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Case Study

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After the three hour drive from Roaring Springs Ranch in Frenchglen, Oregon, Stacey Davies eased his pickup into the gates of Probert Ranch in Vale, Oregon near the Idaho border. He had only a couple hours to stop there and then continue west to the feedlot partner in Boardman, Oregon. As the new Marketing Internal Partner for Country Natural Beef (CNB) cooperative (co-op), Stacey had come to visit Dan and Suzy Probert. While Stacey routinely spoke to the Proberts on the phone, meeting in person was helpful in their new roles, Dan, the elected president and Stacy, the new Marketing Manager. A producer of naturally raised meat, the co-op had become a major player in the value-added beef industry as the natural product industry has experienced rapid growth in the past decade. Lately, the members were concerned with union problems at the feedlot, animal welfare issues and the stress of continued growth. In the previous summer, several ranchers had financially suffered from their cows getting sick in the feedlot and receiving treatment with antibiotics. The cows that recovered were taken out of the natural beef program while some died. “You know,” said Dan, “these economic times aren’t too much different from when CNB got started.” Stacey countered, ‘Decomodify or die’ still applies, but the world has changed. There’s a lot more cowboys playing our game, the rules are tougher.” Dan nodded, “We always have to be cognizant of what our customers want, address animal compassion issues and find new markets opportunities. But if this gets too complicated, we might also cause a lot of frustration for our members.” Both men wondered what they could do to stay vital when sales had been flat recently after rapid growth for many years.

Cattle Ranching Industry

Industry Overview

In the commodity or generic beef market, inputs and outputs are bought and sold along a well-established transaction path where price is largely determined by cost and individual cattle weight. The beef supply chain is highly fragmented. On the one hand, approximately 750,000 operators command $500 billion in annual revenue and only 5,000 ranchers own more than 500 head (individual cows). The top fifty operators amount to under two percent of the market (Beef Cattle Ranching, 2009). On the other hand, the meat fabrication industry (i.e. slaughterers, primary and secondary processors, and distributors) is highly concentrated and earns annual revenues of $85 billion. In the slaughterer segment, the 50 largest slaughterers control 90 percent of the market, whereas the secondary processor segment is less concentrated with the top 50 companies managing 60 percent of the market. Top firms include Tyson Foods, the largest slaughterer and beef products manufacturer; Cargill Meat Solutions, a diversified meat processor and distributor; and JBS-USA, the Brazilian corporation that recently acquired two major processors—Swift & Co and Smithfield Beef Group—and the largest feedlot operation (Exhibits 1 and 2). Feeders tend to be concentrated; the larger feedlots market about 80 percent to 90 percent of the feedlot finished cattle, whereas 95 percent of feedlots have a one-time capacity of less than 1,000 head. As of 2006, the National Cattlemen's Association reported the 25 largest feed yards had a combined one-time capacity of 5.15 million head.

Cattle and Beef Supply Chain

The cattle and beef supply chain has five major players (Exhibit 3). Ranchers (cow/calf operators) raise young calves. The young calves receive mothers' milk and are weaned; the weaned calves graze on pasture and range land. Some ranchers sell the weaned calves (400-600 pounds each) to stocker operators whose role is to add more weight to the calves. Typically, the full grown calves are fattened in feedlots before slaughter where the feedlot buys the calves from the cow/calf or stocker operators. Commodity beef is generally ranch-raised for six to nine months weighing between 600 and 800 pounds, and then sold to feedlot operators in the Midwest (Iowa and Illinois) or high plains (Texas to Nebraska). There, they are finished on high grain rations for 120 to 140 days and slaughtered by packers at 1,200 to 1,400 pounds. Typically, cattle producers sell livestock through local or remote auctions conducted over video or the internet. Live cattle prices are negotiated based on sex, weight, genetics, health, location and estimated cost to finish. Truckload quantities of stock with similar traits are purchased by feedlot operators to be delivered one to eight weeks in the future.

During the finishing phase, prior to slaughter, diet has a strong impact on final meat characteristics such as flavor, tenderness and marbling. Dietary programs are typically designed to realize three goals: 1) meat consistency across herds that are raised in various climates and with varying diets, 2) weight gain maximization, and 3) cost minimization.

Diets can consist of forage (harvested or grazed herbaceous plants such as hay and alfalfa) grains, corn, or vegetables such as potatoes. Though not the industry standard, cattle can also be finished in open pastures, or large enclosed areas, sometimes called “bunkers”, pens of varying sizes that are provide more space per cow than typical feedlots.

With feed as their largest direct cost, operators are concerned with feed efficiency or the rate that feed translates into gained weight and have sought to optimize production by building increasingly larger operations. Forage quality of a given range or pasture varies according to soil, terrain, rainfall and climate conditions which affect the carrying capacity of the land to support the herd size. Rancher costs rise with the need to supplement their own available ranch forage with purchased grazing rights on other’s land and/or feed supplements. Large scale feed yards (100,000 to 200,000 head capacity) known as concentrated animal feeding operations (CAFO) attempt to leverage economies of scale by concentrating animals into small spaces. Issues over “factory farming” of animals extend into food safety, animal compassion and environmental arguments against the backdrop of globalization and increasing complex supply chains.

Hidden costs associated with CAFOs have drawn increasing scrutiny from animal rights activists and consumers alike. Organic contaminants like E. coli from manure “dumps” near feedlots create runoff into proximate rivers, streams and ground water. Animal welfare issues have moved mainstream in recent years. Hot topics include stressed animals confined in poor living conditions; the incompatibility of high corn diets with bovine digestion; and the trucking of cattle over long distances, all of which can translate into more sickness, antibiotics, vaccinations and premature deaths. A body of work by Temple Grandin (2008), an animal scientist at Colorado State University, includes research into bovine behavior and the effects of stress involved with farm-factory production. She details optimum methods to minimize cattle fear and insure cattle stay calm and injury-free during especially hazardous phases of transport, feedlot maneuvering and slaughter. Her animal empathic approach has gained acceptance across the industry and has been acknowledged for fostering higher yields and higher quality of meat as well as improved humane conditions. The USDA Food Safety and Inspection Service has consulted with Dr. Grandin to incorporate her objective scoring system for evaluating animal handling and stunning prior to death, into guidelines and training materials for cattle and pig operations.

Meat processors buy feeder cows through agents who cover cattle auctions, sales barns and feed yard sales, then sell finished product to across diverse marketing channels: grocery chains, hotel and restaurant chains, foodservice distributors, food brokers and other processors. Finished product can be sold as wholesale meat parts ("boxed beef") for secondary processing, ground beef, or retail "case ready" cuts prepared for grocery store display. Facing product perishability and price/quality competition, marketing activities by larger processors have been characterized by extensive distribution systems with regional warehouse and sales hubs, quick turnaround order placement and the absence of long term contracts.

Country Natural Beef

History

The co-op began at a time that seemed to be "end of the family ranch." Many small ranchers were in dire straits under a combination of factors: mounting pressures from dieticians to "eat less red meat", a popular perception of the abuse of public land by cattle over-grazing activities, rising interest rates and wildly fluctuating commodity beef prices.

