

Growing a Niche Market: A Targeted Marketing Plan for Colorado Homestead Ranches

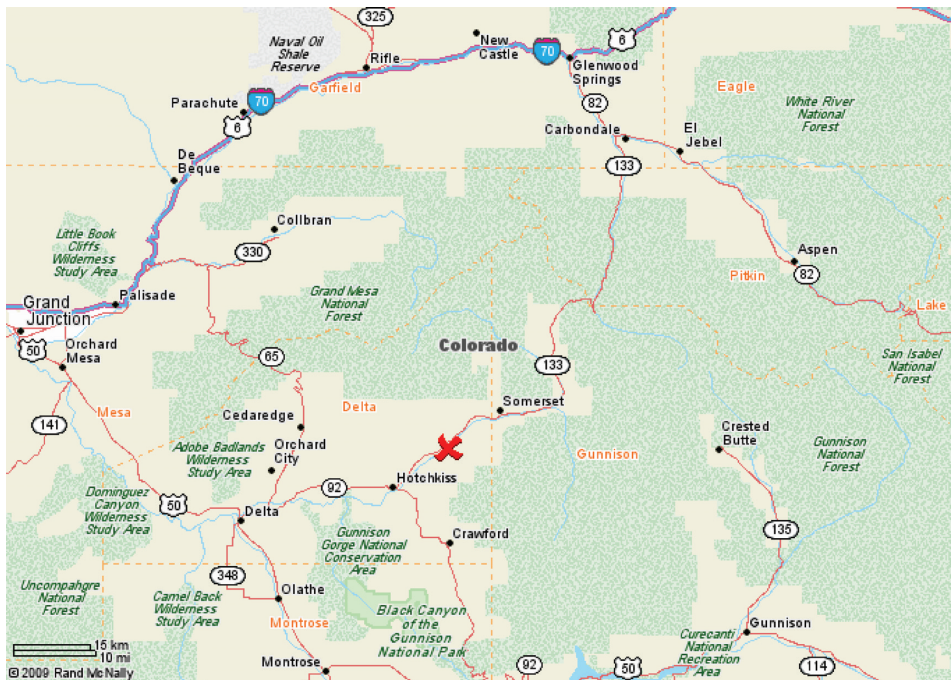
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Colorado Homestead Ranches is one of a number of emerging value-added agricultural enterprises exploring the use of direct marketing to improve profitability and manage the risk inherent in commodity markets. This case study presents the market analysis and marketing channel information they used in developing a strategic marketing plan that includes a focus on consumer interest in production practices, willingness to pay for differentiated beef products and food purchase behavior as they explore further expansion of their business. Students are encouraged to consider targeted marketing strategies and the advantages and disadvantages of various marketing channels available to value-added producers.

As Steve Kossler and Chad Campbell, two of the partners in Colorado Homestead Ranches (CHR), returned from the Saturday Aspen farmers market, they discussed the increasingly strong sales garnered at the Saturday market. The farmers markets they had joined in their market area, Aspen and Glenwood Springs (see figure 1), had allowed them to significantly grow their sales compared to when they sold freezer beef. Previously, most of their promotion had been through word-of-mouth recommendations from existing satisfied customers. The farmers markets had provided good returns to their investments in beef production and marketing (table 1). Still, Steve and Chad wondered how many years they would need to sacrifice their Saturdays to attend the farmers markets. They hoped that their local reputation, personal relationships with customers, and new product lines developed in response to their customers' requests would allow them to develop other profitable, less time-intensive marketing channels.

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Figure 1. Colorado Homestead Ranches (CHR) direct marketing area



Steve and Chad discussed their initial success in expanding sales through different outlets. Their direct marketing activities had continued to diversify, leading to strong sales growth, and allowing for capital expansion. As CHR entered its fifth year of 50% sales growth in 2004, all of the producer-owners realized that their marketing model had to change from one of primarily personal sales to a broader marketing and promotional plan. Their first entry into retail sales was the 2002 opening of a retail store, Homestead Market, located in Paonia, Colorado. The store provided their most loyal customers (many who drove from as far away as Aspen and Glenwood Springs) with an alternative food market where they could purchase CHR products year round.

CHR's management team was unsure about what should be the next logical market development step to connect with an increasingly large consumer base in Western Colorado. Entering even more new markets would allow them to brand their beef for sales through other retail markets, restaurants, and/or meat shops; however, it would require additional time and investment spent on management and marketing activities. Steve and Chad discussed alternative strategies that would allow CHR to both continue securing loyal customers and

Table 1. Financial returns to Colorado Homestead Ranches (CHR) direct marketing activities (2002)

	Freezer Beef Quarters	Farmers Markets Full Product Mix	Homestead Market Full Product Mix
Gross revenues	\$ 35,170	\$ 70,300	\$ 140,680
Costs of goods sold (processing and packaging)	\$ 17,387	\$ 15,120	\$ 53,988
Gross margin	\$ 17,783	\$ 55,180	\$ 86,692
Returns to meat goal of \$1,400 head set by producers	\$ 39,550	\$ 21,000	\$ 87,500
Inventory and shrink costs	\$ 833	\$ 100	\$ 985
Payroll (attributed to activity by estimated hours)	\$ 900	\$ 900	\$ 11,250
Other costs (fees, transport, facilities)	–	\$ 3,435	\$ 10,320
Cash returns if meat return goal met	\$ (23,500)	\$ 33,180	\$ (13,043)
Returns to meat, management, and overhead (if returns to meat not deducted from gross margin)	\$ 16,050	\$ 54,180	\$ 74,457

gaining access to a larger metropolitan consumer base such as the Grand Junction or Denver markets.

