

Division of Marketing
Agricultural Development and Diversification (ADD) Program
1996 Grant Final Report

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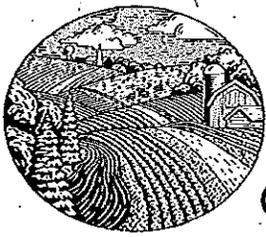
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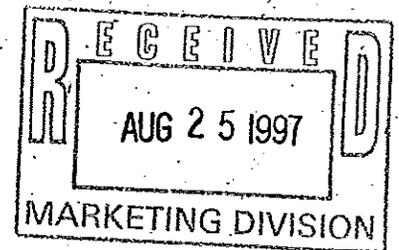
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Wisconsin
Farmland
Conservancy

Protecting the Character of the Rural Countryside



Organic Meat Marketing Project Final Report - July, 1997

Wisconsin Farmland Conservancy

The Organic Meat Marketing Project had five principle objectives during the past year: (1) to develop an initial business plan for a new cooperative marketing effort, (2) to assist producers in establishing a formal cooperative structure, (3) to research and develop model marketing agreements, (4) to research and develop model processing contracts, (5) to assist Wisconsin producers in providing leadership in discussions about regional marketing coordination.

This report summarizes the components of the business plan developed by the project, and reviews the results of the other objectives. Also, included are attachments of marketing and production materials that have been developed to support the marketing system.



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I. Description of the Business

A. Ownership Structure

The project organized a Project Advisory Committee early in the year composed of 13 organic beef producers. This committee made two decisions early on in the project that have shaped decisions about the formal ownership structure: (1) to organize as a farmer-owned cooperative, and (2) to affiliate with the CROPP cooperative. CROPP is located in LaFarge, Wisconsin. It is a cooperative that markets organic dairy products, vegetables, and eggs under a private label - Organic Valley Farms. Much of the research and work in this project was done in partnership with the CROPP staff and board.

The Project Advisory Committee identified a cooperative structure as the ownership structure that was most likely provide the highest share of revenue to the farmer producers. Discussions with the CROPP board developed a plan to establish a separate Meat Pool within CROPP that would focus on marketing of organic meat products. The Meat Pool will have an independent advisory committee, composed of producers who are members of CROPP and are marketing organic livestock thru CROPP. The Meat Pool Committee will make decisions about production standards, marketing quotas and priorities, and general issues of marketing and pricing. Provisions have been made to allow for equitable entry of new producers into the cooperative.

Affiliation with CROPP offers a number of advantages to producers; CROPP already has an administrative and marketing staff in place with experience in organic marketing, they have an ongoing partnership with the National Farmers Organization to assist in both the receiving and hauling cattle, CROPP dairy producers provide an existing and organized pool of organic dairy producers who have a regular supply of cull cows, and CROPP has an existing label that can be utilized.

B. Product Description

The cooperative will begin by focusing on organic beef. The product line will include fresh meat and frozen pre-packaged meat, and processed products such as sausage. Markets will also be available for organic meat and by-products for manufacturing or ingredients in processed foods. All products will be produced and processed according

to organic standards. These standards are currently established by internal industry certifying organizations. The USDA is in the process of establishing formal standards for certifying meat as organic. Once established, this process will effect our future marketing and labeling options.

C. Markets

Our primary initial market will be the already established specialty market for organic products. The primary market is both regional and national in nature, and includes a network of retail stores, restaurants, and food processors. Our initial goal will be to service this market with a full range of organic meat products.

Our longer-term market goal is to expand marketing of organic meats into the more mainstream retail and institutional markets. The cooperative is working closely with the Midwest Organic Alliance to explore marketing opportunities in the Minneapolis - St Paul area. Meetings have been held with interested meat managers, and several marketing trials of fresh meat from the cooperative are currently underway in Twin City supermarkets.

The cooperative has also completed two marketing contracts with Earth's Best Baby Foods. CROPP provided ground beef according to very strict quality and bacterial standards. For use as an ingredient in their organic baby food products.

The cooperative believes that significant opportunities exist for export of organic meats, processed products, and by-products.

II. Competitive Position

Our principle competitors are businesses that are currently marketing meat products using a "natural" claim on their label. This usually involves a negative advertising claim that the products were produced without the use of production practices that are generally viewed negatively by consumers who have concerns about food or environmental safety issues (i.e. no antibiotics or growth hormones). The cooperative also will be in competition with other companies that are producing products that come from producers whose farms are organically certified.

Competitors in the premium, natural meat market, such as Coleman

Meats and Laura's Lean, have several strong points in their marketing efforts. They have excellent point-of-sale promotional materials, and they have a nationwide distribution system. However, their strategy of contracting with producers on an as-needed basis has weakened their ability to control quality and supply. This also tends to establish a fairly weak relationship with producers over the long-term.

Our cooperative has several strengths that will assist us in gaining and building market share. Through the use of existing CROPP labeling we have a strong capacity for effective packaging and labeling. Our message of being a farmer owned business, and of providing products that are produced on smaller farms, is persuasive with consumers. The ability to identify our products as produced by organic farmers addresses primary consumer concerns about food quality and safety. CROPP's dominance in the organic dairy market provides us with established credibility and contacts within the organic market. Probably the biggest competitive advantage the cooperative will have, is the strong relationship with producers, who will actually own and control the business. This will be critical in building long-term programs for quality control.

III. Business Environment

A. General Business Conditions

The general business conditions within the meat industry are marked by intense competition on pricing and access to shelf space. The past decade has also seen rapid concentration of both production and processing. Beef marketing is also facing a persistent trend of reduced consumption of red meat.

Our product is targeted at a niche market within this larger business environment - consumers who are concerned about environmental and food safety. This "green" market niche is clearly growing. The Organic Trade Association estimates that 23% of the total food market is now influenced by "green" considerations.

