



Monday, February 1, 16

Re: Opportunities and challenges in direct marketing – a view from the field

It is my pleasure to have been invited to speak in front of the Subcommittee on biotechnology, horticulture, and research for the purposes of providing testimony as well as responding to your questions. I received this invitation only a few days ago, so I apologize in advance if my testimony is not as well developed as the testimony of my colleagues.

As a relatively new, small rancher in the state of Texas, my testimony will likely be very different from that of my colleagues who are from larger operations. Hopefully my testimony will prove to be useful to other young operations, as well as to this Subcommittee. I have divided my testimony into five primary categories: (1) Challenges with direct marketing; (2) Opportunities for direct marketing; (3) Current marketing tactics; (4) What's working and ideas for the future; and (5) By the numbers: direct sales to consumer vs. distributors.

1. Challenges with direct marketing

a. Exclusionary practices by local farmers' markets

- i. There are several farmers' markets in Austin, mostly run through what's known as the Sustainable Food Center ("SFC"). This organization organizes multiple farmers' markets across the city of Austin on various days of the week, allowing farmers direct access to consumers on a daily basis throughout the city. This is an ideal setup for those of us in direct marketing; however, the SFC has already made a partnership with a single beef producer and they will not allow another beef vendor to compete because it will take away sales from an existing vendor. This exclusionary practice has been my single greatest challenge in direct marketing – I raise beef in Austin city limits and yet I am prohibited from selling in Austin farmers markets because they have already allowed in a beef vendor from West Texas. This practice forces me out of Austin, increases my operation costs (fuel, time, health documentation for various counties, etc.), undermines capitalism (competition is good!) and

takes choice out of the consumer's hands – Austin buyers would absolutely prefer to buy local but they aren't given the choice.

- b. Competing with larger, successful companies for direct access**
 - i. As a new and relatively small operation, Ranger Cattle does not yet have the capacity or means to compete with other companies that participate in direct sales, such as Omaha Steaks. Ranger Cattle sells beef boxes, which is one container of about 25lbs of Wagyu beef. These sales are processed online and give me a great opportunity to reach those outside of the Austin area, but shipping is over \$100 to overnight. Passing this cost directly to the consumer prices us out but absorbing the price makes selling beef boxes an unsustainable practice. Omaha Steaks has the ability to partner with UPS because of their size, and this provides consumer access to their product at a much more reasonable rate.
 - c. Lack of USDA inspected processing facilities in Texas**
 - i. There are very few USDA inspected processing facilities in Texas. Most are in the panhandle, where the largest ranches also exist. In order for me to harvest my animals for direct sales, I have to use a USDA inspected processing facility and the nearest option is over 100 miles away. This particular facility also has no scheduling methods so wait times can be between one day and three months. Having limited to no control on when I will receive my product back from the processor raises obvious challenges for direct sales.
 - d. Obtaining access to decision-makers at farm-to-table restaurants**
 - i. Meeting chefs and owners at farm-to-table restaurants has been a challenge. They are extremely busy and are frequently approached for various products. Farm-to-table restaurants are by far the most likely to show interest in my product but I am still discovering what methods of contact are most efficient.
- 2. Opportunities for direct marketing**
- a. USDA programs**
 - i. If the USDA does have opportunities for producers sourcing direct, I have never heard of them and I would question whether they are getting to the people that need them.
 - b. Opportunities in Austin**
 - i. We are in a great location as folks in Austin are very excited to see where their food comes from. This has given us a real boost because we regularly have visitors at the ranch who are interested in our ranching process. However, restaurants in Austin still have their bottom lines and buying local is not always a primary concern.
 - c. Veterans' programs**
 - i. I am extremely involved in the VA and veterans' affairs in general, and while there are programs to assist veterans in farming and

ranching in general, there are not any that I know of that relate to direct marketing.

3. **Marketing**

a. **Food labeling**

- i. **Homegrown by Heroes:** This is a great organization that has helped many farmers and ranchers, but needs more governmental support because consumers do not seem to know what it is. I have never met anybody outside the veteran community that is familiar with the label. I think that the majority of Americans would absolutely prefer to purchase products from veterans when presented with two products of equal quality and price, so this label absolutely needs more attention and support.
- ii. **Go Texan:** The Go Texan label is fantastic and well known within Texas. Unfortunately, it costs \$100 each year and for those of us with tight operational budgets, that is a significant expenditure. I don't see this label as absolutely necessary given that we sell at farmers' markets in central Texas – it's a given that we operate in Texas. In stores, this label has a very real impact on consumers but we are not yet in stores.
- iii. **Website, social media, flyers:** These tools are how we market directly to the consumer. Being in Austin means we have gotten a great deal of local coverage (ranches within city limits are quite rare) and we are constantly updating our website and social media. There is definitely more to be done in this area, but there are only so many hours in a day!

4. **What's working and ideas for the future**

a. **Consumer interest in food at an all time high**

- i. The Austin market is saturated with folks who care about what they eat and where it comes from. It is no secret that there is mistrust between producers and consumers at this time, created by issues such as the ethical treatment of animals, antibiotics, and truthful labeling of products. We believe transparent operations are the only way to rebuild this trust and we constantly invite people from the community out to the ranch to witness our operation. We have had visits from local high school students, restaurant owners, chefs, journalists, and other ranchers. We agree that it is important to know where your food comes from and how it's made – it is only one part of establishing overall health.

b. **Taking pride in our product**

- i. Our greatest marketing tool has been taking pride in our product and sharing that pride with consumers. Awareness regarding our animals, raising them ethically, taking the time to answer questions, and incorporating suggestions for better operations sets us apart

from competition. Our ethical treatment of our animals has led consumers to support us where they wouldn't otherwise.

c. Isolated market

- i. As direct sellers, we are outside of the major beef market, which means we are not as susceptible to its fluctuations.

d. Grants for direct marketing

- i. Grants in general are extremely beneficial, and if the USDA would provide more opportunities for grants in direct marketing I am sure we would see positive results.

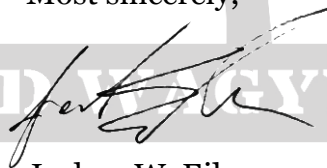
5. By the numbers: direct sales to consumer vs. selling at weaning

- a. At today's market price, we could sell a weaned calf for approximately \$825 dollars (\$1.65/lb @ 500 lbs). Instead of selling, we can feed the same calf for around \$2 a day for a year. This comes out to an additional \$730 to finish the animal. There is an additional \$1000 invested into processing, marketing, and some help selling. You can sell that same animal "by the steak" for \$10/lb at around 650 lbs. The math on paper appears clear – selling by the steak directly to the consumer is much more profitable. Even calculating with the time value of money involved in retaining an animal for future harvest vs. selling at weaning. The biggest drawback to selling "by the steak" is the time involved with educating the consumer and attempting to find places to sell. This takes me away from the ranch and puts me in a position of salesman. The profit of this approach may not be sustainable if it takes me away from the ranch because that will affect my product.

These are a few issues that I think would benefit other people in my position as well as this Subcommittee. I have only had a few days to prepare these statements, but if requested I can provide additional or more detailed information.

Most sincerely,

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