



Initial Considerations for Starting a Small-Scale Livestock Harvest and Processing Facility

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This document is intended to assist those who think they may want to start their own livestock harvesting and processing business. Over the past 15 years, scores of calls and inquiries have been addressed in the Center for Profitable Agriculture from folks asking, “What do I need to do to start a cattle harvesting/processing business?” Many times they are just interested in knowing what regulations need to be followed. However, the “regulations” are often not straightforward and understanding the regulatory requirements is only a small part of all that should be considered. This document attempts to provide insight to some of the issues that should be considered and some of the steps that should be addressed before investing money in a livestock harvesting and processing facility. This publication is not intended to be a complete and comprehensive guide to starting such a business — it is merely intended to increase the awareness of some of the early considerations that should be made.

Introduction



Beef production is big in Tennessee. There are more than 40,000 farms with some 1.9 million head of cattle in Tennessee.

However, most of the beef that is sold to consumers via retail outlets

and restaurants in the state is processed out of the state. In recent years, there has been an increase in the amount of beef products that is sold direct

to consumers from cattle producers. This is evidenced by recent increases in the number of cattle producers selling beef at local farmers

There has been a 60 percent increase in the number of farm-based retail meat permits issued by TDA from December 2011 to December 2013.

markets, as well as a 60 percent increase in the number of farm-based retail meat permits issued by the Tennessee Department of Agriculture from December

2011 to December 2013.

However, it should be noted that demand for locally sourced meats remains a small share of the total market demand.

Many of the cattle producers that

have developed markets for their locally raised beef have experienced challenges in finding ample processing facilities to perform harvesting,

processing and packaging services. As a result, many cattle producers and beef marketers contemplate starting their own livestock harvesting and processing facility. For the cattle producer that finishes an animal for harvesting and then develops markets for the beef products from the animal, the missing link to this system is the harvesting, processing and packaging.

The harvesting, processing and packing procedures are a critical part of a value-added beef enterprise. These activities can also be the most labor-intensive, costly and least profitable.

While many new harvesting and processing facilities have been considered in Tennessee, very few new operations have been started in recent years. In addition, some

new operations in other states have closed due to various reasons. These reasons include insufficient operating capital, management mistakes, marketing weakness, inexperience in processing and marketing, and lack of consistent throughput to support efficient size and scale. Operating a cattle harvesting and processing facility can be costly and should be carefully considered.

While the **startup and annual operating costs** of a new livestock harvesting and processing business will vary significantly depending on size, automation, throughput capacity and other factors, the initial investment for a 3,100-square-foot facility designed to process 20 head a week could cost over \$1 million (Source: North Dakota Farmers Union, “Bowden Co-Op

Building a Meat Plant, June 21, 2013), while a much larger 300,000-square-foot facility for 22,000 head per week could cost over \$100 million. (Source: Sheep Industry News: Meat Processing Plant Will Revive Failing Community, April 2014, Volume 18, Issue 4.) Not only is the initial capital outlay for such an operation significant, but it can take several years to go from the legal business inception state to actually harvesting and processing the first animal. A group called Cattle Producers of Washington took five years to study, plan and convince enough producers to support the idea of building a facility. It was another four years before the first animal was processed. (Source: New Facility Processes Meat for Local Markets, Capital Press, September 6, 2013.)

Stop and Think About It

A comprehensive feasibility study and a detailed business plan are essential to the process of thoroughly considering a new livestock harvesting and processing facility. However, a great deal of consideration and contemplation should take place before formal feasibility and business plans are developed.

A speaker at a conference recently listed a few of the most important steps they took in the early days of considering their business idea that contributed to their longer-term success.

- ***Invest time in the planning process*** — “We took two years to read, study, plan, attend conferences and visit other operations.”
- ***Learn until it burns*** — “As I look back, I can’t believe how much reading, studying, traveling and asking questions we did.”
- ***Start networking early...and never stop*** — “We found folks that were really open with us...they shared things that kept us from failing...they were eager to help us to help the industry succeed...Now that we have been in business a while, we try to give back and help others, too.”
- ***Look before you leap*** — “Even after you exhaust yourself with all the reading, studying and visiting other operations, RE-EVALUATE before you decide to do it.”

In addition, there are other issues that should be addressed in the early stages of considering a new business idea. Table 1 provides a list of 15 considerations that should be addressed before a formal feasibility analysis is conducted. One approach to reviewing the 15 considerations is to establish some type of rating system for each, such as a scale of one to 10 where a “10” might indicate a strong and confident score, and a “1” would indicate a weakness or a limiting factor. For example, someone that has previously started

and operated a successful livestock harvesting and processing facility might rate “Prior experience” as a “9,” while someone who has never been in such a facility and has no applicable experience might rate it as a “1.” Consideration of these 15 items on a one-to-10 rating could provide a quick and informal indication of strengths and weaknesses for the idea.

