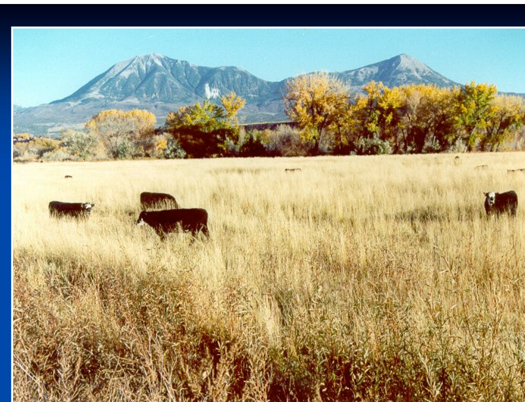
Colorado Homestead Ranches



Started with the Hatfields

- 1995
- Five ranches have grown into six ranches and
- One wild game processing plant
- One USDA packing plant
- Two store fronts, three farmers markets, restaurants, seven stores, and numerous customers

Colorado Homestead Ranches

- Colorado Homestead Ranches (CHR) is marketing a niche, differentiated line of beef products, targeted at consumers who want a consistent quality product, raised on Colorado ranches, with natural production practices.

Grand Opening of Paonia Store 2002

Fresh Meat Products

- Natural Beef, Pork and Lamb
  - No Antibiotics in the feed
  - No Growth Promotants
  - No Animal By-Products
  - USDA Inspected
  - Aged on the rail 14 days
  - Local and traceable

Value Added Products

- Jerky
- Meat Sticks
- Sausage
  - Kolbossi
  - Polish
  - Apple
  - Sweet and Hot Italian
  - Chorizo
  - Bratwurst

Value Added Products

- Ready to Eat Entrees
  - Beef stroganoff
  - Oriental Beef in Plum Sauce
  - Meatloaf
  - Sloppy Joes
  - Chile Verde
  - Chili Con Carne
  - Beef Tips in Wine Sauce
  - Marinara Meat Sauce
  - BBQ
  - Beef Stew
  - Beef Picadillo
  - Pulled Pork

Current Situation

- Halves, Quarter and Wholes
- Retail
- Farmers markets
- Restaurants
- Wholesale distributors
- Convenience stores

USDA and Custom Plant

- 2/3 of the plant capacity is custom
- 1/3 is Homestead processing
- Strong demand for the local connection

Current Status

- Approximately 400 head of CHR cattle are marketed through the company
- Dry aging for 10-14 days
- Locally raised traceable product

Value Added Marketing

Value Added Entrees

Flat Iron Steaks

Previous Literature

- Successful products are commonly created with the demands of the target consumer in mind during all stages of product development (Hill et al., 2004; Rowles, 2000).
- Consumer interest in beef with production assurances, such as quality and local designations is increasing
  - McGarry-Wolf and Thulin, 2000; Lusk and Fox, 2002

Previous Literature

- Sunding (2003) asserts that in addition to traditional concerns, there are also growing concerns about more publicly-oriented characteristics
  - nutritional content, purity, and freshness;
  - "free-range", "organic" & "locally-produced"
  - Civic agriculture issues
    - Altruism
    - Open Space

Market Research and Analysis

- Growing demand for natural, minimally processed meats without antibiotics or hormones
  - Choice set of potential claims growing
  - Difficult to ascertain which claims and production practices garner the greatest derived demand
  - Move from personal to larger scale sales
- Need for better customer profile development to recruit business customers and promotion
  - Price schedule for segments

Data and Methods

- US online survey conducted by National Family Opinion (NFO) in April 2004.
  - 1840 surveys with 1288 responses (70% response)
- Information on:
  - consumer shopping behavior
  - ratings for different production attributes
    - hormone and antibiotic use, grass-fed, traceable to source, open range
  - Attitudes about the perceived benefits (private, public environmental or public health benefits)
  - Value-added products-chili verde and beef stroganoff

Factor Analysis

- Understand latent factors underlying consumer preferences
  - Interface with marketing and sociology
- Table of proportion and cumulative variance explained by each, unnamed factor
- Factor loadings express correlation between each independent factor and the latent factor
  - Correlations help "name" the potential factors
- No rule to determine number of important factors, but can test for whether chosen number is significant (vs. 28 if no constraint)

A Summary of the 4 Factors

- One: 14%, Personal Needs Dominate
  - No "public good" interests except BSE, convenient shopping & low willingness to pay
- Two: 60%, Public-Minded, Civic Motivation
  - High loadings on all alternative production attributes, WTP also moderate
  - Shopping at health food and farmers markets
- Three: 20%, High-End Market
  - Highest WTP, secondary shopping, natural purchases suggest low price sensitivity
- Four: 6%, Public Health Concerns
  - Uniquely concerned about health-related production attributes and testing, less WTP