The ability to retain a higher share of the sales price, develop additional loyal customers, and learn more about consumer preferences are all reasons that an increasing number of farmers are participating in farmers markets (Agricultural Marketing Service, <http://www.ams.usda.gov/farmersmarkets/>). In 2000, 19,000 farmers reported selling their produce only at farmers markets, and 69% of those farmers sold through retail and wholesale markets. In the case of CHR, farmers markets helped them keep their gross margin (revenues less the costs of good sold) relatively high at over 75% (see the summary of 2002 financial returns provided in table 1).

Financial returns at the Homestead Market were not as high as those obtained from sales at farmers' markets. This was primarily because of the higher labor and overhead costs of running a retail store (table 1). Another option Steve and Chad discussed was the idea of partnering with existing food brokers, distributors, or retailers. Initial investigation of pricing through these channels indicated that with a 50–70% retail or wholesale mark-up of the products' value, the gross margin for CHR would drop to 30–50% of the retail meat price. Still, little investment beyond processing would be needed if wholesale relationships were used. Furthermore, the potential for a large increase in sales volume might justify the tighter margins (i.e., turnover would likely increase enough to justify lower returns per pound).

Throughout the United States and Colorado, numerous new business ventures are forming that involve horizontal and/or vertical alliances among livestock producers, processors, and other members of the red meat supply

chain. The goal of these coordinated farm-to-retail supply chains is usually to garner either a price premium or a more loyal customer base through targeted marketing of unique product positions to consumer segments. CHR has successfully established itself in a local niche, but they believe their goal to market all 1,400 head of cattle raised by the owner ranches may necessitate a new strategic market plan including a wholesale marketing channel to augment the direct sales secured from their current niche business. After years of direct marketing experience, CHR's owners had good instincts and insight, but they knew more in-depth consumer research was essential for future planning.

The U.S. Department of Agriculture's Rural Development Agency offers a Value-added grant program that CHR applied for in 2003. They used the grant to fund technical assistance from Colorado State University (CSU). On behalf of CHR, CSU conducted a consumer survey of 412 Colorado consumers in 2004. The data were collected during April 2004 by the National Family Opinion (NFO) research group using an online survey to obtain a sample comparable to U.S. Census figures (U.S. Census, 2000). The survey did have more responses from females since the questions were asked of the primary grocery shopper.

CSU researchers chose to employ market analysis methods often used by larger food businesses to determine market segments. Consumer respondents' demographic characteristics, shopping behavior, willingness to pay for local, natural beef products, and their attitudes toward a variety of meat product attributes were used to segment consumers. The rest of the case includes additional company background information, an overview of CHR's current marketing strategy and competitive analysis, a summary of the consumer segmentation research, and a discussion of potential future positioning strategies. Thus, the following information is designed to help students address the case discussion questions that are posed at the end of the case.

Company Background

CHR began in November of 1996 as a group of five ranches from the Western Slope of Colorado, including Chad and Steve. They are organized as a C Corporation with equal equity and unpaid labor and management commitments among the members. These producers formed CHR with the goal of providing and marketing a healthy and high-quality beef products directly to the consumer. The primary financial objective of this enterprise is to return a premium (up to \$1,400 per head) to each member for cattle marketed through CHR. Some profits have been retained to provide the equity capital necessary to run and further develop processing, marketing, and retailing activities. Beyond the expected revenue and equity gains from integrating added value into their beef products, CHR also seeks to manage the risk inherent in livestock price cycles through a fixed return to participating ranches.

The current strategic position of CHR is marketing of a niche, differentiated line of beef products that are targeted at consumers who want a consistent quality product, raised on Colorado ranches, with natural production practices. CHR operates primarily as a marketing enterprise for the owners' ranches. The individual ranches are responsible for all cattle production activities, and the owner of each firm (ranch) prefers to maintain individual ownership of their

primary assets and wealth. Furthermore, each CHR member has a set of responsibilities. Karl Burns is responsible for financial oversight. Norm Smith is responsible for general management of direct marketing activities. Jim Ayer is responsible for coordinating production activities and Chad Campbell coordinates the value-added product processing. Susan Smith and Susan Ayer, wives of Norm and Jim, respectively, are the retail managers of the Homestead Market. Finally, the President of CHR, Steve Kossler, provides general management for each segment (production, processing, and marketing) of the CHR operation.