Our products also fill a particular niche within this market - products which are certified to use an "organic" label. This market is also growing. A recent Harris Poll indicated that 76% of chefs are actively seeking organic products, and 17% of chefs think that healthful and organic foods will be the next big cooking trend. Research by the

Midwest Organic Alliance and the University of Minnesota showed that 50% of consumers surveyed in Twin City supermarkets planned to purchase organic products in the future.

On the production side, a growing number of farmers are shifting to organic production practices. The CROPP Dairy Pool has experienced a strong demand from producers who have become certified organic, and we expect the same to happen with the Meat Pool. As conventional markets continue to stagnate, and the limitations of individual marketing initiatives are reached, producers are increasingly willing to commit themselves to a cooperative marketing alternative that can offer fairer prices and producer control.

The largest unknown element in future business conditions is the pending status of federal standards for organic labeling. Rules for these standards have been in development for over a year. For the first time, these will set a formal standard for labeling of meat as organic. The provisions established by these standards could have a significant impact on our competitive position with respect to the "natural" and "organic" meat markets.

B. Business Strengths and Weaknesses

By establishing the business as pool within the established cooperative structure of CROPP we have gained some very immediate benefits. CROPP has a well defined and strong administrative and marketing infrastructure. They have a proven model to use based on their experience in operating an Egg and Dairy Pool. CROPP Dairy Pool members also provide a core of experienced producers for the Meat Pool, with both cull dairy cows and some level of organic beef already in place. We should be able to count on strong producer loyalty during the difficult start-up phase.

Our major business weaknesses rest in our need to grow fairly quickly in order to secure a strong share of a rapidly growing market. This will be difficult given the limited resources available. To be successful over the long-term the business will need to develop a full-line of meat types (i.e. beef, poultry, and pork) and range of products within those types (fresh, processed, frozen, manufacturing).

Also, while we do have a base of loyal producers, there is a clear need to provide producers with information and assistance in improving the quality of their animals. Part of this answer can come from the development of educational and mentoring systems within the

cooperative and the larger organic farming community, and part of it can come from establishing a grading and incentive payment program that provides clear feed-back to producers about the quality of their animals, as well as direct financial incentives for adopting their production practices to fit market needs.

C. Market Potentials

The Meat Pool's initial marketing efforts involved the sale of 77,000 lbs. of ground beef to Earth's Best Baby Foods. This involved 72 head of cattle. Projections for this year are to sell approximately 50,000 lbs. into fresh retail sales. We expect strong and steady growth, and have begun to establish marketing agreements with several Twin City markets.

IV. Goals & Objectives

A. Develop a full line of retail meat products

The cooperative will develop a full line of meat products that can provide both a diverse product mix and opportunities for value added profits. This will include a minimum of eight SKA's in a family of products (i.e. sausages and other processed products, frozen products, and fresh meat such as chicken breasts, hamburger, steaks, etc.). The product mix will include specifications for institutional and restaurant customers. The product line will begin with beef and expand to chicken and other meats.

B. Develop a manufacturing market for lower value products and by-products.

The cooperative will develop manufacturing markets for further processing of lower value meat and animal by-products. This will include markets for processed foods (soups, baby food, pet foods, fertilizers, and others). An important component of developing the Meat Pool within CROPP will be to provide improved markets for both cull dairy cows and spent hens that are already being produced by cooperative members.

C. Develop full range of distribution options.

The cooperative will develop a variety of distribution options for its products. This will include: natural food stores and cooperatives, supermarket chains, food service and restaurants, manufacturing, and

mail order. This will include developing distribution agreements with supportive supermarket chains to test product introduction.

A promotional effort will be developed that will include the use of the CROPP proprietary label, point-of-sale advertising, and connections to generic promotional efforts of the Midwest Organic Alliance. The cooperative will explore opportunities for export sales.

D. Contracts for Processing / Packaging

The cooperative will develop contracts with USDA inspected plants in the region to provide for both slaughter and processing. Contracts will be based on specific retail, manufacturing, processing, and storage needs. Plants will qualify for organic certification.

E. Development of Meat Pool Capacity

The Meat Pool will develop and implement a plan to provide information and assistance to producers in improving management for carcass quality. This will include research on how to best integrate diverse breeds, seasonal production, and feeding systems. Carcass grading standards will be used to provide market incentives to producers.

V. Project Background

A. Producer Committee

The project committee during the past year included the following producers:

- Pam Saunders, Prairie Farm
- Bill Moore, Mineral Point
- Bill Zepecki, Suring
- Bob Scharlau, Arcadia
- Wayne Peters, Chaseburg
- Jean Anhalt, New Holstein
- Duane Bushman, Ft. Atkinson, IA
- Michael Maas, White Lake
- Rich Lange, Platteville
- John Mower, Chip. Falls
- Jim Wedeberg, Gays Mills
- Bill Welsh, Lansing, IA
- Ted Morgan, Chetek

Producer meetings have discussed and reviewed draft documents for several key policy issues, including materials for outreach to producers (draft informational letters, application forms, producer affidavit, etc.) and a producer contract. The decision to organize as a "meat pool" within the CROPP cooperative was made by the project committee. The committee also reviewed the components of the business plan: objectives, market allocation procedures, meat supply management planning (regional supply, increasing marketing bases, establishing a reserve pool, entry for new producers, termination, and pay prices). Some of these documents are included as attachments to this report.

B. Marketing Initiatives

The project has worked closely with the Midwest Organic Alliance to identify marketing opportunities in the Twin Cities area. Two contracts for over 70,000 pounds of organic hamburger were secured from Earth's Best Baby Foods for 1997. An agreement has been reached with the Kowalski Supermarket chain and to test market organic ground beef using the "Organic Valley" label. This effort was kicked off in April by having a group of producers spend a Saturday at a Kowalski store in Minneapolis meeting with consumers and talking about their products and their farms. A test marketing of fresh meat is also underway at the Whole Foods Cooperative.