Cluster Analysis

- K-means clustering into 5 groups
  - Surprisingly uniform distribution
- Included more socioeconomic characteristics since clustering describes people, not motivating factors, allowing for customer targeting
- Compare means of variables within clusters to the total for the group
  - May be more interesting to focus on variability across clusters
- Interesting to connect with findings from factor analysis and define segments similarly

Two Unlikely Consumer Segments

- 1st cluster (19%) Value Seekers
  - Below avg WTP for natural beef products
  - Concern for production attributes low
  - Reside in larger urban areas, Caucasian and young children with higher incomes
- 2nd cluster (27%) Empathetic Value Seekers
  - Greater concern for many production attributes (insignificant), but not WTP more
  - Consumers are located in smaller cities, but unlike price pickers, below average incomes.

Segments with Some Potential

- 3rd Cluster (22%) Casual Sophisticate
  - Brand buyers and urban professionals
  - Least price sensitivity (but only WTP for ground beef and ribeye), highest incomes, few children, and larger cities.
  - Interested in some beef production qualities,
    - Open range, hormone usage and BSE testing
- 4th cluster (19%) Uninterested Urban Professional
  - Unconcerned about production protocols
  - More price sensitive, even though they are more commonly WTP for these beef products.
  - Urban households with higher incomes, young children at home

The Committed Natural Meat Consumer

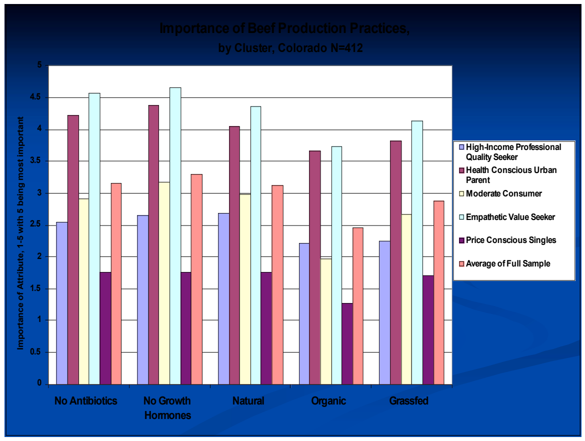
- 5th cluster (13%) shows best potential
  - Attractive consumer segment for those marketing natural, regionally-produced beef
  - Significantly higher WTP premium for all products
  - Great interest in many production issues, highest for no antibiotics and hormones
  - Little price sensitivity and revealed propensity to purchase given past natural meat purchases.
  - More likely female and in larger cities, but with fewer children and smaller incomes.

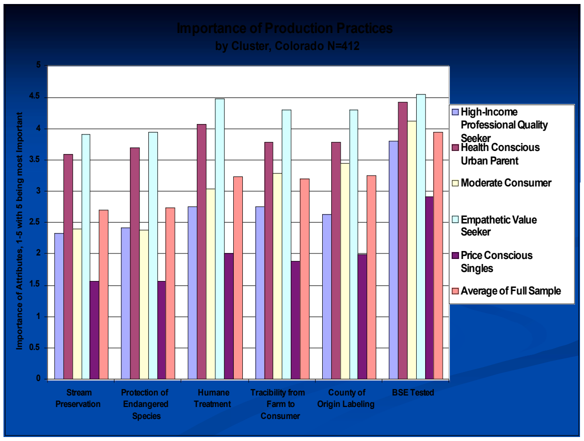
Cluster Analysis Conclusions

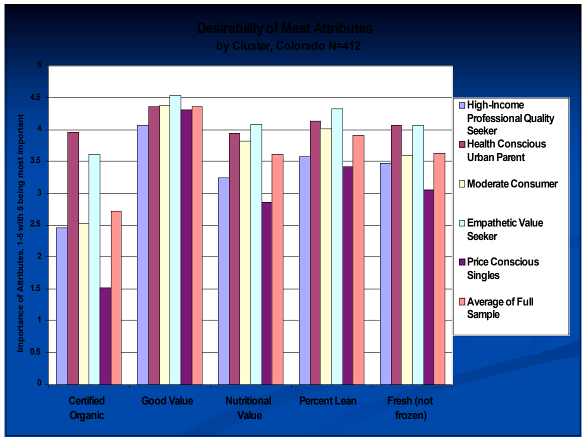
- Value in analyzing the motivating factors and consumer segments most inclined to purchase local, natural meats
  - May also inform local food policy
- Personal benefits remain as a major motivating factor in consumer purchases
- Majority of consumer uniqueness explained by civic-minded and public health motivations
- Segments show that these motivations may or may not influence WTP for natural meats
- At least some joint interest in production methods, direct markets and natural meat purchases