In 1986, Doc and Connie Hatfield invited 14 ranchers over to their place in Brothers, Oregon to figure out how to survive. As Connie summed up, "there has to be a better way to market cattle." After long discussions, the marketing co-op was born. They would produce higher margin product with lean, natural beef *and* would hold members to high standards of ranching practices. Country Natural Beef, originally Oregon Country Beef, would seek markets for their products as an alternative to conventional meat. The founding couples believed they should listen to folks that wanted their product. Over time CNB found that, beyond concerns with growth promotants and antibiotics in the meat products, consumers who were willing to pay more for quality aspects were becoming concerned with such issues as open land grazing, watershed management, and habitat preservation. CNB recognized that their products and the story behind the products were in alignment with the concerns of the customers. The early days were challenging. As Doc recalled, several ranchers made cold calls to potential customers in the city, delivering one or two cattle in a blizzard to a slaughter house near Portland before Christmas. The business grew gradually. Over 23 years CNB grew from a 14-family cooperative into a niche beef market leader with about 120 family ranches in Oregon, Washington, California, Nevada, Idaho, Wyoming, New Mexico, Colorado, Texas, Montana, Arizona and Hawaii (Exhibit 4).

Co-op Strategy

Members adopted a "consumer-centric" focus for specifying the differentiating product attributes that informed the development of their operational practices. As its mission statement stipulates, "…Country Natural Beef will excel at developing markets which best utilize practical ranch cattle and at translating cost and carcass data into information which assists members in making sound management decisions." Ranchers own the product from "birth to plate" or from mother cow to calf to steer, and from their ranches to the feed yard, virtually throughout the fabrication process and into the sales channels. Beef steers are born from cows raised on member ranches, not purchased from livestock auctions, a practice that makes CNB livestock traceable to its ranch origins. Cattle are free of antibiotics, growth hormone implants and animal byproduct feed additives. CNB followed a 100% vegetarian diet for cattle before mammalian protein was prohibited from ruminant feed manufacture Food and Drug Administration in1997. When CNB first decided to stop using hormones and antibiotics in the early 90s, it was a big challenge for some ranchers because they had depended on these products for disease control. But, overtime, they learned preventative cattle and range management practices that naturally improved the immunity of the herd.

The founding ranchers were among the first to adopt Holistic Range Management principles created by Savory and Butterfield. These ideas formed the basis of CNB's Grazewell Principles to which each ranch must subscribe. And, each ranch is third-party certified for their animal, worker, and environmental practices by Food Alliance, a non-profit organization that develops sustainable agriculture and food handling standards. Third-party verification is central to the brand promise of authenticity; few natural beef brand boasts the claim of outside agency audits for specific, measurable sustainability practices for naturally-raised beef. It takes two years of trial membership to make the operational changes and undertake lengthy verification with Food Alliance before ranchers become full-fledged members. Members initially pay a fee for the comprehensive onsite audit covering soil, water and wildlife habitat conservation, labor practices, pesticide reduction, animal welfare guidelines and continual improvement plan. The certification also requires a signed affidavit and audit renewal every three years. The presence of a certification procedure has discouraged some ranchers from joining particularly those who did not welcome outside interference. But, it has clearly raised the management standard across every stage of supply chain from animal handling to feedlot operations.

Governance and Decision-making

As shown in Exhibit 5, CNB has a cooperative structure. It is a "brickless" organization in the sense that they hold no assets except ear tags and some office equipment. CNB closely controls its product; it does not transfer the product title and relinquish ownership until cattle have been processed and the meat is ready for distribution. Although the meat processing company AB Foods purchases animal carcass from CNB, it sells back the end product to CNB, who then makes payment to the co-op members. Exhibit 6 illustrates key players of CNB's supply chain.

Every ranching family in CNB is considered a board of director, exercises one vote, and has veto power in decision making. Decisions are made based on consensus, meaning that everyone comments on major issues and eventually gives a "yes" vote. Years ago Connie Hatfield had insisted that the women take equal part in the organization which has broken down gender barriers and added a broader perspective to the group.

As CNB grew in size, the inefficiency of slow consensus-based decision-making at meetings became more apparent. CNB created the management team, who is responsible for effective communications, insuring transparency, and providing decisions are made in a timely fashion. The co-op is composed of team leaders and internal partners. Four team leaders are elected by the board to three-year terms and oversee all business affairs of the cooperative. Newly elected team leaders designate the chairman/president who directs the entire management team and is accountable directly to the board. Other officers include vice-chairman, secretary and treasurer. The Management Team (MT) decides by consensus and can formulate subcommittees to address evolving issues such as environmental and private label programs.

Members work tirelessly on solutions that everyone can live with. The biannual board meetings open in a "Full Circle," a ritual where members sit in a circle, introduce themselves and mention what issue concerns or pleases them most. Agenda items are brought up in the beginning of the meeting. They are hashed out over sessions of smaller group meetings. As members argue and negotiate, those who chair sessions routinely remind attendees to "speak and listen with respect." Emotions often run high in the group with traditions of equanimity and transparency. Solutions from the breakout groups are proposed for a vote on the final day in another round of Full Circle.

Delivery Scheduling and Pricing

Each family ranch is a production unit and operates independently, acquiring and managing its own means of production, including land, labor, equipment, and livestock. Families commit to "place" calves at the feedlot during specific monthly slots on the calendar each year. These delivery time slots are allocated based on a family's tenure in the co-op. Each year, the production team uses demand forecasts to develop placement slots which are announced at the meeting and ranchers promise to deliver based on their production schedule with consideration of the breeding cows, weaning calves, and securing grazing capacity, etc.

The co-op uses data from two dozen ranches of different sizes to determine the cost of production each year and a cost plus method to determine the product price. The entire carcass is pre-sold to committed buyers based on forecast numbers worked out with customers a year ahead. The price does not change over the year during this time period. This fixed price removes the traditional price fluctuations and secures the ranchers a steady and predictable cash flow. While the price is fixed, the production office managers and the customers constantly monitor meats sales data to adjust the sales price between meat cuts (ground beef versus New York steaks) to balance demand and supply.

CBN aims for leaner beef than premium types of commodity beef. Instead of the adopting and rewarding the usual USDA grading system (i.e. Prime-highest price, Choice, Select and Standard-lowest prices), CNB rewards are tied to "target" and "bulls eye" goals based on a combination of lean characteristics (similar to Choice and Select grades) and size of the rib-eye steak cuts. The ranchers are paid three checks: animal placement fee (the fee is higher for winter than summer months), the basic price per pound along with a bonus for meeting the target meat specification, and finally a bonus for meeting the "bulls eye" requirement: additional reward for meeting a narrower specification of lean and rib-eye size. The co-op members also pay fees for their marketing organization, cost of feedlot (feed cost per day and veterinarian care) and insurance for the out-of-program cattle on a per-head basis.

Internal Partners

Internal partners take on different traditional business functions (marketing, production, and finance) as shown in Exhibit 6 and detailed below.

