced-calorie beef grown in Wyoming at a premium price. If the preliminary feasibility study indicates there is a reasonable probability that Wyoming Lean Beef can be marketed at a sufficient premium to cover any additional costs and to increase the price received by producers by at least ten percent (10%), the College of Agriculture shall develop a test marketing program to provide a more definite determination of the market potential of the lean beef." Finally, "the University shall register in the name of the State of Wyoming 'Wyoming Lean Beef' or other variant incorporating the name of the State 'Wyoming' as a trademark or trade name to identify any beef marketed under the program..." The ultimate objective was to study the feasibility of offering a branded low-fat fresh beef product to consumers in order to address consumer health concerns and increase incomes to Wyoming cattle producers by selling a 'Wyoming' branded product if it were deemed feasible.

Research Results and Marketing Activity

Taste panel studies, laboratory test markets, and cost analyses done by the University of Wyoming Departments of Animal Science and Agricultural Economics indicated there was consumer interest in a low-fat branded beef product. Production cost analyses indicated a premium price was needed for producers to grow this grass or short-fed product according to Wyoming Lean Beef guidelines. Laboratory test market results indicated consumers were willing to trade some palatability in terms of tenderness and flavor for perceived health benefits even at a premium price. Based on these results it was deemed that there was a consumer segment willing to purchase this type of product. Additional analyses, however, also indicated potential problems. Areas of concern about this new product centered around the higher production and marketing costs for low sales volume. A product consistent in quality as well as

supply year round from Wyoming ranches was also indicated as a problem to overcome. Moreover, research indicated it would be difficult to generate high interest among traditional meat retail outlets to merchandise this product.

After the results of these studies, a committee was formed to draft and implement a set of guidelines and regulations that producers were to follow in order to produce and market beef under the "Wyoming Lean Beef" trademark. Initially, Wyoming Lean Beef was marketed in five Wyoming cities and in the San Francisco, California area. Most of the sales activity occurred in 1987 and 1988. Unfortunately, sales volume never reached a level to make Wyoming Lean Beef a profitable venture. By 1989 Wyoming Lean Beef was no longer being marketed.

Implications For Other Agricultural Firms and the Beef Industry

During the early 1980s returns to Wyoming cattle producers were low. By the time Wyoming Lean Beef was introduced, prices had started to strengthen and producers were less interested in alternative marketing activities. This affected the ability of suppliers to provide sufficient volume of Wyoming Lean Beef to the new market outlets. Additionally, production of Wyoming Lean Beef was seasonal and this created an inability to provide a consistent supply to consumers during a twelve month period. Also the quality of this product had some consistency problems. As a grass fed animal, tenderness and flavor were somewhat variable. This did cause some problems with consumers as well.

By the later 1980s the beef industry as a whole had started to address consumer concerns toward less fat. This was primarily addressed by trimming products closer and marketing more low-Choice and Select grades of beef products at the retail counter. This greatly decreased the differentiation offered by Wyoming Lean Beef as a low-fat product. It became obvious that a great deal of marketing expertise was required to make this product available to the target market. Producers were less comfortable making marketing decisions, as compared to production decisions for this differentiated beef product.

Despite the lack of success for Wyoming Lean Beef a great deal was learned. Consumer segments for meats desire different products with respect to health, convenience, and price. To be competitive with substitute meats such as chicken and pork, the beef industry must take a more marketing oriented approach as compared to a commodity approach. Products should be differentiated and targeted to specific consumer segments. There were a group of consumers who wanted and were willing to pay for a beef product targeted to their needs in the case of Wyoming Lean Beef.

For branded products to be successful in the market place advertising and promotion are necessary. Again this would suggest the beef industry needs to focus its advertising and promotion more on branded products. Most poultry advertising is of a branded form (i.e., specific processor labeling versus commodity or generic labeling).

Even though marketing research showed that there was a consumer segment was willing to pay a premium price for this type of branded product, it also suggested there could be problems competing due to production and cost related factors. Given changes toward less fat by the beef industry, Wyoming Lean Beef could not compete as a branded product because of relatively higher production and marketing costs and consistency problems.

Many producers may not be considering a niche product that would be as extensive in scope as Wyoming

Lean Beef. There are examples of successful ventures such as jerky or sausage products or locker beef sold only in a small region (Wyoming Processed Food Directory, 1996). However, many of the same concepts must be addressed, even if you are selling on a smaller scale, when you move from selling a commodity to selling a consumer ready product. You should spend some time considering the four P's in your niche marketing venture, if you are going to be successful. Additional help in your niche marketing venture may be available through the Cooperative Extension Service, the Marketing Division of your Department of Agriculture, and a Small Business Development Center in your area.

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