Overview of Current Marketing Strategy

CHR markets frozen beef quarters, halves, individual cuts, processed beef products (jerky, meat sticks), and ready-to-heat entrees. The reason that CHR direct markets is that they take pride in the fact that all cattle are born and raised on family-owned operations, then fed on the open range until they are finished in a small, noncommercial feedlot maintained on one of the five ranches. By limiting exposure to stress and reducing susceptibility to disease, CHR is able to eliminate the use of all feedlot antibiotics and hormones in order to provide an all-natural product. Once finished, each animal is shipped a short distance to a local, USDA-inspected processing plant where the beef is processed and aged for fourteen days.

There is continued sales growth (50% annually), but as local markets become saturated with natural beef, CHR hopes to refine their product position, pricing strategies, and promotional materials. Historically, CHR marketing and sales activities were small scale and personal, reflecting the direct connections made with consumers through farmers markets.

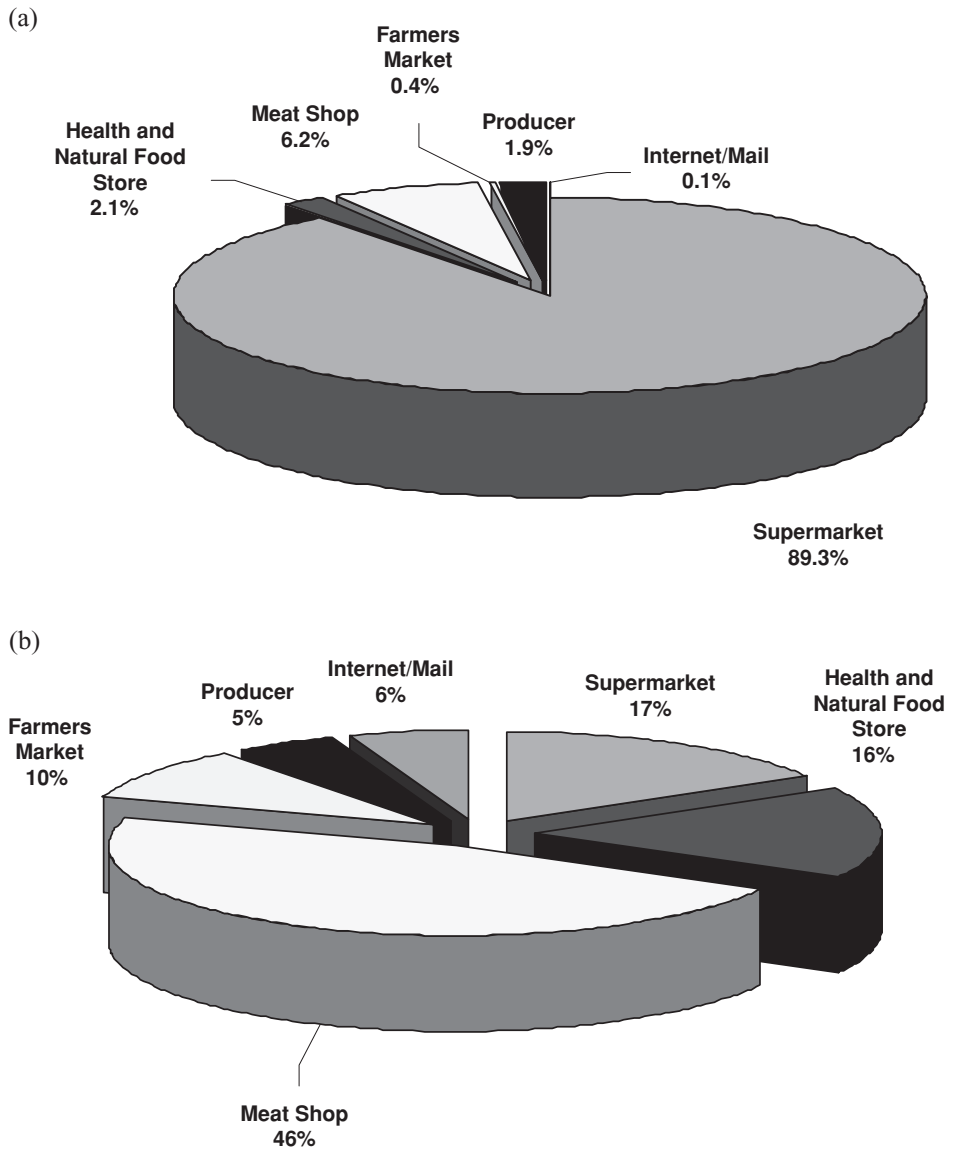
Competitive Analysis

Steve Kossler encouraged the other CHR owners to determine who their primary competition was; the owners arrived at the following list:

- (a) Generic, unbranded beef marketed through convenient, large-scale supermarkets. This is the least perfect substitute for CHR beef, but still represents the highest market share since 89% of consumers primarily shop at supermarkets (figure 2a).
- (b) Branded beef products, with some combination of genetic, quality, production practice, or production location claims. Examples include Coleman, Maverick, Laura's Lean, Oregon Country, and Certified Angus Beef.
- (c) Beef direct marketed by other producers, representing a small but growing share of total sales, with about 20% of all consumers buying at least some meat directly from producers, farmers markets, or the Internet (figure 2b).

