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THIS OLD FARM

Illinois Grass-fed Value Chain Case Study: Processing

Developed by Delta Institute and Pasture Project

Overview

This Old Farm began in 2001 as an 88-acre diversified farm in Darlington, Indiana. Owner and operator Jessica Roosa recognized an opportunity to fill a gap in the value chain and opened a federally inspected processing facility in 2009. This Old Farm also serves as a food hub for other farmers in the region. Roosa has 25 employees, 18 of whom work exclusively on processing at This Old Farm. Because This Old Farm's processing facility is inspected by the United States Department of Agriculture (USDA) and is certified organic, it serves a multi-state region that includes Illinois. This Old Farm receives Food:Land:Opportunity funding through the Kinship Foundation, which also funded the development of this case study.

Operation

This Old Farm is a food hub that grows, sells, markets, and distributes what they describe as ethically-raised, local food in Indiana and the surrounding region. In 2007, owner and operator Jessica Roosa confronted a bottleneck in the processing sector of the meat value chain. Roosa considered building a new processing facility, but ultimately decided to purchase and renovate an old locker facility. In 2009, Roosa began offering processing services to livestock producers in her facility. A year later, the facility burned to the ground, and Roosa made another investment to rebuild.

When Roosa first started This Old Farm, she expected most of her business would be wholesale from the farm, but the processing side of the business grew more

quickly. Today, Roosa says processing comprises 75% of her business, and the remaining 25% comes from food hub sales. The business processed 1,200 head of cattle and 1,500 hogs in 2019 operating on a full-time schedule. Most of the farmers that process meat at This Old Farm direct market their products, often at farmers' markets.

Most This Old Farm customers are looking for a USDA label. The facility is certified organic, but they process very little organic product. Roosa estimates that about 30% of total processing output is grass-fed. About 25% of the meat processed by This Old Farm is then sold through their food hub. Roosa will buy and sell meat from farmers that use her processing services, as well as aggregate meat from other producers in her region *if* it meets the ethically-raised standards she has set for the food hub. Roosa describes "ethically raised" livestock as animals raised in their natural habitat (outdoors) with care for the environment to ensure long-term sustainability.

Roosa markets her services with a 5% referral discount program to encourage word-of-mouth promotion from farmers. Roosa recently hired a full-time employee to focus on advertising. She's also tried radio and TV advertising but has not invested significant resources into these forms of advertising as it's challenging to track the return on investment. Staff at This Old Farm also promote processing services on social media platforms.

The demographics and preferences of This Old Farm customers have changed over time. When Roosa first purchased the locker facility, it was serving an older farmer population, and now she is seeing younger farmers interested in more specialty cuts.

Financials

Roosa received startup financing for the processing facility from numerous sources including federal grants, state matching funds, bank loans, and personal retirement savings. Roosa explains that in 2008 and 2009, there was a market downturn that led to less competition in the industry for grant funding. Roosa secured the first five grants for which she applied, greatly aiding in the renovation of the facility. The situation has changed, however, and the funding process is much more competitive today. Roosa says the grant application process has also become less cumbersome and restrictive, resulting in more applications in the system. She also notes that newer businesses seem to receive more funding than those, like This Old Farm, that are more established.



Inside This Old Farm's processing facility.

Challenges and Barriers

Lack of technical support and infrastructure represented challenges to Roosa as she started her processing facility and continue to limit expansion. Roosa notes that these barriers are experienced industry-wide. Finding quality facilities and accessing capital for facility renovation and modernization is a significant barrier to sector expansion, as well as hiring knowledgeable, experienced staff.

Marketing, customer base development, and sourcing consistent volume are the most significant barriers to growth for This Old Farm. Roosa wants to increase the volume at her facility to grow capacity, lower prices, and to maintain quality staff. She believes there are fewer farmers raising livestock in the region, which has contributed to the closing of several other processors in the region.

Roosa also notes that the quality of grass-fed beef tends to be very poor. She estimates of the 30% of grass-fed beef that is processed through her facility, only 2% is of good quality meaning most of the grass-fed beef comes in unfinished; the meat lacks marbling and the quality of external fat which results in what Roosa describes as a gamier taste.