The project has continued to work with other groups around the country to push for completion of the national organic standards for meat. Because of the delay in implementing the national standards, we are requesting that the FSIS (Food Safety and Inspection Service) establish their own recognition of an "organic" standard - similar to the way that the FDA recognizes the certification of established organic industry groups in non-meat products.

C. Processing / Grading

The project has worked closely with the small M & I plant in New Richmond, and assisted them in obtaining organic certification. We are also discussing contracts for producing sausage products with several other small plants. Working with small plants requires us to assist them in obtaining organic certification and in meeting organic standards for bacteria. During the test marketing phase, the project worked with the National Farmers Organization to arrange hauling and payment of base prices. Premiums significantly above the conventional market were paid by CROPP during these initial marketing tests.

An innovative payment and grading method is being developed by the project that will provide a better method of evaluation for producers. Instead of using standard live weight or carcass-weight formula, the project is paying on a boxed-yield basis that pays the producer for the exact amount of saleable product from each animal. This is actually providing somewhat surprising results on some animals. We are finding that the visual grading system is often very inaccurate in predicting the amount of actual yield. On one shipment of cull cows, for example, we found that seven cows that were graded the same on the conventional standard, actually varied by over \$6 /cwt (live weight) in the amount of premium we were able to pay. Once refined, this system should give us a way to provide animal-by-animal feedback to producers, and allow them to increase their profitability.



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Dear Beef Producer,

The enclosed packet of materials is intended to introduce you to the Meat Pool of CROPP Cooperative. Research and organizing for the Meat Pool has been going on for the last year or so, and we are now asking for firm indications of interest in membership.

The CROPP Meat Pool is closely modeled on the CROPP Dairy Pool. The Dairy Pool is a group of certified organic dairy producers that has grown to more than 80 members who, over the course of eight years, have achieved a price for their product substantially over the conventional market. CROPP Cooperative also includes pools of vegetable and egg producers. Their products are sold under the Organic Valley label and are distributed nationwide by an experienced sales team.

The goal of the CROPP Meat Pool will be to pay a premium price to certified organic farmers for their livestock. The initial work of developing the policy has been done by a farmer volunteer steering committee from around Wisconsin and eastern Iowa who have been meeting since fall.

Our committee of beef producers has chosen to affiliate with CROPP Cooperative because of their experience with pooling their product, their success in achieving a premium over conventional price, their interest and enthusiasm in branching out into meat, and the experienced staff and infrastructure they have developed over the years.

Included in this packet you will find the following information:

- Steps followed thus far
- Background research into potential markets for organic meat
- Identification of potential processors
- Future possibilities for cooperating
- Meat Pool policies, as proposed by the Meat Pool steering committee (approval by the CROPP Board of Directors pending)
- Projections of pay price
- Financial commitment of member producers, membership qualifications, and application for membership

Overview of steps you should follow:

- Inform yourself by reading these materials carefully. There is a lot to digest.
- You may choose to attend the CROPP Annual Meeting on Feb. 1 as an observer. The Meat Pool will be a very small portion of the agenda, but it may be a time to get acquainted with the organization and to talk with members. Call for details on time and place.
- Following are the names and phone numbers of the producers who are serving on the steering committee to organize the Meat Pool. You are welcome to contact any of them with your questions.
- If you decide to become involved, choose your level of membership and return the completed application form and affidavit as soon as possible, by Feb. 15 to be considered in the first group of producers, along with your one-time \$25 CROPP membership fee. This fee will help to cover the costs of developing and mailing these materials.
- If you are requesting base in your application, plan now for making that investment.

We think the Meat Pool is an exciting new venture whose time is ripe, and we are pleased to share this information with you. Just one note of caution: things will not work smoothly overnight, and we all will need to exercise patience in order to be successful in the long term.

Bill Zepecki, Suring 414-842-4656
Bob Scharlau, Arcadia 608-323-7297
Wayne Peters, Chaseburg 608-452-3066
Jean Anhalt, New Holstein 414-898-4981
Duane Bushman, Ft. Atkinson, IA 319-534-7919

Michael Maas, White Lake 715-882-3424
John Mower, Chippewa Falls 715-726-1815
Jim Wedeberg, Gays Mills 608-735-4539
Bill Welsh, Lansing IA 319-535-7318
Rich Lange, Plattville 608-348-4105

Partners: Barry Bjornson, Farmers Union Enterprises, Alexandria, MN 320-763-0399
George Siemon, CROPP, LaFarge 608-625-2602
Tom Quinn, Wis. Farmland Conservancy 715-235-8850
E.G. Nadeau, Mary Meyers, Cooperative Development Services 608-258-4393

Staff: Pam Saunders, Meat Pool Coordinator 715-455-1007
Ken Knight, meat consultant 715-425-7470

Meat Pool Background Information

Membership requirements

- **Certified Organic is a prerequisite** - Early on, a group of farmers decided to make this a marketing effort for certified organic producers in order to be able to distinguish our product in the marketplace; our word is good when we deal directly with our customers, but as we gain access to a wider market, definitions of claims like "natural" and "sustainable" become fuzzy, while "organic" is a relatively well-defined set of practices. We recognize that many beef producers may be operating with organic practices, but have not chosen the certification route. We encourage those producers to begin the certification process now.

- **CROPP production requirements** - As with milk and eggs, CROPP has its own production requirements which may go beyond organic certification standards. For cattle to qualify for the CROPP label, the animals must have received no hormones or antibiotics for their entire lifetime, and have been fed the last two years on 100% organic feed. This is reflected in the affidavit required for membership. These standards are subject to change by CROPP and/or in accordance with the final federal rule for the Organic Foods Production Act, whenever it is implemented.

- **CROPP membership** - Meat Pool members will be members in CROPP (Coulee Region Organic Produce Pool) Cooperative. By paying a \$25 membership fee and selling product through the Pool, they have voting rights in CROPP and in the Meat Pool. In turn, the membership fee shows a commitment to the organization on the part of the producer, and helps to defray the costs of these mailings and other organizational tasks. (Current CROPP members need not pay the membership fee.)