In 2004, CHR's customer base included 200 loyal customers (spending approximately \$1,000 per year), five institutional customers (spending \$2,500 per year), 250 frequent buyers (spending \$300 per year) and 1,000 occasional

Figure 2. (a) and (b). Primary and secondary consumer meat purchase locations



Source: 2004 Colorado State University (CSU) consumer survey (Ziehl, 2004).

buyers (spending \$100–200 per year). These buyers represented the majority of the \$425,000 meat sales at the retail store and farmers markets in 2004. Other sales came from customers who were passing through town for travel or family visits and hunters that used the Market’s wild game processing facilities.

Market Analysis

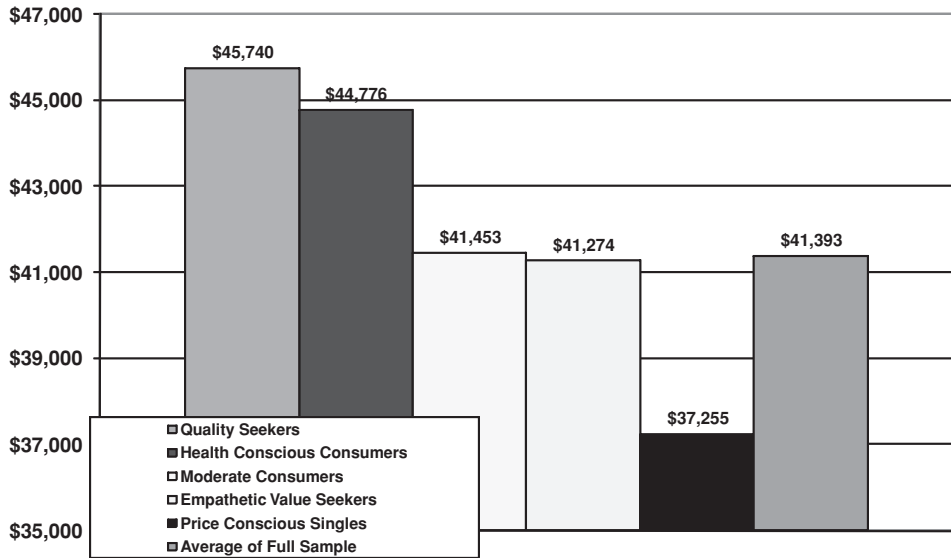
After designing and administering the consumer survey, CSU researchers assisted CHR in analyzing the data to determine their potential consumers and marketing strategies. Market segmentation methods were used to determine potential target segments with profiles based on the characteristics of existing customers as well as potential beef consumers who were most likely to be interested in differentiated beef products with attributes similar to what CHR could produce. The consumer profile information was used to determine the market growth potential of each segment and to develop marketing messages that would be most effective when communicating with each consumer segment. The challenge was for the owners to use this market analysis to formulate a strategic marketing plan that would facilitate continued sales growth for CHR, including more differentiation, branding, and promotional activities.

Almost every market has some major and distinctive consumer segments, commonly defined by price and quality issues. However, past market research by the CSU team (Thilmany et al.) found that there is one dominant factor underlying the differences among consumer responses, and three other important elements described by a number of variables in the survey. The first factor could be defined as attitudes/concerns about a wide variety of product attributes related to production practices, such as the use of antibiotics, hormones, humane treatment of animals and potential impacts of livestock on the environment, wildlife, and water. The other elements that helped distinguish segments were their willingness to pay (price sensitivity) and consumers' perceived importance of attributes that directly related to the quality of the meat (tenderness, color, or convenience).

Consumer Segmentation and Profiles

Beyond understanding the general motivations of buyers, the CSU team thought it would be helpful to CHR if they defined consumers with similar purchasing behaviors, characteristics, and product needs, especially those consumers who were interested in meat products consistent with CHR's product position. CSU identified and named five clusters based on how the consumer segments varied in terms of their demographics, buying behavior, and attitudes about the importance of specific meat product attributes. The first cluster, 12% or 52 of the 412 surveyed Coloradans, was labeled High-Income Professional Quality Seekers. The second cluster was labeled Health and Socially Conscious Urban Parents (13% of all consumers). The third cluster was labeled Moderate Consumers, and was the biggest cluster with 123 respondents (30% of the consumers). The fourth was named Empathetic Value Seekers (23%), and the last cluster was called the Price Conscious Singles (92 or 22%).

