

Ozark Mountain Pork Heritage Acres Brand

I. **Background of the enterprise** (initial strategy, evolution of strategy and enterprise structure, dynamics and resources involved in getting started; amount of start-up capital required?)

Search for alternative pork marketing outlets arose in Missouri during the 1990s because of decreasing market access for pork producers and extreme low prices that reached 8¢ per pound in 1998. One mid-Missouri group examined options including using existing small processing plants to direct market pork and the feasibility of constructing a larger 1500 hog/day slaughter plant producing commodity pork. For various reasons, these options all failed. Then in 2001, a small plant operating in south central Missouri experienced financial problems and came up for sale. This plant was established in September 2000, by a local entrepreneur and hog farmer who used state economic development incentives to open a state of the art plant capable of processing 600 pigs per week in an economically depressed area in southern Missouri. The plant cost about \$500,000 to build, and contained about \$250,000 worth of equipment. However, by August 2001, Bud and Charlie's was in a financial crunch despite some good market contacts with restaurants. For this small plant, the markets didn't develop quickly enough, the product was not "retail ready", and it couldn't reach critical mass rapidly enough. In January 2002, 38 farming families involved in the initial search for alternatives invested an average of \$25,000 to raise \$870,000 in equity to buy "Bud and Charlie's Really Good Pork" plant. The new venture was called Ozark Mountain Pork LLC.

Ozark Mountain's strategy involved using the unique genetics (25% Tamworth) and processing methods developed by Bud and Charlie's, combined with humane and natural rearing methods (bedding, hoop houses etc.), to produce great tasting meat for restaurant and niche markets in Missouri, including area grocery stores. In 2 years of operation, the strategy has evolved to include a partnership with Associated Wholesale Grocers (a regional wholesaler and distributor) for their Springfield district stores, processing contracts with other natural pork entities such as Patchwork Family Farms and Niman Ranch, and potential contacts through unions affiliated with the AFL-CIO in the St. Louis and Kansas City areas.

II. **Organizational form/scale/leadership** (nature & legal form of the enterprise, number of members, capitalization and other major financial indicators, amount of product, leadership & decision-making structures, changes over time and reasons for changes)

Small cooperative groups with less than 40 members can establish ventures in Missouri without producing the same kind of prospectus required under securities law. Thus, the marketing studies and technical feasibility study procured for the natural pork project were developed into a business plan without the legal assistance of securities lawyers, which meant financial savings in start-up costs. More importantly, social ties of trust and responsibility emerged within the relatively small group. Organized as a cooperative, the 38 farming families were composed of two core groups of members who were embedded in farming, church or kin ties in two different areas of the state. These groups were bridged by several key people who had developed trusting relationships over the past two years of looking at alternative meat processing ventures. They were also tied together through Missouri Farmers Union, which served as a catalyst organization and was the umbrella organization required so that farmers could claim the association required by law to organize under the rules governing this exception to securities laws. After a year of operation, 15 new members were added for additional capitalization of approximately \$250,000.

The cooperative is governed by a highly involved nine member board of directors. Each board member maintains contact with about 5-6 other members so decisions made by the board are communicated quickly to all members which keeps members active and involved. The cash problem has also guaranteed active

involvement by coop members. The board directs operations, and actually assumes some of the plant manager's duties, which is problematic.

III. Nature of products and the "value chain"

The cooperative produces and processes unique pork products that occupy a special niche in the marketplace – one that demands a premium price. They are part of the emerging market for family-farm raised, safe, healthy, humanely-raised meat. In producing pigs for processing, members use heritage breeds that excel in meat quality and are well suited to outdoor production. Production protocols follow the strict guidelines of the American Humane Association. Healthy animals are not given antibiotics, and feed rations are designed to ensure high health status for the animals as well as to enhance the quality of the meat. Farmer members seek to capture more returns for their swine enterprises by producing natural meat products *and* by providing a full-line of further processed products including naturally smoked ham, bacon, and loin products, as well as eight different types of ethnic sausages. In addition, other ready-to-eat product markets (e.g. barbecued pulled pork) will be developed. Products are marketed under the brand name Heritage Acres, which is envisioned as a regional label rather than a national label. Due to an uneven marketing strategy, a significant amount of pork is still sold on a commodity basis. The cooperative can process 120 hogs per day and has refrigeration and freezing capacity for 100,000 pounds of pork, and capacity for further processing was already available.