Marketing. For many years Connie and Doc had led the marketing team with an emphasis on maintaining critical relationships with retail customers. The Hatfield's personal touch nurtured the relationship with the western region buyer at Whole Foods before all buying was centralized in the Texas headquarters. The CNB team receives weekly customer orders, manages boxed inventory, delivers forecasts 18 months in advance, oversees marketing communications, and coordinates rancher in-store events with retail customers at various grocer outlets. Ranchers are required to spend two days a year doing in-store demonstrations, wearing their cowboy hats, boots, and aprons, and engaging shoppers with free meat samples, recipes and information (Exhibit 7). They also build relationships with meat managers in the stores. These in-store events help to build a direct relationship with the customers. One rancher remarked, "marketing events represent a loss of time and money to members for whom ranching is full time job. I drove 200 miles yesterday, spent six hours at one store, got up this morning to do it again here and I'll drive home tonight. But when it's all said and done, it's important each one of us get to know our customers, share stories, and let 'em know what goes into the product…what their choice in selecting our beef means to ranchers and the land." After each in-store event, the ranchers submit a detailed report intended to capture changes in customer attitudes, perceptions and preferences that are published by Production in a newsletter.

By the end of the spring 2009 meeting, the marketing co-op had entered a new era when leadership transitioned from the Hatfields to Stacey Davies. Discussion on the transition had been heated. For one, Doc and Connie Hatfield had been the leaders of the co-op since the beginning. As charismatic leaders, their presence had strongly affected the culture of the co-op and played a critical role in establishing close relationships with the key customers of the co-op over the years. The transition was emotional for both Doc and Connie and the co-op members. Second, the transition signified an important milestone for CNB. It took place when CNB had evolved into a key player in the natural beef industry and considered changes its marketing and business processes. The management styles of Stacy Davis and Doc and Connie Hatfield differed. Portraying the public face of the co-op, Doc and Connie have worked closely with key customers since the beginning and were well-regarded by the customers with whom they have built personal friendships. Stacey was more goal-oriented with an eye for market development and cost control. Some ranchers were uneasy with the sudden call for change, expecting the transition to take place over years. Others worried that Stacy's results-oriented focus might inhibit group synergy. In the end of the meeting, Stacy was inducted at the new Internal Marketing Partner in a room with few dry eyes. Whether Stacey's leadership style or his strategy would sustain the culture of the co-op and insure returns to ranchers or that members would value his business sense enough to give him a fair shake, remained to be seen, but it was clear there were more pressing concerns.

Production. After Dan Probert was elected President, Ryan Steele was named Production Team leader, responsible for scheduling calf placements entering the Beef Northwest feedlot. Ryan's team worked closely with Marketing to make the necessary adjustments for cattle flowing into the feedlot and out to the slaughter site, all at the correct weight and time that corresponded to customer demand. Balancing the demand and supply required innate understanding of the cattle, markets, and partners. They worked closely with the customers to coordinate promotions to ensure all products were sold at maximal level of profit.

Accounting. Mary Forman led a small team that handled all the enterprise's finances from banking and accounting, to demand projections and risk management. The team members were wives of several ranch families who lived close by the Foreman ranch in Antelope, Oregon, where the accounting office is located. The team manages carcass and profitability data, interfaces with other partners, and reports to the board. They worked on various projects to provide accounting information to support the co-op decisions processes. For instance, the team came up with a standard method to track individual operational costs, which were then aggregated into a production model reflecting overall cost production and the minimum profit required.

External Partners

There are three essential external partners who form the rest of the CNB value chain: the feeder, the processor and the distributor.

Feeder. CNB members sent cattle to Beef Northwest (BNW) in Boardman, Oregon, when a calf is 14 to 16 months old (roughly 800 pounds). After 90 days on a mixed ration of cooked potatoes (50%)[1] and an alfalfa and corn mix (50%), cattle are slaughtered at an average weight of 1,150 pounds. The shorter stay is designed to reduce the time that animals are subject to the more stressful conditions of the feedlot. The goal is to produce the smaller cuts of lean beef that customers want. About one third of BNW operation is dedicated to CNB cattle, the rest to commodity production. Although corn or grain finishing is scorned by some for unnecessary roughness on bovine digestive systems naturally suited to forage or possible contribution to E. coli problems, and BNW cannot guarantee their corn comes from non-genetically modified sources, the feed yard operator is regarded by some as more progressive in the industry. Working in its favor is its moderate size (40,000 head capacity) and location in a temperate, dry climate which helps mitigate the effects of mud and heat stress. Managers have developed facilities design, staff training programs, and handling practices in conjunction with CNB ranchers and expert advice from Drs. Temple Grandin and Tom Nofsinger. Careful record keeping, special care and separation from generic herds are needed at this phase to maintain the integrity of CNB standards. The feeder also contracts nutrition and veterinary services for improved animal health performance. Sick CNB cattle are treated with vitamins and sulfa drugs and moved to antibiotics only as a last resort.

Prior to harvest, cattle are observed for the kind of weight gain that ameliorates tenderness and consistency attributes. CNB cattle are pasture fed longer than generic beef but shorter than purely pasture-fed beef sold as “grass-fed.” Different pasture grasses across many ranches causes flavor profile variation, something BNW tries to even out with a standardized diet applied to incoming herds of various breeds and weights. The goal is

[1] The Boardman facility uses potato byproducts from a nearby potato processing plants that furnishes fries to fast food chains.

for 90 percent of cattle to meet target specifications and over 60 percent to meet tighter bulls eye specifications.

Slaughter & Processing. AB Foods receives the cattle trucked from BNW bearing identifying ear tags that trace the animal back to rancher origins. Keeping animals (and eventually the end product) separate from the commodity beef, AB Foods kills the animals following humane criteria set by CNB. The rest of the process includes removing non-edible parts, trimming waste, and packaging the salable meat into large sections. AB Foods also sells animal byproduct (hide, hooves, innards, etc. for the automotive, garment and sporting goods industries), and any surplus boxed inventory or out-of-program cows. The processor furnishes carcass analysis data covering grade, yield, size and quality metrics directly to the ranchers. AB Foods is third party audited by Steritech for humane handling and sanitation practices.

Distribution. Secondary processor and specialty meat distributor, Fulton Provisions Company receives boxed inventory from AB Foods, grinds select parts into ground beef, and distributes to grocery, restaurant and industrial buyers. Fulton was acquired by food service giant, Sysco, in 2000, yet retains independent operations in Portland, Oregon with 100 employees and 1000 customers. Influential customers, Burgerville and Whole Foods, pressured Fulton into improving internal standards and in 2008, Fulton became third-party certified by Food Alliance for sustainable business practices. The audit encompassed waste management, worker conditions, water and energy conservation and transportation. Fulton took steps such as converting trucks to biodiesel, recycling packaging materials, salvaging wood pallets, installing a water recirculation system, replacing processing chemicals with non-residue forming ones and upgrading old machines with energy efficient models. Vice President of Sales and Marketing, Tom Semke, admits that the program “increases costs but in the long run it’ll save us money.” As a consequence of the Food Alliance certification, Fulton managers rewrote their own internal standard processing procedures that verify the integrity of all meat products beyond what the USDA requires.