The sample was primarily female (over 70%), but the High-Income Professional Quality Seekers (Quality Seekers) were significantly more male, and Health and Socially Conscious Urban Parents (Health Conscious) and Empathetic Value Seekers contained a higher proportion of females than other clusters. The mean age of the sample was around forty-seven years, but the Quality Seekers and Health Conscious consumers were significantly younger

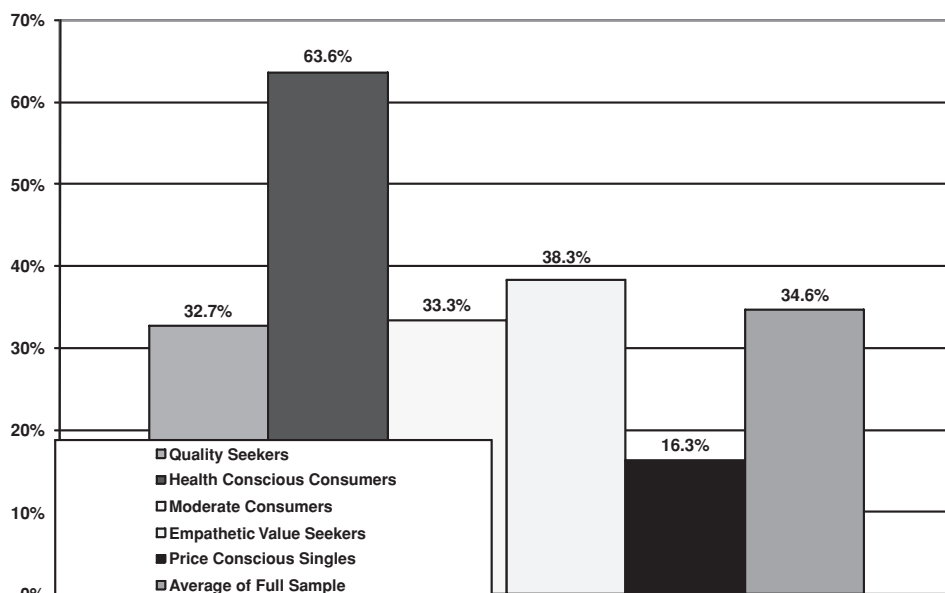
Figure 3. CHR meat consumer clusters by income category

Source: 2004 CSU consumer survey (Ziehl, 2004).

than the sample average (in their early forties). There were no notable differences in ethnicity among the clusters. Figure 3 illustrates differences in household income across clusters. All consumer clusters, except for Price Conscious Singles, were within the third income category (\$40,000–59,900).

Although demographics were important in the market segmentation analysis, they were only one element of the consumer profiles. Psychographics characteristics (attitudes, beliefs, and lifestyle choices) were also helpful in predicting consumer preferences for differentiated meat products. The share of each cluster that reported they had previously purchased natural beef is shown in figure 4. This consumer characteristic is an important indicator of a consumer's willingness to buy alternative meat products, such as CHR's meats. Not surprisingly, a large share, approximately 64% of Health Conscious consumers had previously purchased natural beef. Roughly one-third of the other clusters, except for Price Conscious Singles, indicated they had previously purchased natural beef.

CHR may choose to target consumers who prefer to shop in less traditional food marketing channels; however traditional supermarkets are still the dominant primary food shopping location (see figures 2(a) and (b)). Consumers provided ratings of the importance of various factors when choosing where to shop for meat (table 2). Some interesting differences existed across clusters; for example, Quality Seekers rated superior products (taste and flavor) as relatively more important, Health Conscious consumers were most concerned with safety, and Empathetic Value Seekers were more willing than the average to support local producers.

Figure 4. Past natural beef purchases by consumer cluster

Source: 2004 CSU consumer survey (Ziehl, 2004).

Table 2. Respondents' perceived importance ratings for various motivating factors for choice of meat-shopping outlet, % rating each importance category

Motivating Factor	Extremely Important	Very Important	Important	Somewhat Important	Not at All Important
Meat offerings	22.7%	37.0%	26.0%	11.2%	3.1%
Superior products (taste and flavor)	47.2%	34.1%	14.8%	2.9%	1.1%
Safety	47.0%	28.9%	15.5%	6.0%	2.6%
Local producers	8.8%	16.4%	30.5%	24.7%	19.6%
Convenient location	26.6%	36.6%	23.5%	9.7%	3.6%
Aesthetic	13.7%	29.7%	32.2%	16.5%	7.8%
Family/friend suggestion	7.5%	21.6%	35.9%	21.3%	13.7%
Reasonable prices	42.2%	35.7%	15.2%	5.0%	1.9%

Product Positioning

In addition to identifying potential customers, CHR wanted to assess their current product position. The nature of the questions asked in the consumer survey was heavily influenced by product attributes that CHR had already adopted or was considering as a future production process or through becoming

Table 3. Respondents' perceived importance ratings for various product attributes, % rating for each importance category