Table 1. Considerations That Should Be Addressed in the Pre-Feasibility Phase for a Livestock Harvesting and Processing Facility

Consideration	Rating (1 to 10)
<input type="checkbox"/> Prior experience	_____
<input type="checkbox"/> Available capital	_____
<input type="checkbox"/> Evidence of demand for the enterprise	_____
<input type="checkbox"/> The most critical strength that you bring to the project	_____
<input type="checkbox"/> Ability to secure and train labor	_____
<input type="checkbox"/> Ability to secure appropriate equipment	_____
<input type="checkbox"/> Ability to manage construction or acquire appropriate facility	_____
<input type="checkbox"/> Management	_____
<input type="checkbox"/> Marketing	_____
<input type="checkbox"/> Understanding of food and meat regulations	_____
<input type="checkbox"/> Understanding of site-specific permits, including zoning	_____
<input type="checkbox"/> Industry connections	_____
<input type="checkbox"/> Understanding of existing, similar operations	_____
<input type="checkbox"/> Pre-feasibility and feasibility assessment	_____
<input type="checkbox"/> Profit potential	_____

Discuss It With Others

While an evaluation of the 15 considerations in Table 1 may provide a very helpful assessment, there is also a great deal of benefit to discussing the idea with others. One method of getting input from others is to attend conferences, educational programs and join associations and possible discussion groups with folks that have related interests.

One helpful online resource for people considering processing facilities or who are operating small meat processing facilities is called the Niche Meat Processing Assistance Network (NMPAN). The URL for the group is <http://www.nichemeatprocessing.org/>. This site contains some very relevant resources under the “New to Meat Processing?” and “Tools for Businesses” tabs. There are a variety of resources here for business planning, financial feasibility,

plant design, rules and regulations, and case studies.

Those considering starting a new livestock harvesting and processing facility are encouraged to evaluate alternatives to building a new plant. Is there an existing successful processor interested in selling or expanding their current operation? Is there an existing processor that is interested in developing a business partnership with local producers? Plan to ask lots of questions and visit with others who are involved in similar operations. While direct competitors may be reluctant to provide trade secrets, some of the most helpful input about a business will come from those already involved in the industry. In addition, getting input about a business you are considering directly from someone that is already in the business could be extremely beneficial.

Different Phases of Business Planning & Development

Many times, folks with a new business idea want to jump right into the construction phase. Going from the idea to construction may create lots of opportunities for the business to fail. It can be much better to invest in thorough and proper planning before construction. Taking time to carefully consider the idea and then move patiently into the pre-feasibility, feasibility, business planning and pre-startup phases allows for many headaches and hurdles to be addressed. Figure 1 provides a list of some of the business planning and operation phases.

Figure 1. Listing of Different Phases of Business Planning and Operation

1. Idea Generation
2. First-level Considerations
3. Pre-feasibility
4. Feasibility Analysis
5. Business Plan Development
6. Pre-Startup
7. Construction
8. Startup
9. Growth
10. Maturity

While some of the same issues may be addressed in multiple phases, the degree to which details are addressed may differ. For example, “regulations” or “environmental issues” may be addressed in the “First-level Consideration” phase, while actual meetings

with regulatory agencies may be held in the pre-feasibility phase. Additionally, a detailed understanding of USDA inspection requirements and permits may be gained from a comprehensive “Feasibility Analysis.”

Additional Contacts and Resources

One important part of the “First-level Considerations” phase is to increase your general knowledge about the business and the industry. Discussing the idea with others and reading related and relevant information is a significant way to increase knowledge. Becoming familiar with the eight items/publications in Figure 2 will

be helpful during the early phases of considering a federally inspected livestock harvesting and processing facility. The resources in Figure 2 are not intended to serve as a complete and comprehensive list of additional materials to consider and study.

Figure 2. Listing of Various Resources and Publications to Assist in the Early-phase Considerations of a Federally Inspected Livestock Harvesting and Processing Facility

1. How to Apply for Meat and Poultry Inspection
<http://www.extension.org/pages/19712/how-to-apply-for-meat-and-poultry-inspection#.UqDNxXmA270>
2. Application for Federal Inspection (FSIS Form 5200-2) http://www.fsis.usda.gov/wps/wcm/connect/c7512904-07cf-46e2-bdfd-2a48e61b588b/Form_5200-2.pdf?MOD=AJPERES
3. Small Meat Processors Business Planning Guidebook
http://calaverasgrown.org/wp-content/uploads/2011/12/NMPAN1_Business_Planning_Guide_20April2011.pdf
4. Guide to Designing a Small Red Meat Plant with Two Sizes of Model Designs <http://www.extension.iastate.edu/publications/pm2077.pdf>
5. New to Meat Processing? How to Get Started
<http://www.nichemeatprocessing.org/get-started>
6. Obtaining Federal Meat and Poultry Inspection Background and Introduction to the 7 Basic Steps Required <http://www.jirwinconsulting.com/Obtaining%20Federal%20Meat%20and%20Poultry%20Inspection%207%20steps.pdf>
7. Federal Grant of Inspection Guide <http://www.fsis.usda.gov/wps/portal/fsis/topics/inspection/apply-for-a-federal-grant-of-inspection>
8. Meat Processing Feasibility Studies. Is this a good idea? Will it work for us? And what’s it going to cost? eXtension: America’s Research-based Learning Network.
<http://www.extension.org/pages/27357/meat-processing-feasibility-studies#.UwZfq9iYa70>