Fulton supplies many high-end institutional meat buyers such as Sodexho and Bon Appétit Management Company (BAMC), which provides food service to corporations and campuses, and boasts a commitment to good food and sustainability. Regional Vice

President, Mark Swenson comments, “We have to work very closely with our partner suppliers to achieve both those ends. It means something when a partner like Fulton is willing to take that extra step and get Food Alliance certified.”

Customers

New Seasons – “*The friendliest store in town*.” CNB had long-term partnership with Brian Rohter, CEO of New Seasons grocery stores. New Seasons is a privately held, regional natural grocery chain of nine stores in the metropolitan area of Portland, Oregon. Their annual beef sales were around 570,000 pounds. Positioned as a “neighborhood store” with easy shopping and wide aisles where “you can find Frosted Flakes as well as free range chicken,” their SKU mix was roughly 75 percent natural and 25 percent conventional items.

CNB supplied all of New Seasons private label and branded case beef. Fitting well with a “Home Grown” labeling program to identify products from California, Oregon and Washington, the chain has introduced a store brand under the Pacific Village label. Other lines included organic butter, organic milk, natural pork, free-range chicken, natural beef and organic buffalo. "We're actually increasing the number of acres farmed in Oregon, Washington and Northern California," according to New Seasons President, Lisa Sedlar. CNB tested a pilot program for “pasture finished” natural beef under the Pacific Village label in 2008. Pasture or grass fed beef is less tender, but leaner than grain fed and needs more grazing time to increase weight. With the current program, the CNB grass-fed group supplied around twelve head a week during a nine month season (non-winter). New Seasons found that end-users were willing to pay about a $1 per pound premium over the regular natural product, but processing and transportation costs were limiting the store’s margins.

The CNB marketing team relayed cut, quantity and timing details, giving New Seasons buyers an option to forward purchase when conditions have lead to an abundance of specific meat selections. New Seasons often accepted these surpluses and makes merchandising decisions about how to move the product; for example by seasoning/marinating less popular non-steak cuts, creating recipes and providing and wine pairing suggestions.

Burgerville – "*Fresh. Local. Sustainable.*" Burgerville is a Pacific Northwest fast food chain which stressed local products. The ground beef supplier, Fulton's, relationship with Burgerville went back 47 years. Tom Semke credits the chain of healthy quick food with influencing Fulton to become Food Alliance certified adding "we've grown because of people like Burgerville." Since doors opened in 1961, Burgerville has concentrated on local and fresh. When Tom Mears became Burgerville's CEO, he required ingredient suppliers to practice sustainable agriculture. Centralized purchasing for the 39 restaurants in Washington and Oregon is done from a long list of direct farmer/suppliers. The most popular sandwich is by far the hamburger, and Burgerville buys all its patties, up to 40,000 pounds a week from CNB.

Burgerville had not always been the volume purchaser that it is today. Initially, CNB was unable to supply the quantity of beef patties when the chain decided to switch from frozen commodity to fresh natural beef. Burgerville executives decided to hold back the launch until the co-op could catch up. CNB eventually had sufficient supply for Burgerville as its overall production increased. In fact, the two companies have a symbiotic relationship; without Burgerville taking all the ground beef, it is not possible for CNB to sell the appropriate volume of higher end beef cuts to the other customers because they need to sell all parts of the animal. The co-op became a major part of Burgerville's vision and the restaurant became CNB's primary restaurant customer. Jack Graves, Chief Cultural Officer and 32 year veteran of the company, explained how CNB internal marketing partners facilitate carcass sales, "Norm Birch is the guy that sits down at his computer and gets all the orders from Whole Foods and all of the other groceries. He figures out how each head of cattle needs to be cut so that the processor knows how to break down the cattle for the different cuts of meat for all these different stores. And so that's a very scientific process…they just count on us to be able to take most of the hamburger."

Supply Chain Director, Alison Denis, believes that an ability to create a desirable food taste and "doing business in the neighbourhood" drives Burgerville purchasing and focuses their sustainability practices on "where there is a strong business opportunity." Their operational improvements towards sustainability include: providing used cooking grease as an input to biodiesel makers, purchasing wind power credits equal to their total electricity consumption, and diverting 85 percent of their restaurant waste to composting and recycling with annual removal cost savings of $100,000. They also subsidize affordable medical/dental/vision coverage to employees working at least 20 hours a week. Burgerville picks up 90 percent of the cost for qualifying employees and their dependents. Alison adds, “We have amazingly low attrition rates among staff than you would find in our industry as standard.”

Whole Foods Market-“*Selling the highest quality natural & organic products*.” With 275 stores in the US, Canada and the UK, the Austin, Texas firm earns revenues in excess of $7.95 billion[2], and has become world's largest natural foods corporation. John Mackey forged the natural supermarket format in 1980 and has grown it steadily through acquisition and diversification. In stores, the emphasis is on perishable products, which account for roughly two-thirds of sales. Notwithstanding poor sales and stock results for 2008, the company affirmed plans for new store openings alongside an ever-increasing portfolio of assets: a coffee company, a supplement manufacturer, a magazine, a lifestyle furnishings store, a seafood processing and distribution operation, and four private label lines carrying 2,300 items across food, personal care, supplements, clothing, household products and toys categories. By the end of 2009, Whole Foods aimed to bring all store brand products using crop sources (i.e., oils, corn syrup, corn starch and soy lecithin) under the Non-GMO Project's compliance seal. In 2005, the retailer launched the Animal Compassion Foundation, a non-profit organization formed to research the compassionate treatment of livestock. Undaunted by recent economic conditions and competition from supermarkets and Wal-Mart, officials had announced a target of $12 billion in sales by 2010.

CNB supplies all the natural, non-grass fed beef to western Whole Foods stores and Panorama, supplies all of the organic, grass-fed beef—which runs about $1 per pound higher than the CNB product**.** Panorama slaughters livestock at 14-16 months. Their production agreement involves a partnership with an Arapaho Tribe in Wyoming and their certified organic reservation rangelands. The council-run operation receives $1,400 a head at harvest time and supplies 25 western stores. The retailer had begun holding sit-down

[2] For FY ending September 2008.

dinners at certain locations where customer meet the different ranchers and hear about their practices.

Whole Foods is CNB's only national retail partner, accounting for roughly 70 percent of total annual sales. They initially sourced CNB product through their western regional office. The Marketing Team of CNB led by Doc and Connie cultivated close interpersonal relationships with key managers at the regional office and grew with the expanding retailer to supply 22 western stores. When Whole Foods consolidated its purchasing function in its Texas headquarters, those relationships were strained as the new Texas managers did not have the shared history with the co-op.