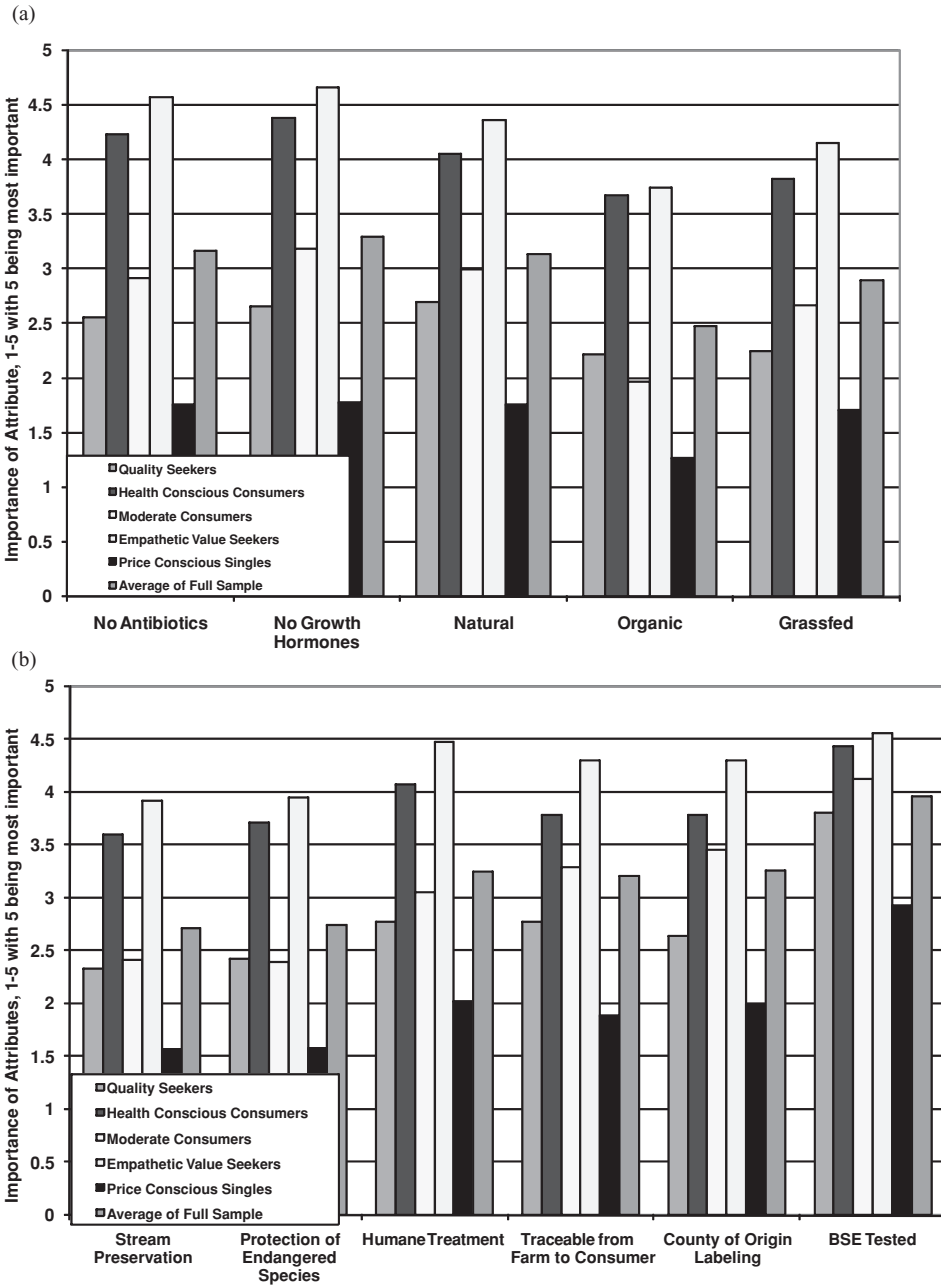
Attributes	Extremely Important	Very Important	Important	Somewhat Important	Not at All Important
Open range	14.7%	18.1%	26.7%	22.4%	18.2%
No antibiotics	22.0%	23.3%	23.6%	18.3%	12.7%
No hormones	29.0%	20.7%	22.1%	16.9%	11.2%
Natural	18.9%	21.1%	28.9%	19.8%	11.3%
Organic	9.2%	12.3%	24.3%	26.7%	27.6%
Grass-fed	11.7%	18.9%	29.2%	22.3%	17.9%
Protects streams	11.9%	15.5%	28.5%	23.8%	20.3%
Protects endangered species	12.8%	16.8%	25.6%	24.2%	20.5%
Humane treatment	24.8%	19.7%	27.6%	17.0%	10.9%
Traceable to producer	21.0%	24.0%	26.0%	16.5%	12.5%
BSE-tested	52.5%	21.0%	15.9%	6.6%	3.9%
Country of origin	24.1%	25.2%	24.7%	14.5%	11.5%

involved in a meat certification program. Considering the list of USDA-Certified and USDA Process-Verified beef programs that are currently administered through the USDA, AMS, CHR's positions seems to mirror the differentiation strategies that many U.S. beef companies are currently using. In order to determine the potential of these and other marketing claims in the Colorado market, consumers were asked to rate (1 to 5, with 5 being extremely important to the consumer) how important different production practices or meat characteristics were to them. Consumers could rate any number of attributes as extremely important or not important. Table 3 provides the share of the respondents who indicated each level of importance for the individual of the attributes.