Reviewing Other Studies

As mentioned earlier, learning from the experiences of others can be an important part of considering a new business idea. Learning from others is possible by asking questions and touring existing operations. Another way to learn from others is to review and study available feasibility studies and business plans that have been conducted for other operations. Figure 3

is a listing of feasibility studies and reports that are available for livestock harvesting and meat processing businesses. A review of these studies can help in understanding the operations of these types of businesses, and in understanding what is addressed and included in a feasibility study.

Figure 3. Listing of Previous Feasibility Studies and Reports for Livestock Harvesting and Meat Processing Businesses.

- “A Feasibility Assessment of a Meat Slaughtering/Processing Plant or Feedlot in Northern Michigan.” Michigan State University Product Center. Knudson and Peterson. January 2007.
http://www.michigan.gov/documents/mda/MDA_msu_feedlot_feasability_184592_7.pdf
- “Meat Processing Facility Feasibility Study.” Prepared by Shepstone Management Company for the Hudson Valley Livestock Marketing Task Force. January 2000.
<http://www.shepstone.net/HVreport.pdf>
- “Slaughterhouse Feasibility Report.” Prepared by Sleeping Lion Associates for Pride of Vermont. April 2005.
<http://www.uvm.edu/~susagctr/Documents/SlaughterhouseFINALREPORT.pdf>
- “Large Animal Meat Processing Feasibility in Western North Carolina.” Prepared by the Local Food Research Center, ASAP (Appalachian Sustainable Agriculture Project). October 2012.
<http://asapconnections.org/downloads/asap-large-animal-meat-processing-feasibility-in-wnc.pdf>
- “Meat Processing Feasibility Study.” Prepared by Shepstone Management Company for the Southern Maryland Livestock Producers. August 2006.
<http://www.shepstone.net/SouthernMD.pdf>
- “Report on the Feasibility of a Small-scale Small-animal Slaughter Facility for Independent Meat Producers in North Carolina.” Prepared by Smithson Mills for the NC Department of Agriculture & Consumer Services. February 2007.
http://www.ncagr.gov/markets/shared-use_slaughter_report_final_without_appendices.pdf
- “Feasibility of a Beef Processing Plant in Beaverhead County, Montana.” Prepared by Food and Livestock Planning, Inc. for the Headwaters R, C & D and the

Beaverhead Economic Development Corporation. July 2006.

http://growmontana.ncat.org/docs/feasibility_study.pdf

- “Slaughter and Processing Options and Issues for Locally Sourced Meat.” A Report from the USDA Economic Research Service. June 2012.

<http://www.ers.usda.gov/media/820188/ldpm216-01.pdf>

- “Meat Industry Capacity and Feasibility Study of the North Coast Region of California.” Prepared by Shermain Hardesty et. al. for the Mendocino County Economic Development and Financing Corporation. March 2009.

http://www.extension.org/mediawiki/files/1/1d/CA_2009_study_Meat_Processing_Binder.pdf

- “Planning for New Meat Cutting and Processing Services in Massachusetts.” FY-2012.

<http://www.ams.usda.gov/AMSV1.0/getfile?dDocName=STELPRDC5106070>

- “A Feasibility Template for Small, Multi-Species Meat Processing Plants.” Holcomb et. al. Oklahoma State University. Journal of Extension. October 2012.

<http://www.joe.org/joe/2012october/tt11.php>

Summary

Tennessee is home to more than 40,000 cattle producers. In recent years, an increasing number of producers have been involved in value-added beef marketing. In fact, many have begun to investigate developing their own livestock harvesting and processing businesses. There are several considerations that should be made in the early stages of evaluating the idea of starting a livestock harvesting and processing facility. Even prior to conducting a formal feasibility study, those interested in starting a livestock harvesting and processing facility are encouraged to invest significantly in reading, researching, studying

and discussing the business idea with others. In addition, a great deal of knowledge can be gained from reviewing information and studies that have been conducted for other harvesting and processing operations. Formal feasibility studies are often expensive and time consuming; a great deal of insight about a new business idea can be gained prior to a formal feasibility analysis. The steps taken to evaluate and re-evaluate a business idea before a feasibility study is conducted can contribute greatly to the ultimate decision to pursue the business idea or not.

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TENNESSEE VALUE-ADDED BEEF PROGRAM



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