



## Lorentz Meats: A Case Study

*This case study is excerpted from the report, "From Convenience to Commitment: Securing the Long-Term Viability of Local Meat and Poultry Processing" by Lauren Gwin and Arion Thiboumery, published June 2013. The central conclusion of the report is that stronger, more regular business commitments between small processors and livestock producers are essential to grow the local meat sector. The report includes twelve case studies: seven successful processors and five public-private collaborations to support local meats processing. The case studies and full report are posted here: [www.nichemeatprocessing.org/research](http://www.nichemeatprocessing.org/research)*

*"Our major customers, who sell fresh meat every week, year-round, pay for the infrastructure so we can provide a professionally done service to the small, local producers with five beef a year."*

*– Mike Lorentz*

Lorentz Meats is a USDA-inspected processor in Cannon Falls, MN, that offers slaughter, fabrication, packaging, and value-added production (portion cutting, sausages, and cured meats) on a fee-for-service basis for niche meat brands and independent farmers. They process beef and bison and currently handle over 8000 head per year. They also co-pack pork sausages for several non-slaughter customers – including a specialty Asian sausage company and a local retail chain – made from niche pork processed at three different plants in Iowa. The business has been in the family since 1968.

Brothers Mike and Rob Lorentz took over the business from their parents in 1997 and continued to focus on processing for local direct marketers, helping area farmers expand their marketing options. "We said to our farmers, 'you do everything you can do to sell to friends and family, and we'll do everything we can do to help you,'" Mike Lorentz explains. They were still custom-exempt, so the sales were "on the hoof," in wholes, halves, and quarters, frozen. The Lorentzes standardized order forms, simplified billing and customer pick-up systems, and made other changes to help farmers expand their customer base. "We realized we needed to be able to talk and work with people who were farther and farther away from the farm."



In 2000, believing that there was enough local business to justify doing so, they built a new, USDA-inspected facility. The first five years in the new plant are referred to as "The Dark Days:" They started with a \$2 million plant, \$500,000 in equipment and \$100,000 operating capital and then lost more than \$1 million in three years. They made some headway but still could not break even and were on the brink of bankruptcy in early 2005. "We went into this with a 'build it and they will come' mentality and that was a terrible idea," explains Mike Lorentz. "You cannot base a facility of this size only on what small-scale direct marketers bring you. You need key customers that will be there every week with real volume."

The Lorentzes found their first key customer in Organic Prairie, the meat brand of Organic Valley/CROPP Cooperative, which began with a dozen cattle per week and gradually increased to the current 35-40 per week. Yet it took the addition of two other key customers – High Plains Bison and Thousand Hills Cattle Company – and the gradual growth of all three of those customers to create positive cash flow for Lorentz Meats in late 2005.

Another key turning point in 2005 was the decision to sell their retail deli and catering business. “I feel it was a very important move that focused our limited capital and personnel on the key business opportunity,” Mike says. The sale also generated some cash at an important time for their business. “It is difficult to keep busy all year round as a small meat processor, so people add a deli and they do seasonal catering to keep busy,” Mike explains. “But in the end, we concluded that this was only distracting us – mentally and financially – from our core business. If we wanted that to succeed, we needed to focus all our energies on it and sell off the secondary businesses.”

Today, Lorentz Meats knows it will have livestock to process each week, because their three meat company customers must deliver fresh product on a weekly basis to their retail and wholesale customers. This pressure, Mike says, is “better than any contract,” because “market pressure is stronger than legal pressure.” Lorentz Meats has some service agreements with key customers about product failure and liability and is considering contractual rebates for delivery within consistent volume parameters, but otherwise has no formal contracts with any of its key customers. For its part, Lorentz Meats not only delivers high quality product but goes through a number of third-party audits annually to meet the needs of those key customers. Passing audits, maintaining certifications, and meeting retailer specifications have required investments in specialized equipment (a metal detector, packaging machines) and new expertise.

The three key customers make up about 65 percent of Lorentz Meats’ business volume. About 200 local direct marketers make up about 20 percent of the business volume. The other 15 percent comes from a handful of smaller brands and co-pack sausage customers. Lorentz Meats is committed to working with small-scale local farmers, yet they are very aware that they could not offer the level of service and sophistication they have without having their anchor customers, who sell in volume, regionally and nationally.

“How can you expect a regional or local processor to be technically proficient at all the categories of knowledge that they need to run this plant, from accounting to employment law to disability law to workers comp, and USDA, and knowing how to cut meat and make sausage, and argue N-60 sampling protocol with the regulatory authority?” asks Mike Lorentz. “You have to have multiple competent people. And that costs money, and that kind of money takes a certain volume.”