Status of labeling situation

The irony, as you are probably well-aware, is that the FSIS (a part of the USDA) prevents us from being able to label meat as organic. We have been aware of this from the beginning, of course, but are still anticipating a change that will allow us to label meat organic, probably not before 1998. We plan to be ready with an organic label when the opportunity arrives; until then we will use our "natural" label, which has been approved.

CROPP and members of the Meat Pool committee are actively advocating at the national level for implementation of federal organic standards, according to the Organic Food Production Act passed by Congress in 1990. We continue to apply pressure on FSIS to allow the term "organic" on meat, poultry, and processed eggs, as FDA does on all other food products.

The Meat Pool is governed by farmers

This is a basic guiding principle of CROPP Cooperative. Each producer member will belong to a region; each region (corresponding roughly to the seven CROPP dairy regions.) has at least a quarterly meeting. Each region elects a delegate to the Meat Executive Committee (referred to in the Meat Pool Policy as MEC). The MEC delegates cast votes for their region according to the number of and direction from members in their region, though any member can participate in the MEC process. The MEC recommends target prices and works with the marketing department to coordinate supply and demand. In most cases, the CROPP Board of Directors, elected from and by the producer members' annual meeting, has final say.

Pay price

Our target pay price for farmers represents a goal, as set by the producers who serve on the Meat Executive Committee. Whether we achieve it will depend upon the markets we develop and how well we utilize the cattle we process.

We plan to work with five grades of cattle, as described in the attachment to the Pool Policy, with the following target prices for each grade based on hanging weight:

- canner/cutter — \$1.00
- utility — \$1.10
- standard — \$1.20
- select — \$1.30
- choice — \$1.40

This was arrived at on the basis of our major market thus far, which makes the best use of utility cattle at \$1.10. As we gain experience and develop a range of markets, the better grades of cattle should move upward.

Partners of the CROPP Meat Pool

When the CROPP Meat Pool becomes a reality, it will be due in part to the efforts of several important partners. While a meat pool was a logical step for CROPP to take, the CROPP Board has welcomed partnerships that have provided support for doing some basic research and for the process of organizing producers.

- *Wisconsin Farmland Conservancy* sought and received an *Agriculture Development and Diversification grant from the State of Wisconsin* to conduct some initial exploration of the marketplace, and to identify producers. We went back and received a second year of support, this year for getting the pool off the ground and for developing the grading system we need for pricing and quality control. This grant has paid for expenses related to bringing producers together, to pay a consultant with long experience in the meat industry, Ken Knight, and for some of the staff time and expenses of Pam Saunders.
- *Midwest Organic Alliance* is a privately funded effort, administered by *Cooperative Development Services* in Madison. Its mission is "to make a measurable impact on production and sales of organic food products in the Upper Midwest." The Alliance contracted with Saunders to help with research about organic meat related to their mission. The Meat Pool has benefited by having made contact with several Twin Cities retailers through meetings set up by Midwest Organic Alliance.
- Barry Bjornson of *Farmers Union Enterprises* has experience with helping groups of farmers to form new generation cooperatives, and has been assisting with the process of setting up the Meat Pool, including assisting with some of the associated costs.
- CROPP has committed to the Pool by investing the time of the board and many other staff in developing the meat program, and by hiring Saunders as meat pool coordinator. CROPP lent money to the meat pool for its first business deals in the summer of 1996, and has expressed a willingness to use its borrowing capacity to further support the development of the meat business.

Research into markets, actual and potential

Research into a market that technically does not exist (because we are prevented from labeling) is a tricky business. However, there are many indications that there is and will be a demand for organic meat. The experience of individuals marketing their own meat is one indication of demand. Here, though, we are looking at markets that we cannot individually fill due to the volume and steady supply required by the buyer.

We offer the following documentation in support of our anticipation of demand for organic meat products:

Ingredient sales to existing organic companies

There is a growing number of companies, some very well-established, that specialize in prepared organic foods. CROPP Organic Valley is very experienced in selling organic dairy product ingredients. We recently developed and sent out informational materials about meat for manufacturers.

Following are just two examples of the kind of business that can be developed with such companies:

- Our first business deal was with an organic baby food company, which involved about 75 head of cattle last summer, a combination of organic dairy cull cows and steers of a variety of breeds. We recently received confirmation of continuing business with this company, calling for at least 125 head during 1997.
- We have been approached by several exporters of organic foods. These potential opportunities are all in preliminary discussion phase.

Food service

We have anecdotal evidence that indicates an interest in a source of organic meat on the part of chefs who value using local organic products. Again the difficulty of an individual producer providing volume and steady supply can be barriers between a producer and such a market. Midwest Organic Alliance has been working with such restaurants and has provided us with a list in the Twin Cities area. The Madison-based Home Grown Wisconsin Cooperative has also approached us about supplying the restaurant trade in Madison, Milwaukee, and Chicago.

Chefs Collaborative 2000, a national organization of chefs with regional chapters, has expressed an interest in working with regional supplies of organic meats.

Retail

Midwest Organic Alliance met with six Twin Cities retailers, including three supermarket chains (Byerly's, Cub, and Kowalski's), two co-ops, and Whole Foods. According to the report presented Nov. 1 to the MOA advisory council, "all the meat managers showed definite interest in carrying organic meat products and several of them would have been interested in a meat program now if we had one to offer them. All meat managers questioned preferred a fresh meat program to a frozen program.....Most meat managers said they would consider carrying a line of frozen organic meats.....if one were to do a basic frozen meat product....ground beef patties would be the preferred item...The managers recommended developing a brand (or brands) for an organic meat line...."

Two co-ops in the Twin Cities, Linden Hills and Lakewinds, have a fresh meat counter, new within the past year. Two or three of the other co-ops plan to offer fresh meat very soon, and we may have an opportunity to offer them a regional supply. Lakewinds and Linden Hills are together doing nearly \$10,000 gross per week at their fresh meat counter. Whole Foods in St. Paul, part of a national natural foods chain, also has a very active meat counter. This activity represents a dramatic increase in meat consumption among natural foods shoppers.