The farthest right hand column for each production attribute category in figures 5(a) and (b) contains the average ratings given by consumers for the product attributes (the weighted average of numbers presented in table 3). The tallest columns represent attributes that consumers rated of higher importance (mean attribute rating above 3). For example, BSE-tested meat, no antibiotics, no growth hormones, humane treatment, natural, traceable from farm to consumer, and labeled with country of origin received average ratings above 3. There appears to be general consumer interest in a wide array of production practices and marketing claims, even if the feasibility of some of these claims is questionable (e.g., BSE-tested, country-of-origin labeling).

It is interesting to compare which attributes are most important for each consumer segment. CHR can use this information to target market to consumers with the most compatible profiles. Health Conscious consumers rated alternative production practices, such as natural, no antibiotics, no growth hormones, and humane treatment of animals as very important on average.

Figure 5. (a) and (b) Importance of beef production attributes by consumer cluster



Source: 2004 CSU consumer survey (Ziehl, 2004).

Similarly, Empathetic Value Seekers seemed highly concerned with these alternative practices, as well as grass-fed production methods. Price Conscious Singles and Moderate Consumers seemed relatively less concerned with alternative production methods, except for BSE testing. In terms of more tangible meat quality attributes, there were fewer differences among consumers. On average, good value was the highest ranked issue followed by leanness, freshness, size of package, and nutritional value. Meat being boneless, branded, ready to heat, preseasoned, aged, or organically certified were ranked much lower on average, suggesting that value, health, and safety issues are generally more important than process-oriented value-added claims.

Product Pricing Strategies

Several of the owner-managers of CHR struggled with how to price their products. From one perspective, they continued to sell out of their premium cuts (e.g., ribeyes and tenderloins), but they were sitting on significant inventories of ground beef and roasts from the chuck. They also felt some pressure to keep their meats affordable for community members who saw CHR as a source of safe, high-quality beef. They told the CSU research team that, in addition to considering competitors' prices on the demand side, they must assure themselves a price that was sufficient to cover their beef production and processing costs, as well as the new investments and marketing costs associated with their new enterprise (labor, processing, increased management effort).

The aggregate sales and costs of good-sold figures for CHR are shown in table 1. On a product-by-product basis, the owners feel they need better information on willingness-to-pay thresholds from their various types of consumers in case they decide to price discriminate across channels or cuts of meat. Consumers' willingness to pay for four types of regionally produced, natural beef products (based on CHR's product lines) was examined using a payment card format method similar to the one shown in table 4. Figure 6 displays the mean premium level consumers in each cluster indicated they would be willing to pay, on average. Each premium level is approximately a 10% premium. The average premiums for the full sample range from a little over 10% (for value-added entrees) to almost 30% for ground beef.

The range of potential prices is even greater when one considers different market segments. Quality Seekers and Health Conscious consumers indicated a premium of over 50% was acceptable for ground beef, while others (Moderate Consumers, Empathetic Value Seekers, and Price Conscious Singles) would not even pay a 10% premium for the value-added products. These differences suggest an opportunity to use pricing differentiation or discrimination strategies, particularly if it helps to sell a larger volume of products that CHR has excess supply of, such as roasts and ground beef.

The Marketing Challenge

CHR has established itself as a premier regional beef producer and marketer, as well as a loyal community citizen and steward. CHR's Homestead Market in Paonia, Colorado opened in May 2002 for year-round sales of all CHR product lines, in addition to other varieties of meat, dairy, fruit, vegetable, and lightly

Table 4. Example payment card to elicit willingness to pay (ground beef)

Cost Per Lb. →	80% Natural Lean Ground Beef (Regular Beef Costs 2.29/Lb.)								
	\$2.29	\$2.51	\$2.77	\$3.05	\$3.35	\$3.69	\$4.05	\$4.46	\$4.91
(a) Reasonable to pay	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Max you would pay	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Note: Please imagine that you are at the counter where you usually buy beef. Two cuts of beef are available, one is regularly and the other is naturally produced. There are also two precooked entrées available. The naturally produced meat is from animals born and raised within 200 miles of where you live. The meats are displayed identically; their color, fat, and size are exactly the same. The entrées are also displayed identically; the ingredients and portion sizes are exactly the same.