The Lorentzes’ commitment to processing for local farmers extends to helping them with marketing. Mike tries to encourage smaller farmers, with ten or fewer head per year, to focus on whole, half, and quarter carcass sales. He has seen that the inventory management and need to

sell the whole carcass required for by-the-cut sales at farmers markets or to restaurants can be draining to a farmer's bottom line. "If you're going to do ten beef a year, you don't need your label on every package," Mike asserts. "If it's not driving more money back to the farm, why are we interested in local foods?"

Mike also advises farmers not to sell to grocery stores, restaurants, or other wholesale customers unless they have at least 1000 beef or beef equivalent per year or a very clear plan to reach that level, due to the staff, cash, and infrastructure needed to operate a branded program. To sell and deliver the meat from more than 100 head per year typically requires more than one person's time and skills, he says, but it is difficult to pay for an employee with sales of only a few hundred head.

Total volume is very important, but scheduling so that throughput is consistent and steady is also essential to success. Lorentz Meats and their three key customers are in constant communication about scheduling and have verbal agreements about how many head each customer will bring each week. These customers do their best to give Lorentz as much lead time as possible if there are serious changes; they understand that if they give up their weekly slots, Lorentz can give them to someone else. Thursdays are dedicated entirely to processing for local direct marketers. Lorentz asks them for a commitment, but with flexibility: six months out, they must choose the month they will bring their livestock. One month out, they must choose the specific week. Even with 200 local processing customers, "Local Thursdays" are not always full, and every February or March at least one is simply skipped.

An early pitfall that Lorentz Meats fell into was "over-believing people." They turned away business because they thought that they were already full with existing commitments, but many of those promises from customers didn't pan out. In response, much like an airline, Lorentz has learned to "overpromise": "we agree to do more than you can do, and every once in a while we have to work a Saturday to keep up." This is especially true with new customers. "One in 20 actually comes through with what he says he'll bring. If someone says he wants to start a new program with 40 head of beef a week we tell him to bring us five head for a test run – we tell him it's to test us, but it's really to test him. More often than we'd care to admit the test runs don't work out." Even current customers, large and small, sometimes fail to bring the expected number of livestock. One of the anchor customers typically does 10,000 pounds of ground beef each week but fell to 5,000 pounds one week. Lorentz only learned about the reduction one day ahead, too late to pare back the staff, space, and supplies already set up for 10,000 pounds or prepare for another project.

In late 2011 Lorentz Meats took a major step in customer partnership. Organic Valley/CROPP, one of the three key customers, invested significantly in Lorentz Meats through a stock purchase. The investment will help finance a significant plant expansion, which Organic Valley/CROPP needed to expand its meat business. At least as significantly, Mike says, "The partnership helps us mitigate the risk of this key customer just up and walking away. It also ties into a larger entity [Organic Valley/CROPP] that has a very real stake in helping us weather just about any storm." There is no "exit strategy": the two companies have committed for the long term.

Prior to this, Lorentz Meats had only limited financial guarantees with any customers, other than that all customers buy their own printed labels and packaging materials. Yet this is not the first investment from a customer: one key customer financed a \$150,000 bowl chopper (for finely textured sausage making, e.g., hot dogs) because it was the only customer that needed to use it at the time, and Lorentz was then in a limited credit position and did not want to tie up additional credit.

## The Future

Now that Lorentz Meats is both stable and profitable, the challenge for the company is not whether to grow but how to grow. Growing in size may require focusing on efficiency, which may reduce their flexibility and narrow the options for customers. This is particularly true with equipment: larger, more specialized machines can turn out more product per minute at a lower per unit cost, but they are more limited in what they can do. If Lorentz ran 10,000 pounds of ground beef through its existing rollstock packaging machine each run, the machine would be quite profitable. But not all customers want or can do 10,000 pounds at a time, and Lorentz allows smaller lots.

Lorentz also offers the breadth of knowledge needed to offer everything from slaughter to sausage. But that breadth can be challenging to maintain, especially for a small plant. "It comes down to having enough technical expertise to be competent in all that, and the regulatory environment, and the business and finance environment," says Mike Lorentz. "It's really hard to do that if you're too small." Yet serving local farmers remains a central priority for the company; as they scale up, they are committed to continuing to process for farmers who have only one animal and four customers per year.

Lorentz Meats is searching for the sweet spot: large enough to be fully compliant with the rules, give customers safe product, and mitigate risk, yet small enough to support local farmers who are individually small-scale but significant as a whole. "If the goal is to get locally produced meats into major urban areas, it requires a sophistication of operation that is greater than any one person, so you need a team, and with a team comes a certain size," Mike says. "Lorentz Meats is that size."

## Key points:

- Three key customers make up 65 percent of the business volume.
- Having that base allows Lorentz to process for small, local farmers.
- Customers are investing in Lorentz so it can expand to meet their needs.
- A mid-scale plant that can service wholesale, year-round, fresh markets needs to be a sophisticated operation with a broad range of expertise.