What Does and Doesn't Work

Penn State did a study across 35 projects over 13 years in 18 states

1. Close to 55% did not raise the investment required.
2. About 35% raised the money but are now shut down.
3. Roughly 15% are up and running today.

Why Such a High Failure Rate

All have unique reasons but some commonalities

1. Ran out of operating capital and have limited opportunities to find more with investors and lenders. *Lesson: Make sure you do the necessary due diligence in the business planning!*
2. Huge management mistakes. Results in #1.
3. Marketing/sales weaknesses. Most projects are supply driven. They thought the plant was the market when what was needed is a market for products and services (demand).
4. Livestock producers do not have the experience to oversee a processing business:
    - Producer Involvement Valuable to a Point but not for Total Ownership
    - It's not what producers do.
    - Waste valuable time and money learning.
    - Processing is a skill-set with its own unique challenges and problems.
    - Processing is a money pit. Producer resources are better used in marketing.

What did the Successful Ones Do Right?

One or more of the following

1. Supporters set up a functional Board of Directors with good business understanding.
2. Purchased a successful processor when available—*Not a likely path for this project.*
3. Hired a good manager with experience.
4. Attracted investments from successful producers with means and started out with plenty of equity—*the importance of a feasibility study and detailed business plan cannot be overstated.*
5. Producers and investors are dedicated and quality conscious.
6. Developed good lender relationships.

If New Processing Capacity is the Only Way to be in the Marketplace, what are the most viable strategies?

1. Involve an existing processor.
    - Find a regional processor interested in expansion.
    - Develop a business partnership
    - *Not a likely path for this project.*
2. On completion of a feasibility study, a well-designed marketing plan should be the first step in the business planning process.
3. Involve as many producers with common goals as up can find (equity source, raw material source).
4. Shore up equity needs. *If short, don't start!*

What hasn't Worked

1. To large a group of investors with competing interests or ideas.
2. "Promise" that producers will support the project and operation of the facility.
3. Too much too fast—*let's provide every product and service possible!*
4. An anti-USDA attitude from square one.
5. Entering an already saturated market.
6. Not able to charge enough for services (competitive pricing for services by existing plants)
7. Not enough livestock available to supply the plant.
8. Insufficient operations and market research for services and products.
9. Underestimating expenses.
10. Inability to obtain correct zoning or underestimate water/sewer costs.
11. Under estimate transportation costs.
12. Income losses due to difficult or non-cooperative producers.
13. "Cowboy" mindset—*many details to understand and much bureaucracy to address—"just do it" is a guaranteed prescription for failure.*
14. Poor grasp of the time commitment
15. Unable to find qualified labor.
16. NO MEAT INDUSTRY EXPERIENCE—*raising animals is a very different set of core skills than operating a highly regulated meat processing plant.*

What has Worked

1. Expansion of existing businesses.
2. >90% of the successful operations have been multi-generational.
3. Well-managed and methodical approach; comprehensive and detailed planning.
4. Recognize that the regulations are a "cost of doing business".
5. Thorough investigation of the market (services and products)—*comprehensive and detailed planning*.
6. Slow but steady expansion (start very small).
7. MEAT INDUSTRY EXPERIENCE!

Government Regulations for the Inspection of Meat and Poultry Products are to:

- prevent the sale of adulterated, contaminated, or otherwise unsafe livestock products
- insure the safety of consumers by establishing minimum standards for the production, slaughter, processing, and marketing of these products
- create a system of licensing, inspection and labeling to trace a product back to its origin if a public health problem should arise

U.S. & All States County Data—Livestock (Beef Cows)

Year	*County*	*2010*	*2011*
2010	Douglas	22,000 head	22,500 head
2010	Jackson	14,000 head	14,000 head
2010	Josephine	1,800 head	1,800 head
2010	Klamath	40,500 head	41,000 head

http://www.nass.usda.gov/QuickStats/PullData_US_CNTY.jsp