Most of the meat products sold at these stores and co-ops now are not organic, but rather they carry varying claims, either "no hormones, no antibiotics" or "residue tested." Meanwhile, according to a 1993 study conducted by the Center for International Food and Agricultural Policy at the University of Minnesota, "Characteristics of meat that the majority of consumers agreed were important were: well trimmed fat, not treated with chemical preservatives, from animals not treated with hormones and antibiotics, from animals fed organic grains, and in biodegradable or recyclable packages." (Emphasis ours.) When labeling regulations permit it, we will be able to highlight, on our label and in our point of sale info and advertising, the fact that organic meat is produced with organic grains, and we will appeal to consumers who are compelled by that information.

Organic Valley™, the brand name for the production of CROPP farmers, is developing a plan for a retail line of meat products, initially focusing on beef. Though the research points to fresh being the most active spot in the market, we think beginning with a line of frozen product has several advantages:

- there are fewer risks in terms of shrinkage in marketing and delivering a safe product
- we will have an easier time accumulating the volumes we need for further processing
- we can schedule processing when most producer members are ready with cattle
- we can better control quality by aging meat and freezing at the point we want

We will consider entering the fresh market when we have the capacity.

Processing partners

We are actively engaged in identifying processing partners with the following characteristics: USDA inspected; small enough to pay attention to us, but large enough to handle some volume; positive attitude toward organic; willing and able to become certified for organic processing; ability to do high quality work; and willingness to work on product development.

We have visited eight plants that do some form of further processing, and we are developing a relationship with one of those plants.

We do have a kill plant certified for organic processing, M&W Meats in New Richmond, WI. They have all the characteristics listed and have proved to be a good partner. However, they have very limited capacity for further processing. We also anticipate needing to associate with more than one kill plant so that we have more regional options.

Potentials for the future

- We are starting with beef, partly because CROPP dairy producers have a ready supply of organic cull cows and dairy steers. There is certainly potential, however, for expanding into other meats and poultry.
- Some producers have raised the possibility of setting up cooperative feedlots for finishing organic steers. At the least, the Meat Pool will be able to help those who wish to background or finish to find sources of calves and feeders.
- CROPP anticipates being active in helping producers to source organic grains and feeds.



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Application for CROPP Meat Pool Membership

Name _____ Phone _____

Address _____
Organic certifying organization _____ Certification# _____

If you are not presently certified, please indicate date that you expect to be certified and have certifiable cattle available _____

Planning will be the key to the Meat Pool's success. It is very important that each producer member gives the most accurate picture possible regarding their cattle available for the Pool within given time periods. The quantity of supply available in a given time period will affect, for example, the timing of demand for large quantities at once for further processing. When a cow becomes a cull, of course, is not always predictable. Just do the best you can with that.

It is important to read the enclosed pool policy (approval pending by CROPP Board of Directors) in order to fully understand the difference between "base" and "reserve pool" membership.

Please indicate your level of interest by checking one or both of these options:

- 1. Base Member** - The Meat Pool Executive Committee (MEC) will accept equity investment for the purchase of base in the Meat Pool. We estimate that the amount required per head will be around \$50, depending upon the value of the animal based on the target organic price. The purchase of base is a one-time interest bearing investment, which the producer can recover upon terminating membership. It entitles the member to contract with the Pool to sell cattle during the year. In a given year, the pool may not accept contracts for the full amount of base cattle in the Pool, depending upon market projections. Owners of base have the first option to sell cattle into the reserve pool. Do not apply for more base than you have supply in 1997. You need not invest in base for all of your cattle.

I am interested in investing in base in the Meat Pool _____

number of animals _____

- 2. Reserve Pool Member** - When there is demand beyond the contracted number of cattle, animals may be sold through the Pool on a reserve pool status, first from members who own base, and then from members who meet all other qualifications, but who have not committed the initial equity investment. Selling animals into the reserve pool gives that member a place in line to purchase new base when base expansion is needed.

I am interested in selling animals on a reserve pool basis _____

Please do not list animals that you expect to direct market on your own.
I expect to have animals ready for slaughter at these times:

| 1997 | Jan | Feb | Mar | Apr | May | June | July | Aug | Sept | Oct | Nov | Dec |
|------------------------|-----|-----|-----|-----|-----|------|------|-----|------|-----|-----|-----|
| cull cow | | | | | | | | | | | | |
| fed steer or heifer | | | | | | | | | | | | |

To give us a better picture of the future, please estimate for 1998:

| 1998 | Jan | Feb | Mar | Apr | May | June | July | Aug | Sept | Oct | Nov | Dec |
|------------------------|-----|-----|-----|-----|-----|------|------|-----|------|-----|-----|-----|
| cull cow | | | | | | | | | | | | |
| fed steer or heifer | | | | | | | | | | | | |

We also need the following information, to be used in making decisions about the best utilization for the animals we have available:

•Breed of animals -(if there is a mix, please give some detail) _____

•Typical age of fed cattle at time of slaughter _____ Typical hanging weight _____
(If you don't know hanging carcass weight, estimate live weight)

•Feeding practices - for example, details regarding grain finishing, if any - days on feed, kind and amount of feed _____

•Based upon the grade descriptions attached to Pool Policy, please indicate what grade you think your cattle fall into - remember, Meat Pool policy provides that the grader hired by the

Pool makes the final determination of grade. _____

•Indicate if there is flexibility in your finishing schedule. (This will require on-going contact with the Meat Pool Coordinator in order to keep current.)