In 2006, one incident made the co-op to reassess its relationship with its biggest customer. In the fall of 2006, the United Farm Workers Union (UFW) tried to persuade workers at Beef Northwest to unionize. A drawn out controversy followed, calling into question BNW's tolerance for unions. In a campaign for public support, the union enlisted consumer groups to question the labor practices at the feedlot[3]. Members of the Organic Consumers Association organized demonstrations at western Whole Foods stores calling for "no sweatshop beef!"[4] Aided by the union, a delegation of BNW workers personally submitted a petition to senior management at Whole Foods calling for the retailer to pressure BNW into negotiating with the union. In May 2008, Whole Foods officially requested CNB to stop sending cattle to BNW and announced they would halt purchases from CNB. Quickly, customers who have bought CNB products for years petitioned, requesting Whole Foods to rescind the decision. CNB and BNW issued public statements stressing their desire for workers to decide for themselves rather than union bosses; the union-orchestrated vote calling for union representation was neither conducted by secret ballot nor overseen by a neutral third party. After meeting with CNB ranchers in June, Whole Foods reversed its decision, announcing "we have not stopped selling their beef." The co-op convinced Whole Foods that it would be difficult to find another feedlot with the equipment, personnel, expertise and willingness to separate and finish their cattle according to the humane requirements and in a hormone and antibiotic-free environment.

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[3] *Union Targets Oregon Feedlot; Whole Foods Caves.* (2008, June 6). Retrieved from http://beefmagazine.com/cowcalfweekly/union-targets-oregon-feedlot.
[4] *Tell Whole Foods: No Sweatshop 'Natural' Beef! Mobilize Oct 4 &5.* (2008, September 24). Retrieved from http: www.organicconsumers.org/bytes/ob145.cfm.

CNB held in-store events in Portland Whole Foods locations, aimed at reconnecting with those store customers and organized a private ballot election to be monitored by a neutral third party. In November 2008, the dispute ended without an election, but "mutually agreed upon a process by which 80 feedlot employees … [of Beef Northwest]…would decide if they want union representation."[5] CNB attributes their long history of in-stores, personal connections with retail customers, and experience in consensus-building as factors that helped them with conflict resolution at the feedlot and Whole Foods.

The union issue and centralized purchasing continued to concern CNB because of the growing physical and interpersonal distance and inherent complexities of dealing with a large growing corporation.

PCC Natural Markets. *"Our passion is food"*. What began with 15 families purchasing food together in 1953 had become a large consumer-owned natural food cooperative that rang up over $133 million in sales for 2008. The nine-store chain is held by 40,000 members in Puget Sound area of Washington who realized dividends in excess of $2.6 million in 2008—a year-over increase of 18 percent. "Our shareholders are our customers. Our profits are turned back to the members in proportion to the amount of business they do here….Co-ops are a way of providing local control over where you do your business." says former trustee Trudy Bialac. PCC works through an affiliated nonprofit, Farmland Trust, to assist organic farmland through loan repayment and land purchase programs. The grocer recently banned all products containing ingredients from cloned animals. Organic beef is sold under branded programs from Damar Farms (Wisconsin) and Eel River Organic Farms (Northern California), while grass fed beef is sourced from Thundering Hooves (Washington), and natural beef from CNB.

Other Customers. A few local restaurants purchase smaller quantities of inventory (meat products) through Fulton Provision along with food chains and institutions that are usually represented by third party management companies. A provider of onsite eateries at 400 locations at universities, corporations and entertainment venues, Bon Appétit Management Company is CNB's largest foodservice account, followed by Sodexo and Aramark. Co-founder and CEO of Bon Appétit, Fedele Bauccio, remarked, "once we

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[5] Oliver, G. (2006, November 6). Beef Northwest, United Farm Workers reach agreement on election. *Oregonlive.com.* Retrieved from http://www.oregonlive.com/business/index.ssf/2008/11/beef_northwest-united/farm-wor.html.

learned that livestock operations produce 18 percent of all worldwide greenhouse gas emissions, exceeding even transportation, we committed to reducing our meat consumption. We moved away from industrially raised meat to natural-beef burgers that have less water. We found that a 4-ounce natural beef patty tastes better and cooks to the same size as a conventional 5-ounce patty. If you can convince customers about the importance of what you're doing, tell a story, and offer great-tasting food, you will get higher sales that will cover a couple of percentage points in higher costs."

Economic Outlook

With rising unemployment and household budget cuts, red meat becomes more difficult to market to consumers who increasingly view the pricey protein as a luxury item. Beef consumption has trended downward since the 1970's. Recent consumption of animal protein has remained flat (Exhibit 14) and the outlook for future beef sales appears weak. The degree to which recessionary pressures come into play in niche segments is uncertain, given that continued growth is anticipated for natural, organic and grass-fed. According to FreshLook Marketing and The Beef Checkoff, natural/organic beef grew 27 percent and sales by weight increased by 22 percent from Q3 2007 to Q3 2008.

Competitors

CNB faces a variety of competitors. Regional grass-fed beef ranches had begun selling beef at near wholesale prices online direct to consumers. They are marketed to the environmental and health conscious consumers and chefs who prefer to avoid feedlot programs, particularly corn-fed animals. Estimates of domestic grass-fed beef production indicate 65,000 head sold in 2006 and 100,000 in 2007; demand is expected to reach 250,000 to 400,000 head by 2010.

Perhaps the more immediate threat comes from the proliferation of natural beef being sold through traditional grocery stores, and the growing number of "artisanal" beef products that also qualify as USDA natural beef. Coleman Natural Foods was the first USDA-certified 'natural' beef producer and is a leading national processor, marketer and distributor of processed natural meat products. Wary of private label competition, Mel Coleman Jr. noted, "Retailers could start bidding on beef and purchase the cheapest brand instead of trying to develop a product line that will allow ranchers…to make a fair margin." Whole Foods radically changed its supplier requirements and meat receiving procedures *and* its relationship with Coleman due to ground beef E. coli contamination in its eastern stores, which occurred after Coleman temporarily switched to Nebraska Beef for processing without informing Whole Foods. In 2008, Coleman sold its beef business to Meyer Natural Angus, and continues to sell packaged poultry and pork to Whole Foods, Kroger, and Costco.

After purchasing Laura's Lean Beef in 2007 and Coleman Natural Beef in 2008, Meyer Natural Angus is now a leading national producer and marketer of natural beef. Its beef comes from its own 43,000-acre ranch in Montana and 200 contracted Red Angus cattle ranchers across the U.S. They fabricate approximately 10,000 head of cattle a month and sell fresh and frozen product nationwide in foodservice and direct-to-consumer channels as well as grocery and restaurant chains, including Whole Foods, Wegmans and Chipotle Mexican Grill. Between 2005 and 2008, the company grew from $10 million to $150 million in sales, and recently announced plans to double office space in order to grow their internet sales. Their corn-finished, USDA Prime grade product is sold under specific process claims including humane certification by Farm Animal Care, and "verified origins" of the cattle to specific ranches.

Laura's Lean Beef recruits independent producers across the U.S. for their natural beef program: cow/calf operators, finishers, and slaughter.[6] The company gives bonuses for increased weights, hitting lean targets and rewards retained ownership. Incentives for finishers are free trucking, carcass data and ear tagging. Signed affidavits are required to ensure that no antibiotics or hormones were administered and that good animal husbandry practices were followed. Branded portion-packed products (fresh beef, cooked entrees, and frozen ground beef patties) are sold in 6,500 stores in 47 states, including Kroger, Albertsons and Lucky supermarkets.