Targeted Marketing

- High Income Professional Quality Seekers
- Health and Natural Consumers
- Moderate Consumers
- Empathetic Value Seekers
- Price Conscious or Value Seekers







High Income Professional Quality Seekers

- Consumers can purchase seafood, tenderloin, lamb and seasonings with one stop at the retail storefront, farmer's markets or specialty retail outlets.
- Year round deliveries available
- Premium product
- Meat is cut weekly for special orders
- Extrinsic quality of natural local beef product with customer service

Health and Natural Consumers

- Value the no feed antibiotics, added growth promoting hormones, or animal by-products fed.
- Value the "gate to plate" control offered by CHR
- Value the local aspect of supporting open space

Moderate Consumers

- Wide variety of products
- Purchase in bulk as they have a freezer
- Box offering
- Higher quality product than retail supermarket
- Takes advantage of periodic sale promotions

Empathetic Value Seekers

- Value locally raised products
- More willing to purchase halves and quarters
- Sampler boxes
- CHR tells them how to cook the products, i.e. customer service
- Reasonably priced

Price Conscious

- Will buy in bulk
- Reasonably priced but not to the lowest common denominator
- Primarily purchase ground beef and roasts, but will buy steaks when on sale

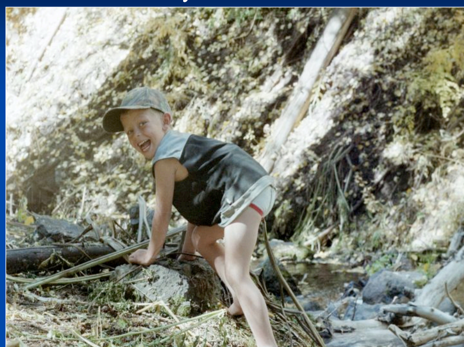
Challenges of a Small Scale Packer/Processor

- Labor Force
  - Recruiting and retention of quality people is difficult
  - Can not compete with recreational and energy industries for labor supply
- Product Distribution
  - Shipping small loads to remote areas is expensive

Challenges of a Small Scale Packer/Processor

- The ability to "Ramp Up" or "Scale Back" Production with Seasonal changes
  - Small adjustments in a small facility result in relatively big shifts production and expenses
    - Adding one person to a workforce of ten is a 10% increase in labor or having two people absent on any given day is a reduction of 20%.
- Having Cattle ready at the right time to meet the market opportunities

Why It Works

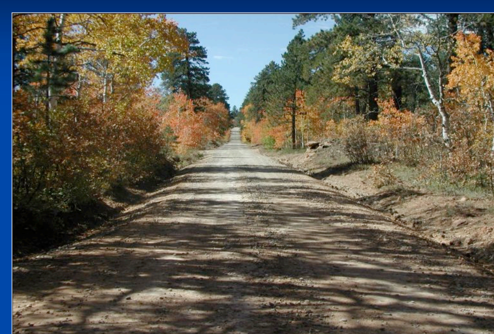


Why It Works

Business Evaluation

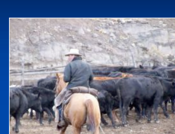
- Highest margin is selling wholes, halves and quarters
  - This specific marketing is our current focus
  - Partnering with appliance stores that sell freezers and barbeque grills
  - Targeting the Rifle and Glenwood area where the majority of energy industry exists
- Lowest margin is selling to restaurants

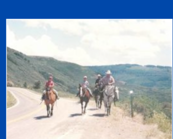
Future Direction

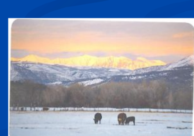


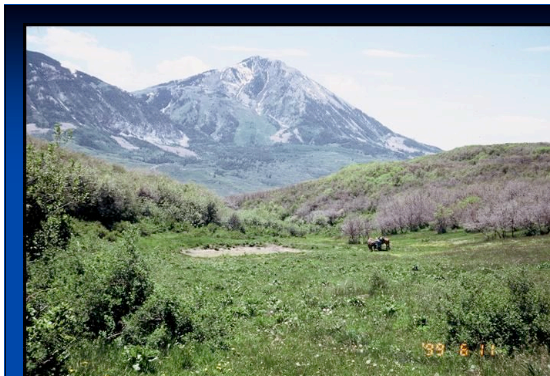
Website

- www.homesteadranches.com
- www.homesteadmeats.com









Thank you and Any Questions?