•Please indicate if you have feeders for sale or are interested in buying feeders. The Pool can assist with getting certified farmers together. _____

The Meat Pool Executive Committee will consider applications in the order in which they are received. Applications for both base and reserve pool must include:

• This application form, fully completed, signed, along with \$25 CROPP membership fee if you are not already a CROPP member

• The notarized affidavit, if one is not already on file at CROPP

1. Producers requesting base membership:

a. Base request as indicated on front of this form will be considered by MEC.

b. The dollar amount required will be calculated on the basis of number of cattle and their projected organic value. MEC and coordinator will do that.

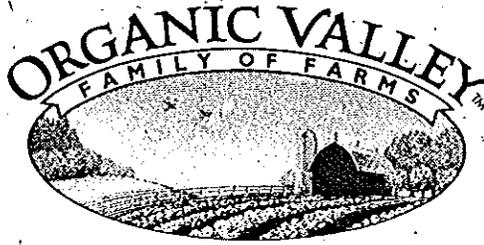
c. This application form will serve as the Individual Production Plan, as detailed in the Pool Policy. A contract with the producer will be prepared, detailing the quantity, grade, and delivery date of cattle. The contracted number of cattle may not match the base amount.

d. The first round of contracts will be prepared for members who have fulfilled all the membership requirements by Feb. 15, 1997, in this start-up year. Further contracts may be made if market projections warrant it.

2. Producers who only wish to be considered for reserve pool membership status will receive confirmation of their membership and will be called if their cattle are needed. They should keep in contact with the Meat Pool Coordinator when they have cattle to sell, in case they are needed.

• All members will be contacted regarding early spring regional meetings.

Signed _____ Date _____



C.R.O.P.P. COOPERATIVE
Main St., P.O. Box 159 • La Farge, WI 54639
608•625•2602 FAX 608•625•2600

CROPP Meat Pool Producer Affidavit

RELATED TO PRODUCTION OF MEAT PRODUCED WITHOUT ANTIBIOTICS OR HORMONES, AND
FED FEED GROWN WITHOUT PESTICIDES

Name _____
Address _____ City _____
State _____ Zip Code _____ Telephone _____

The processed meat may carry any of the following label claims:
ALL NATURAL BEEF

*CONTAINS NO ARTIFICIAL INGREDIENTS
MINIMALLY PROCESSED*

*THESE ANIMAL RECEIVED NO HORMONES OR ANTIBIOTICS
FEED GROWN WITHOUT PESTICIDES*

The animals in this meat pool whose processed meat will carry the any of the above label claims shall be raised in the following manner:

1. They have not received any medicated feeds during their entire life.
2. They have not been treated with any antibiotics in any form during their entire life.
3. They have not been treated with any type of supplemental hormones at any time during their entire life.
4. They have been fed 100% certified feed and pasture for at least the previous 2 years before slaughter.

I declare, under oath, that the above statement is true and correct to the best of my knowledge.

Producer signature _____

Subscribed and sworn to before me this _____ day of _____, 19____

Notary Public

County, State

My commission expires

1/97

Latest Revision - 1/12/97
CROPP Meat Pool - Meat Supply Management Policy
Board Approved _____

I. The Long Term Objective of the CROPP Meat Pool is to maximize the price paid to farmers for their production by matching the quantity of organic meat in the whole CROPP meat pool with the markets developed by CROPP Cooperative. The balancing of these two factors is a foundation performance which determines CROPP's financial position. The components are:

- A. Long term market projection to predict volume of sales.
- B. Meat supply management shall maintain:
 - 1. Base program with accurate meat supply projections.
 - 2. Available meat supply for market growth.

II. Policy regulating base and production plans

Overview - The base owned by a producer represents a percentage of the total base of the CROPP Meat Pool. An individual producer's base number of livestock represents potential privilege to market cattle through the CROPP Meat Pool and establishes that producer's priority. Base is not necessarily a contracted number of livestock. The actual number of contracted livestock that will be sold through the Meat Pool in a given year is determined by a review of all the Individual Production Plans submitted by Meat Pool members, which is the total of livestock available in each grade within the Pool. This is then measured against marketing projections for the total number of livestock that will be needed, the Annual Pool Production Plan. Individual Production Plans are then modified to match committed supply to projected demand within each grade.

A. Base Determination- Each Meat Pool member may apply to establish a base of number of head of cattle that can be sold annually as part of the CROPP Meat Pool.

The base is not necessarily a contracted number of cattle.

- 1. A member's base will be established upon entering the Meat Pool by considering the producers' requested production plan for the year, as indicated in the Individual Production Plan. The final recommended base will be approved by the Meat Executive Committee (MEC).
- 2. The base production year shall begin Jan. 1 and end December 31.
- 3. A producer's base will not decrease if a member elects to not produce the base in a given year, provided the producer has indicated that intention through the Individual Production Plan.
- 4. A producer may elect to reduce base by reducing the amount held in a CD or pooled with the CROPP Meat Pool CD, the equity requirement.
- 5. Base will not decrease if MEC does not accept full production for a particular year.
- 6. Over base cattle will be sold on a reserve pool basis
- 7. Base expansion will be considered on an annual basis and governed by Section II. C. and III. of this policy

B. Transfer of base

- 1. A producer, with MEC approval, can elect to transfer or split that base with existing partners or family members.
 - a. The base remains governed by the MEC policy and is not by itself an asset of member with a marketable value.
 - b. If a member sells farm unit, the new buyer, upon satisfying all other membership requirements, may automatically be a member of the CROPP meat pool with existing base.
 - 1.) If the new member is part of the preceding member's immediate family, then the new member assumes that position in the membership.

2.) If not part of preceding member's immediate family, the new member will be considered "last on" once new member's organic meat shipment begins.

C. Production Plans- In order to maximize return to producers, an accurate production projection is critical for planning to meet market needs and to assess base expansion or new producers procurement.