Niman Ranch is another competitor. Some say Bill Niman pioneered standards for humane animal husbandry methods and hormone and antibiotic-free practices when he started small in 1970. He left Niman Ranch at its $85 million-a-year pinnacle in 2007 after accepting outside investors and having run-ins with the new management, headed by Jeff

[6] See http://www.laurasleanbeef.com for cattle specifications, bonus programs, and affidavit forms.

Swain, formerly of Coleman Natural Beef. Bill was against selling off assets (their own custom butchering plant and feedlots) only to buy finished cattle from other feedlots. Transport distances became another issue; Bill thought transporting animals to slaughter over 500 miles was inhumane, while Swain maintained that a 24 hour rest period could remedy travel stress. Swain criticized Bill's management of the beef program, "Any change to Bill's business model, he didn't like…we needed to make the company financially sustainable." Bill is now in the natural goat business. The Niman brand fresh and prepared beef, pork and lamb products are distributed through foodservice, specialty retailers, chain restaurants such as Chipotle Mexican Grill and Big Bowl, and its web site. The company sources meat from about 650 contracted ranchers and processes about 400 cattle a week. Their website mentions "Third Party Verification" in reference to humane and sustainable practices and mentions an affiliation with Temple Grandin, but does not cite the verifying agency or protocols.

Another diversified national niche meat player is Maverick Ranch Natural Meats, offering fresh and ready-to-eat natural pork, lamb, buffalo, beef, and free-range chicken to over 2,000 grocers. Due to soft sales in recessionary conditions, Maverick recently announced staff layoffs, a plant closure and a joint venture—licensing the Maverick brand to Heritage Acres Foods.

Another Pacific Northwestern competitor, Painted Hills Corporation, was started by seven small ranchers from coastal Oregon in 1997. As a rancher-owned and operated group, it sells packaged and fresh beef products to small grocery chains and foodservice accounts. Natural beef attributes and cattle source verification is handled by rancher-signed affidavits. Cattle are corn-finished 150 days at Simplot Feeders in Pasco, Washington to produce a higher marbled USDA Choice grade. Roughly 350 to 550 head per week are processed at the adjacent Tyson meat packing operation. By walking the cattle to slaughter, the corporation saves from \$10 to \$15 a head in transportation costs and greater yield. According to Painted Hills, Tyson works with Temple Grandin and follows a set of "tough standards to ensure animal are properly handled. Tyson also offer Painted Hills an integrated marketing program to grocery and restaurant customers, including consumer education, pricing guidance, point-of-purchase materials and co-op advertising reimbursements.

Challenges Ahead

Animal Welfare Concerns. Whole Foods commissioned a survey in 2006 that revealed that besides flavor, consumers were concerned with safety and the humane treatment of animals when choosing quality meat. "Whole Foods had required basic animal welfare in what we sold—no antibiotics or hormones—but we felt we needed to do more," explained Margaret Wittenberg, Global VP of Quality and Public Affairs last summer. The former member of the USDA National Organic Standards Board, Wittenberg has been at the helm of meat standards development at Whole Foods for eight years. Whole Foods invited animal-welfare groups and scientists to join them at the table with producers to tackle all the species. After five years, the company settled on a system that recognizes that there can be variation as well as continuous improvement. By spring 2008, the Global Animal Partnership (GAP) standard was created to improve the way farm animals are cared for from birth to slaughter. GAP authored compassionate farm animal treatment standards with graduated levels. The USDA Food Safety and Inspection Service (FSIS) has approved Whole Foods *Market's 5-Step™ Animal Welfare Rating System*. At the store level, the program features a labeling system as a shoppers' guide to identify progressively higher standards of animal treatment through production.

At the CNB spring 2009 board meeting, it became clear that Whole Foods was eager to have CNB onboard as the first supplier. Some ranchers voiced strong concerns of the practicality of the standard and potential impact of the adoption to the brand equity of CNB products. CNB considered drafting its own animal compassion standard with help from Dr. Temple Grandin, whose work influenced the GAP and other standards.

OP Issues and Feedlot. Recent challenges at Beef Northwest have impacted the bottom line for several ranch families. There was a surge of sick cows resulting in many going out-of-program (OP). When a cow gets sick and receives antibiotics, it gets tagged, pulled out of the natural beef category and sold in the commodity market. The OP condition is believed to more frequently occur with newer, less experienced ranchers and those ranchers who have to transport animals over long distances to get to the feedlot. Another theory was that newer members generally have to place their cattle in the feedlot during winter when it is trickier to achieve efficient weights and severe temperature swings over trucking routes put more stress on the cattle. Yet there is no clear consensus on the reasons for the OP surge. The ranchers also wondered what could happen at the feedlot when cattle from different ranches mingle. OP designations can cause tremendous financial losses for smaller ranches. After hours of discussion, an “OP insurance” plan was approved where ranchers and BNW paid premiums into the program which would reimburse ranchers who encountered an above average level of OP cows.

Some ranchers felt consumer pressure to move away from corn feed; others thought that CNB should prepare for a growing market of grass fed beef. Another emerging hot button for consumers appeared to be humane animal treatment at feedlots. Currently, there were two auditing agencies for feed lots: one reviews standard operating procedures and the other, animal handling practices. While Beef Northwest was not “humane certified” they were “animal compassion tested.” Dan Probert wondered if it didn’t make sense to add another feedlot just for Whole Foods cattle, one that could be setup with all the specifications from the get-go and be more centrally located. He remembered Charlotte Reid, CNB’s environmental program director, telling him, “Transportation to the feedlot for ranchers further out increases direct costs and it’s at odds with our aim to lower carbon footprint wherever possible.”

Another issue was the traceability of ranch origin from feedlot through to processing into specific cuts so that the packaged product can be branded as “local” in various retail locations. Some customer purchasing programs call for verifiable information indicating where and how far their food has come, but according to BNW, separating out meat cuts (hamburger or steak) by-ranch was not currently feasible.

Moving Forward

Dan and Stacey had covered a lot of ground that morning, figuratively and literally. There were several strategies to be considered, and they both knew they had to carefully pick the next steps. In terms of working with their largest customer, Whole Foods, if CNB forged ahead with an independent animal welfare standard, would it be accepted by Whole Foods and its customers? What was the value proposition of a CNB standard to Whole Foods or other customers? Also, in light of progressive commoditization of naturally-raised beef and blurred distinctions between niche beef categories in the marketplace, what could CNB do to differentiate itself in various market segments? Would a move into grass fed be feasible for CNB's relatively large scale cattle operation and would it garner more business from Whole Foods and other potential customers in new markets? Dan mentioned their time-tested skills in consensus-building and conflict resolution and wondered how they could leverage such skills to build consensus within CNB and major retail customers.