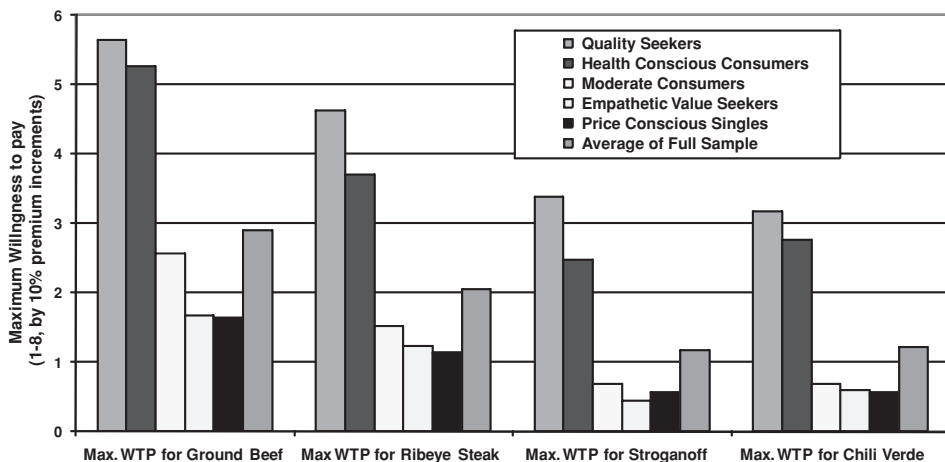
Considering the prices indicated for the regular beef cuts and regular beef entrées, what cost would be reasonable to pay for the natural and regionally produced? (X ONE Box for EACH type of product). Then on the same scale, indicate the maximum price you would pay for the products labeled natural and regionally produced? (X ONE Box for EACH type of product).

“X” the appropriate box, if you do not buy the product, or would not pay any amount above the regular beef price.

“X” this box if you do not buy 80% ground beef.

“X” this box if you are NOT willing to pay ANY amount above the regular cost.

Figure 6. Potential price premiums willing to be paid by consumer clusters



Source: 2004 CSU consumer survey (Ziehl, 2004).

processed products from fifteen other Colorado value-added producers. These product and marketing developments have increased the company’s sales from \$18,779 in 2000 to about \$500,000 in 2004 (including products by other companies sold at their Homestead Market) and income from a loss of \$7,633 in 2000 to over \$50,000 of profit in 2004.

The group's venture, which began five years ago into slightly processed meats (bratwurst, polish sausage, meat sticks, jerky, and summer sausage), together with more recent production and sales of ready-to-eat entrees, shows CHR's willingness to change and innovate to suit consumers' needs and to manage supply/inventory challenges. Ground beef is the product with the highest share of consumers willing to pay any premium. Thus, it is the product that shows the greatest potential for securing premium prices while still garnering sizable market share. During their strategic market-planning meeting, President and General Manager, Steve Kossler noted their greatest supply chain challenge was to sell enough ground beef to balance the number of steaks that are sold, as ground beef makes up such a large share of the processed carcass.

After analyzing the consumer data and considering the differences in the consumer characteristics across segments, CHR realized that the consumer data supported many of their instincts. Additionally, the information from the segmentation study related to consumers' perceived importance of product attributes and purchase motivations further clarified why and how they may need to adjust their marketing strategies. Given the predicted market shares estimated in the consumer research and taking into account the population base that they already served, CHR conservatively estimated that each "segment" of their current customer base could double in three-five years. This growth would obviously depend upon the marketing channels CHR decided to target and where they focused their marketing energy.

In short, growth will continue as CHR attracts new customers through word of mouth and retains its loyal consumers gained over the past couple of years. Norm Smith and Steve Kossler realized their challenge would be to use the market analysis to develop a strategic marketing plan that focused on meeting the needs of new consumers and partners in retail and food service, while simultaneously guiding daily sales operations in current marketing channels. After considering the market research and consumer segmentation results and thoroughly discussing the business's goals and opportunities, CHR ended their Winter 2004 meeting with one major decision related to whether or not they should pursue a wholesale marketing strategy.

Case Discussion Questions:

1. Define an optimal product position for CHR. Which of the CHR competitors provide the greatest direct competition? Consider what marketing claims already exist in the marketplace. How could CHR further differentiate itself from other branded beef products?
2. Who are the most attractive consumers to target? What retail and restaurant partners might help CHR reach the most promising consumer segments? Develop a mission statement for the company that may attract your target consumers.
3. Should CHR's pricing strategy be uniform across marketing channels and targeted consumers? How might pricing strategies be used to address the challenge of marketing the large volume of ground beef relative to steaks?
 - a. Using numbers presented in Table 1, calculate the % gross margin for the three existing marketing channels. By how much do the returns to meat for each marketing channel fall short of the goal?

- b. If a retailer could sell \$700,000 of CHR products (10 times the volume sold at all farmers markets) with a 50% discount from current prices (lowering gross margin), would CHR make enough to cover its goals for returns to meat? At what discount could they meet their goal? Does it seem like a realistic number to negotiate with the retailer?
- c. A local chef is willing to buy fresh beef in bulk (a quarter carcass at a time), for a total of \$50,000 in sales per year. How much would CHR need to charge above current freezer beef prices to meet their goal for returns to meat? Would the willingness to pay estimates suggest they are fair to charge this premium considering the chef will sell steaks and ground beef?

Acknowledgments

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