1. Individual Production Plan - prior to August 1 each member shall submit a production plan for the coming production year which begins the following January 1, including the following information:

- a. region
- b. number of head
- c. breed
- d. projected finish weight, as projected by producer
- e. month of delivery of finished livestock
- f. grade anticipated by producer, according to established guidelines
- h. cattle available for reserve pool status

2. Annual Pool Production Plan - CROPP Marketing shall project annual production needs by August 1 for the following year, which will be translated by Meat Pool Coordinator into number of head needed for each grade of livestock

3. MEC will compare Annual Pool Production Plan to the total of available livestock as proposed in Individual Production Plans, taking into consideration grade and delivery times.

4. Production Contracts for a number of livestock equaling the Annual Pool Production Plan will be proposed and finalized between member and Meat Pool before January 1 with detailed animal numbers and delivery dates.

a. If supply as proposed in Individual Production Plans exceeds demand as projected by Marketing, reductions will be reflected in proposed Production Contracts, and decreases will be shared proportionately among all members who own base as a percentage of each member's base.

b. If demand as projected by Marketing exceeds supply as proposed in Individual Production Plans, members with base will have the first opportunity to market cattle through the reserve pool.

5. Enforcement of Production Contract

a. Producers will be bound to deliver livestock during contracted month within reason.

b. MEC must take into account circumstances beyond control of producer.

c. Chronic missed delivery dates or delivery of cattle below projected grade or weights will be grounds for reducing that member's prioritization in the acceptance of the succeeding year's production plan.

III. Meat Supply Management -Upon completion of the Annual Pool Production Plan, the CROPP management will make recommendations using the following criteria in deciding increases and decreases in CROPP Meat Pool base and production. MEC will have final approval.

A. Regional determination- Long term cooperative and marketing strategy will determine the primary decision of developing, increasing and decreasing regional pools to service local markets and processing plants.

1. In identifying the region where new production is needed or where decreases in supply should be made, the MEC shall consider:

- a. long term marketing
- b. regional pool efficiency
- c. livestock hauling cost
- d. available processors
- e. utilization of all carcass components as organic
- f. freight of finished product

- g. grade of animals available
- h. and other cooperative directives.

2. Equitable treatment - when all issues are equal in the above considerations, livestock procurement shall be fairly and proportionally divided among qualifying pools.

B. Base expansion

1. Base increases by current Meat Pool members shall be given a priority over new producers in the regions where increases are scheduled.

2. Members requesting base growth for the coming base year shall submit by August 1 their request for MEC approval.

3. A member requesting growth shall:

- a. Be in a regional pool where increases are needed.
- b. Have production available which fits the timeline and grade needs of marketing.
- c. Meet all quality requirements.

4. Where base increases are limited the MEC shall allocate such production increases equitably among existing membership according to the following criteria:

- a. Producers with less than 10% of the base of the meat pool shall be given first consideration.
- b. In the case of competing members requesting production increases, the MEC shall allocate based on the % of production increases since the first year of organic cattle shipment.

C. Reserve Pool - Supply in the Meat Pool may be increased through the reserve pool. A certified organic meat producer waiting in line can become a reserve pool member by the shipping of organic meat to CROPP Cooperative and they:

1. Must be certified organic by certifying agency approved by MEC, kept current and documented
2. Must adhere to additional CROPP production standards, as determined by MEC
3. Must have signed producer affidavit on file at CROPP office
4. May be a member in CROPP Cooperative and a member of the Meat Pool, and as such will abide by CROPP by-laws and Meat Pool policy
5. May be a voting member of the MEC but will not be eligible to be a MEC delegate.
6. Will not be required to satisfy the equity requirements.
7. Will be paid the Meat Pool pay price only for livestock sold through CROPP.
8. Will move to the front of the line of potential new producer members in that producer's region.
9. Upon acceptance by MEC, will become eligible to establish base in the Meat Pool upon satisfying of all requirements, including equity requirement.
10. Will be credited for any potential revolving fund contribution.
11. If one full production year passes without the reserve pool member having marketed cattle through CROPP Meat Pool, then voting and membership privileges shall be suspended until they market livestock through CROPP again.

D. Decreasing Meat Supply - The intent of this policy is to balance the protection of CROPP with the protection of the individual.

1. Over supply policy - upon reviewing the Annual Pool Production Plan, the MEC may decide to reduce the number of livestock accepted in Individual Production Plans for coming year as a percentage of each producer's base. This will be the preferred method of decreasing meat supply.

2. "Last on" - In extreme cases, MEC will have the option to drop the last producer with base accepted in the Meat Pool.

- a. The CROPP Meat Pool shall maintain a list of all producers by regions in the order of beginning date of membership by first

shipment of organic meat to determine "last on basis" for meat supply management

- b. The "last on basis" establishes the prioritization in multiple policies which protect the cooperative by placing the burden on the last producer to join the program.
- c. The first producer dropped would maintain the first right to come back into the Pool prior to a new producer, reserve pool member or any Meat Pool member production growth in that region.
- d. The producers to be dropped from the organic program shall be notified before January 1.

3. Reduction of regional pools - MEC will have the option, after all others have been considered, to reduce a regional pool:

- a. The criteria used in regional determination (III. A.) shall be used to determine the regional pool oversupply.
- b. MEC will use the over supply policy and the "last on" basis in 1. and 2. of this section to reduce a regional pool

4. Elimination of regional pool after all other options have been considered - see III. A. 1.

IV. Qualifications for membership

A. Membership prerequisites

1. Organic certification status by certifying agency approved by MEC, kept current and documented
2. Adherence to additional production standards, as determined by MEC
3. Signed producer affidavit on file at CROPP office
4. Production plan submitted and approved by MEC
5. May require membership in NFO or other cooperating handler as licensed and bonded broker with Packers and Stockyard Administration

B. Fulfillment of Equity Requirements, determined as follows:

1. A member's approved base of livestock will be translated into a dollar amount;
 - a. on the basis of projected target prices, as determined by MEC.
 - b. applied to grade and weight of livestock, as projected by member.
2. The total amount of equity required is 5.5% of that number;
 - a. If that amount is \$500 or over, member will purchase a Certificate of Deposit in that amount in the name of the member and CROPP Cooperative. Interest paid on that CD is handled according to the direction of the member, either accumulated in order to increase the base, or paid directly to member.
 - b. If that amount is under \$500, the amount will be held by CROPP in a pooled account at the LaFarge Bank, with accounting of the depositors maintained at CROPP. Interest from that account will accumulate until such time that a producer withdraws membership, when interest is calculated on members share and returned to member with original investment.