As Stacy Davis left the Probert Ranch, he suggested to Dan that they needed to schedule a meeting with Whole Foods in Austin before Thanksgiving to discuss next year's sales and contract. Of course, animal compassion will be an important issue for both sides to discuss. As Stacy prepared for the long drive to the Beef Northwest feedlot, he thought about the issues there. He would need to talk to the managers and vet to get an update on their investigation of last year's OP issues and remedial measures. The lower-than-expected sales will give the feedlot and CNB some breathing room to address these issues. Stacy looked at his PDA and realized that he needed to make phone calls and touch base with several team leaders who were working on the small scale grass-fed beef project. Another group of members were working with local universities on ranching and feed lot carbon-footprint calculations; he was curious to see if any progress is made there since the in-store demonstration feedback to ranchers had indicated that this topic was a major concern. Finally, he needed to determine how the co-op should respond to increasing reports of meat supply chain's contribution to global warming.

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Name	Location-Hdqtrs.	Ownership	Capacity	No. of Feedlots
Five Rivers Cattle Feeding	Loveland, CO	JBS—USA	811,000	10
Cactus Feeders, Inc.	Amarillo, TX	Engler Family & ESOP	510,000	9
Cargill Cattle Feeders LLC	Wichita, KS	Cargill	330,000	4
Friona Industries LP	Amarillo, TX	Private—limited partnership	275,000	4
AxTx Cattle Co.	Hereford, TX	private—Jossarand Family	242,000	5
J.R. Simplot Co.	Boise, ID	private—Simplot Family	230,000	2
Four States Feedyard LP	Lamar, CO	Privately held	195,000	6
Heritage Feeders LP	Oklahoma City, OK	private—Tom L. Ward	189,000	5
AgriBeef Co.	Boise, ID	private—Rebholtz Famliy	180,000	3
Pinal Feeding Co.	Laveen, AZ	private—Petznick Family	175,000	1

Exhibit 1: National and Regional Feedlot Players

Name	Location	Capacity
Simplot	Grandview, ID	150,000
Simplot	Pasco, WA	90,000
Agri Beef—Oro Cattle Feeders	Moses Lake, WA	60,000
Van de Graaf Ranches, Inc.	Sunnyside, WA	50,000
Beef Northwest Feeders	Boardman, OR	40,000
Beef Northwest Feeders	Nyssa, OR	30,000
Agri Beef—Snake River Cattle Feeders	American Falls, ID	25,000
Agri Beef—Boise Valley Feeders	Parma, ID	25,000
Intermountian Beef	Eden, ID	15,000
Beef Northwest Feeders	Quincy, WA	26,000

Exhibit 2: Pacific Northwest Region Feedlots with Capacity over 10,000 (Source: adapted from Industry Perspectives Feedlot, by Northwest Farm Services, 2007)

Supply Chain Member	Traditional Beef Characteristics	Traditional Ownership	CNB Beef Characteristics	CNB Ownership
Cow/Calf Operator	Cattle graze on ranch for 12 months	Rancher	Cattle graze on ranch for 12 to 18 months	Rancher
Stocker Operator	Cattle graze or feed for 12 to 20 months	Operator		Rancher
Feedlot	Cattle feed for 180 days on corn & grain (500 lb average gain)	Feedlot	Cattle feed for 90 days on potato waste; small amounts grain and corn (300 lb gain)	Rancher
Packer	Heavy cows and high fat marbling, unknown history	Packer	Lighter cows, lean meat, individual history on ear ID tag	Rancher
Retailer	Different quality characteristics desired depending on final retailer	Retailer	Healthy, natural beef with consistently lean characteristics	Rancher & Retailer Partnership