A unique challenge Roosa faces is running a woman-owned business in an industry dominated by men. Roosa has noticed this in many different aspects of her business, including finding farmer customers, selling product to chefs, and accessing capital. Roosa says as she's established her reputation over time, she has experienced this less. Early on, she hired men in key positions at this Old Farm to help gain customers and grow the business.

Roosa says a trained labor force, increased product volume, and better communication between farmers and processors would make her business more successful. Farmers often have misconceptions about the quantity of meat that can realistically be expected from a fully processed animal. Ideally, Roosa would like to utilize forward contract agreements to ensure consistent volume and customers. Roosa encourages her staff to communicate transparently with farmers before they bring their livestock for processing in order to increase her customer base and improve interactions with farmers. She prefers that her staff meet with farmers to explain what they can expect from a processed animal. She has had mixed success with this tactic. In Roosa's experience, farmers in the region tend to be more private and aren't always open to this style of communication. Roosa believes increased communication is key to the success of her processing business and the farmers themselves.

Roosa says staying current with USDA regulations can be cumbersome but isn't a daily struggle. The

differences in regulation across the food system are confusing, and some parts of the value chain are more heavily regulated than others. Roosa believes that smaller processors, like her business, are over-regulated. After visiting larger processing plants, Roosa believes that the regulations for larger processors are loosening. Had she fully understood the rigidity of regulations for small processors, she might not have gotten into the business of processing.

Growth

In Roosa's experience, the major bottleneck to growing the grass-fed beef sector is expanding the market and consumer demand. Current demand is met by international product, i.e. grass-fed beef coming in from other countries. Educating farmers and consumers would help with this bottleneck.

Roosa is unsure what the processing capacity of the state of Indiana might be, but to her knowledge at least four Indiana processors closed their businesses in 2019. She estimates that this decline will continue due to the reduction of livestock operations at the small processing scale. If more farmers raised livestock and signed forward contracts with processors or food hubs and wholesale markets ensured consistent business, there would be adequate capital for modernizing and expanding beef processing in Indiana. Roosa is confident that if she had more forward contracts with producers, she could access the capital she needs for expansion.

Roosa is interested in increasing the capacity and scale of her operation, but such an expansion would require a greater livestock and/or consumer market. She explains that traditional lenders are reluctant to lend capital if there is not substantial growth in the sector to support the investment. This is partially attributable to consistent undervaluing of processing facilities in rural areas during appraisal; these facilities are often appraised for a quarter of the funds required for renovation or construction. The facility is then labeled as a pole barn in a rural area.

Roosa also sees an opportunity in the mid-scale processing industry; This Old Farm is on the small end of processing facilities at about 25 head processed per day. Some processors have the capacity to handle 1,000

head per day but Roosa is not aware of processors serving the middle volume of 100 head per day.

Roosa would like to lower processing prices by increasing volume, partly by attracting more Illinois producers to her facility. She understands it is challenging for Illinois producers to travel to Indiana for processing, but construction of additional processing facilities in Illinois is not viable because there is not enough livestock to meet the demand. Most livestock raised in the U.S. is contract-grown rather than privately grown, and these contract-grown animals are processed at large associated facilities.

Roosa would like to sell more of her product, like grass-fed beef, to institutional buyers like hospitals and schools. She's had trouble in the past growing her wholesale accounts, and notes that these customers are not as loyal. Many will purchase from her business for a few years and then move to a competitor. Roosa still sees institutional customers as an avenue to move large quantities of grass-fed beef.

Roosa believes farmer education is critical to growing the grass-fed beef sector. She often sees new farmers with little to no grazing experience with the most significant quality issues. Roosa says there needs to be more promotion and mentorship of farmers. She also notes that we need to ensure a market to these farmers. Roosa is selling less grass-fed beef than she did ten years ago. She believes this is partly due to a lack of quality in product but also the high price. Roosa would like to hire five sales-focused employees to promote local, grass-fed products in order to grow the market. This would be a significant investment for Roosa given that it takes 18 months to train new staff before they could successfully bring in new customers. However, Roosa is confident that this strategy could significantly improve her business and the grass-fed beef sector in her region.