3. MEC must review and certify, on an annual basis, that equity requirement matches producer's base.

C. Other considerations for membership:

1. Proximity of potential producer member to reload station, to other producers for efficient hauling, or to processing plant in each region (see Regional Determination, III. A.)
2. Quality and grade of production that fits with marketing plan
3. Delivery schedule that fits with marketing plan
4. Position and length of time on waiting list
5. Sponsorship by present CROPP member, history in organics and dedication to cooperative marketing.

6. Membership in the CROPP Meat Pool will not be available to dairy producers who ship their milk through organic channels other than CROPP when they have a choice to do so.
- D. Termination of CROPP Meat Pool membership
 1. Non-compliance with CROPP bylaws, MEC Policy, organic certification standards, or other CROPP Meat Pool qualifications.
 2. Chronic quality problems
 3. Elimination of a Regional Pool - using the same criteria as for increasing a regional pool, the MEC may face the elimination of an entire regional pool.
 - a. This elimination must be approved by the CROPP Cooperative Board and follow the procedure of notice and input for Cooperative by-law changes.
 - b. A 60 day notice of termination shall be given to the regional producers, or a mutually agreed upon buy-out agreement will be negotiated.
 - V. Pay Price - MEC and CROPP will establish yearly the organic premium target price for each grade on the basis of markets, utilization, and budget.
 - A. Producers will be paid NFO yield and grade price (or a price determined by MEC to be approximately conventional price) for cattle by the end of the following business day after delivery of animal(s), as per Packers and Stockyard Administration.
 - B. Quarterly incentives may be established by MEC to encourage production during certain periods.
 - C. A percentage of the organic target price, as determined by the MEC, will be paid within 30 days.
 - D. Meat supply management requiring non-organic meat sales during a year will result in lower pay price to all CROPP Meat Pool members.
 - E. The balance of the organic premium for the year will be determined according to the pool performance over the whole year and will be paid at the end of the year.
 - VI. Grading System - illustrations attached in Appendix A.
 - A. Five grades, canner/cutter, utility, standard, select, and choice
 - B. MEC, in consultation with grader, will define grades
 - C. The Meat Pool will contract with a meat grader
 1. Grader will be present at slaughter and determine grade of each animal
 2. Judgment of grader will be final
 - D. Each grade will include appropriate products, which will be used as factors in determining utilization
 - E. Target pay price for each grade will reflect:
 1. the list of appropriate products being marketed
 2. the price CROPP marketing is able to negotiate for each of those products
 - VIII. Marketing of organic product outside of CROPP Meat Pool - Recognizing that base member producers may have organic meat production beyond their contracted production plan, the following principles apply:
 - A. Wholesale organic meat production must be dedicated to CROPP
 - B. Producers are allowed to continue direct sales to consumers, including off the farm sales and mail order sales
 - C. Producers may be allowed to continue wholesale to other customers provided:
 1. They have satisfied their contracted production plan
 2. They do not sell to customers of CROPP
 3. They inform MEC of and receive approval to continue any wholesale markets they developed before establishment of the CROPP Meat Pool.
 4. They inform MEC of and receive approval to develop any wholesale markets after establishment of the CROPP Meat Pool, such as a small local retail outlet that CROPP or one of CROPP's distributors will not service, for reasons of location or volume.

Appendix A. Grades of Beef

CROPP Meat Pool will maintain its own grading system and will hire a grader to grade all carcasses at the plant. Pay price will be calculated from the grade as determined by the grader, and will take into account the utilization of the carcass and the boning yields. The grading system may be modified by the MEC.

Canner/cutter

This is the type of cattle that are normally culled from dairy herds. Canner and cutter cattle produce carcasses that are very light muscled, very skeletal, and contain a very low percentage of fat. The utilization of these carcasses is mainly boneless trim (90% lean) used for ground beef and a limited number of usable tenderloins.

Utility

Utility cattle are cull cows that carry more flesh or that have been dried up and put on full feed for a period of time before going to market. The kind, amount, and length of feeding time will determine the status of boner or breaker within the utility grade. Both will produce product that is in demand for the process of further tenderization. The rib-eyes and tenderloins are used by many of the lower cost chain restaurants and the rounds and parts of the chuck are used for further manufacturing of cured and dried beef snack products. The balance will primarily be 80/20% beef trimmings.

Standard

The standard grade is designated as the poorest of grades for young fed steers and heifers (two years or younger). They are much like the cutter/canner grades of cows, as they represent underfinished carcasses that are thinly muscled, very little fat cover, and nearly devoid of marbling. The boning yields are not as good as select or choice. However, they do appeal to the lean-is-better market and are typical of most grass fed cattle.

Select

Select grade cattle are grain-fed, feedlot finished cattle that do not contain enough marbling to grade choice. Lack of marbling can be a combination of genetics and/or feeding. However, they are heavily muscled cattle, with a higher yield grade, higher percentage of lean-to-fat, and a full range of product for further utilization of the highest value cuts.

Choice

The choice grade is in the highest demand for high value cuts, as it is the most palatable to the greatest number of consumers. These carcasses will have more marbling than select and will have slightly higher boning yields because of selected beef-type conformation of heavier muscling and longer feeding periods. However, they tend to be a fatter carcass with lower lean-to-fat ratios and often discounted cutability yield grades.

At this point, tenderness will be controlled through aging of the cuts (something the conventional retail industry is not able to do, but food service does), and predicted through this basically conventional grading system. As we enter the market with higher value cuts, we will consider using other methods of measuring tenderness.