Strategic alliances include a relationship with AWG which has agreed to waive slotting fees to feature Heritage Acres pork in their grocery stores, primarily located in rural areas through southwest Missouri. Other alliances include the Missouri AFL-CIO, which has allowed the opening of a store on the union plaza in St. Louis, although sales have been somewhat disappointing. Sales could probably be higher if the operational structure were less uneven in delivering and servicing accounts. Since regional sales have been disappointing, there is interest in turning to some national distributors as well as West Coast supermarkets/distributors.

IV. Economics of the enterprise

After nine months in operations, the price mix of meat sold was about \$1.24 per pound with expectations of increasing this to about \$1.55 per pound through new marketing relationships. This increase would generate approximately \$48.05 in gross income per head of hogs processed in the plant. Farmers are paid a floor price similar to Niman's, but are also able to participate in any profits generated by the entity concomitant with their equity investment. The plant continues to have financial struggles that need to be further explored.

V. Key opportunities & challenges engaged

Capital: Despite our intentions of creating less capital-intensive alternative ventures, capital is absolutely critical. Money has been the limiting factor for this cooperative that has had continual cash flow problems. Board members of Ozark Mountain were optimistic that they had more than enough equity and operating capital raised through initial equity drives. However, even though Ozark Mountain had more money than planned to invest, cash flow has been a constant problem. While Ozark Mountain is scale appropriate to the structure envisioned and committed to by members, it is a scale that is hard to capitalize. It is too large for smaller lenders, like local banks, who don't want to bear the risk, but much too small for the cheap rates of capital available in larger sums. Thus, capital has been expensive for this group to obtain.

Management: One of the important dilemmas faced throughout Family Farm Pork Cooperative and Ozark Mountain LLC has been retaining their vision while listening to consultants and management who don't share that vision. No member of Ozark Mountain would deny the crucial necessity of having a skilled meat-cutter manager in place at the plant – particularly one who is financially astute! The problem is that most skilled managers have gained their experience in the current system and have great difficulties in understanding the farmer-worker-community vision of the cooperative.

A related aspect is technical assistance provided by experts both within private industry and in the university and state department of agriculture. Value-added professionals simply aren't very useful when one is forging a new road that few have experience with. Outside consultants hired by Family Farm Pork and Ozark Mountain were experienced in the current system and exercised little due diligence in researching and understanding a different concept of natural pork and community-based processing.

Marketing: It has taken much longer for Ozark Mountain to become "retail ready" in terms of consistent product quality, branding, packaging, worker productivity, scheduling of slaughter, and actual sales. "Even if you have the best marketing plan in the world, and the best marketplace, it still takes time to develop markets – got to go store by store because there is no silver bullet in marketing."

VI. Replicability in other settings

Ozark Mountain completely embraced the principles of sustainable agriculture, but is struggling with economic viability for both their producer members and the cooperative itself. The cooperative envisions a number of Ozark Mountain enterprises operating across the country, but the key will be marketing, management and capitalization.

VII. Research, education/demonstration, or policy changes that would strengthen the enterprise or similar enterprises

The group extensively used the University of Missouri for establishing new visions, conducting focus group research, researching alternative marketing options and grant-writing resources. They also used state value-added development programs and incentives such as tax credits for equity investments, and funding for technical assistance in feasibility studies and marketing campaigns. The cooperative has also been successful in securing two federal Value-Added Agriculture Producer Grants. However, new policies regarding lending for these types of organizations and/or better regulatory frameworks in terms of USDA meat inspection could be useful for the cooperative.