Exhibit 3: Beef Supply Chains

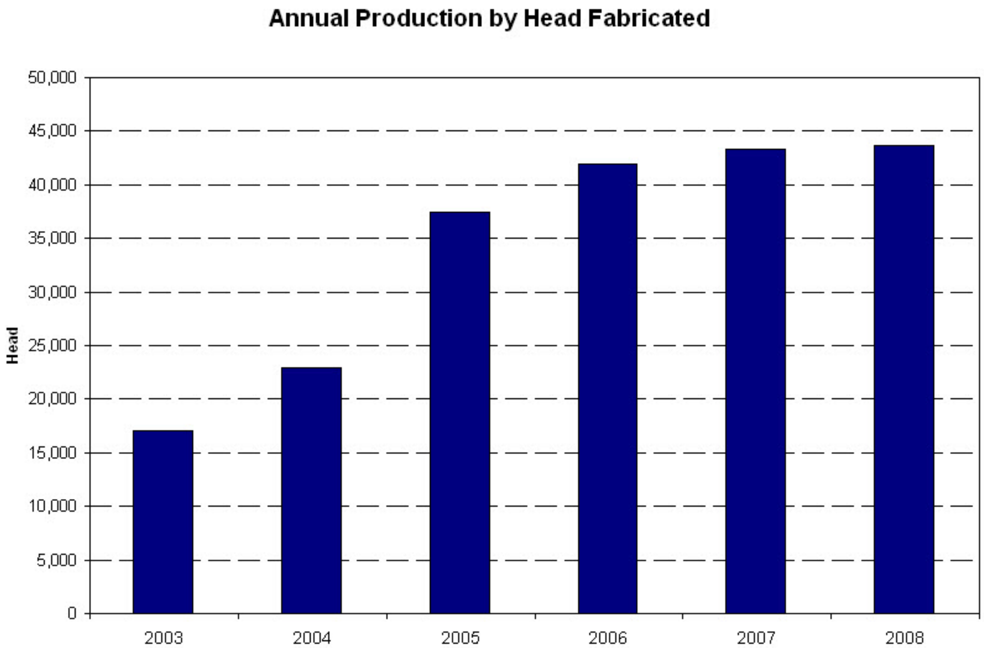


Exhibit 4: CNB Annual Production

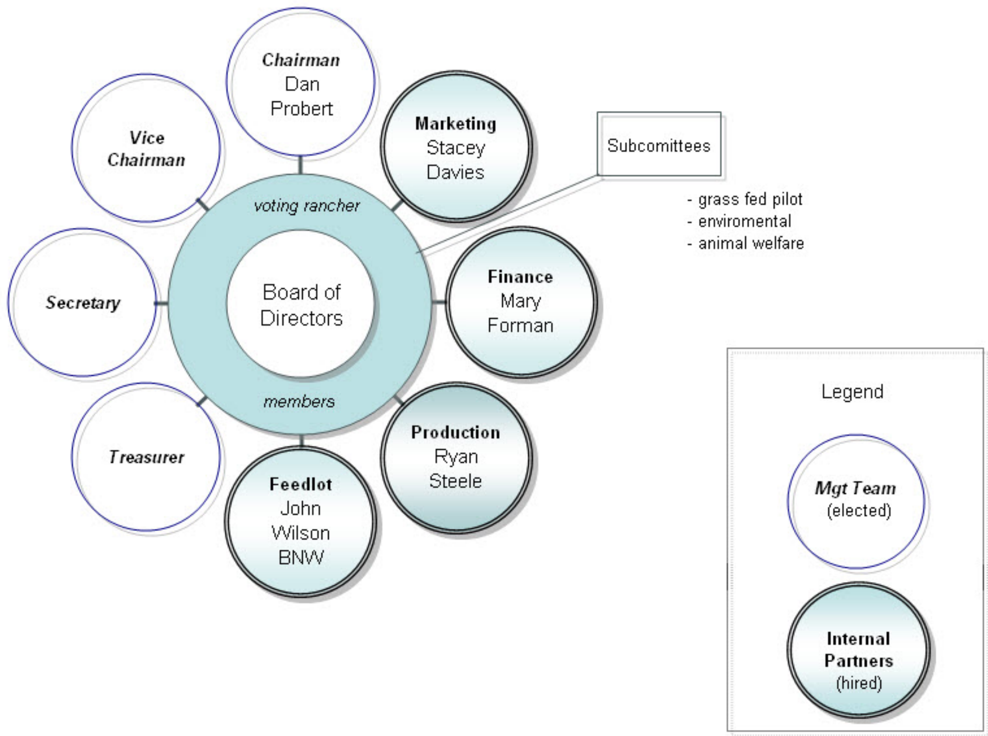
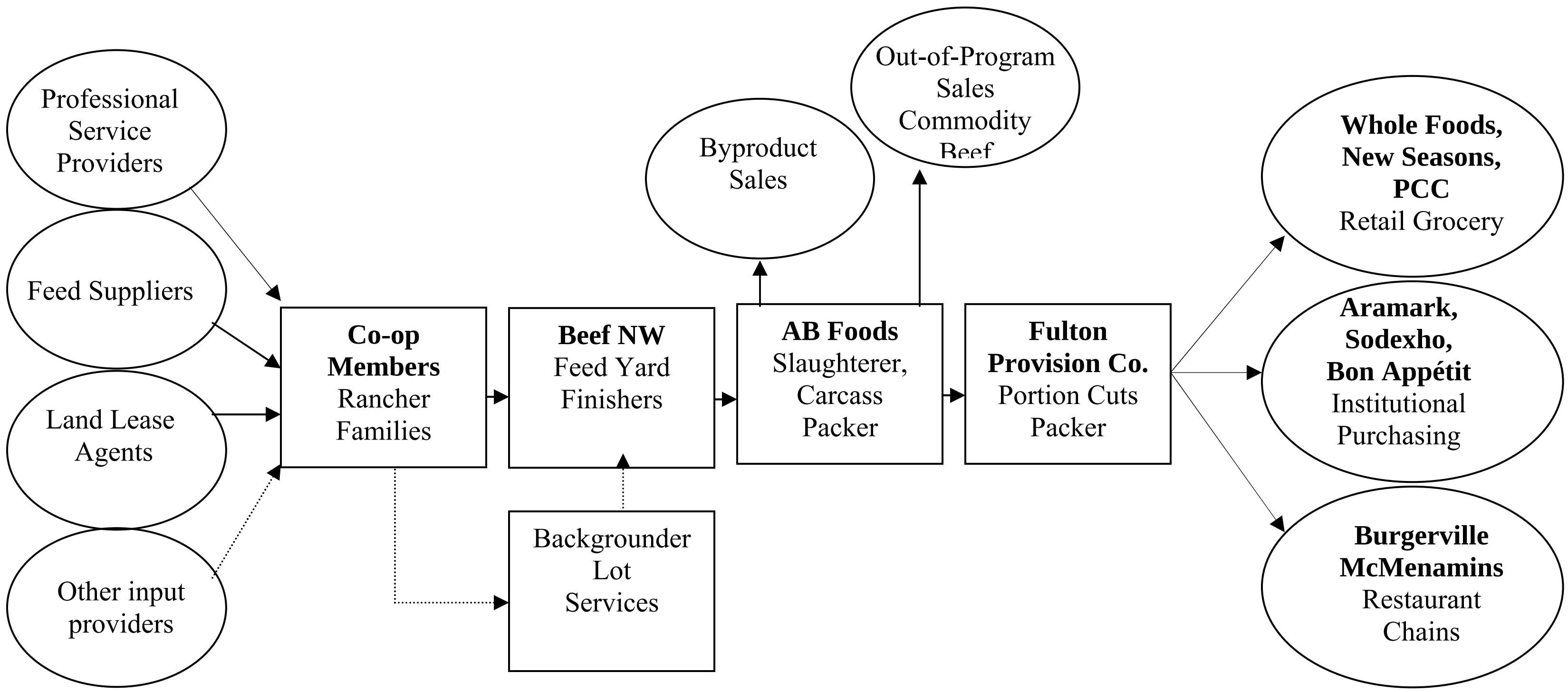


Exhibit 5: CNB Organization Chart



Value Chain	**Cow/calf**	**Background lot**	**Feedlot**	**Packer**	**Retailer**
Unit	Ranch	Ranch	Beef NW	AB Foods & Fulton Foods (burger)	Retail Distributor:
CNB	Graze-well Principles & quality guidelines	Rules for In & Out of Program Cattle	Negotiates with Feedlot for financing.	Marketing negotiates with Processor based on CNB cost models Finance receives final product data and compensation for beef.	Marketing negotiates contract with retail distributors, monitors transparency of credibility attributes
Rancher	Cow/calf timing, ranch management	Negotiates for feed cost and provides CNB criteria	Responsible for feedlot costs	Receives revenues from beef (commodity & placement)	Product demonstrations, interaction with customers
Verification	Food Alliance Cert	Food Alliance Certification	Feed Lot Audit	Food Alliance Cert.	

Exhibit 6: Country Natural Beef Value Chain

Exhibit 7: Marketing: Beef Display, Doc and another rancher at In-store Demonstration

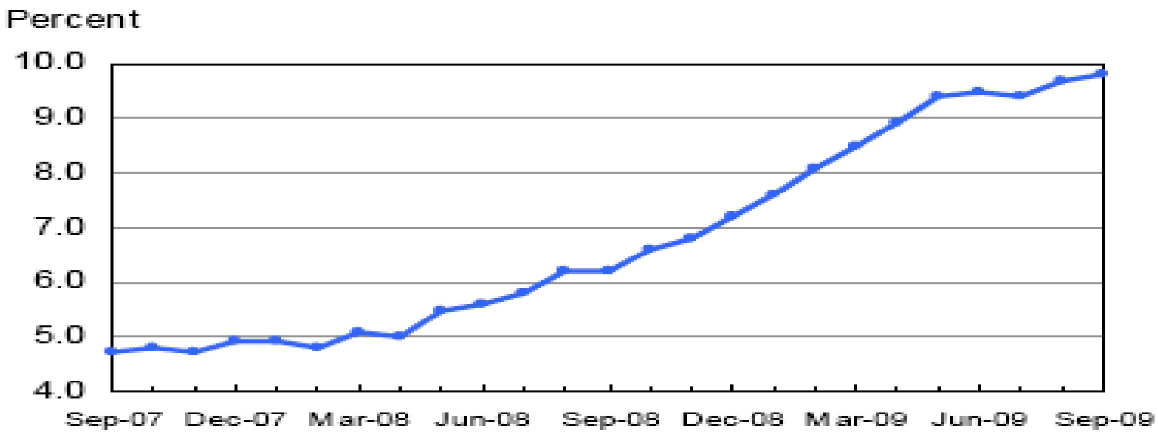


Exhibit 8: U.S. Unemployment Rate, Seasonally Adjusted — Sept. 2009 (Source: Bureau of Labor Statistics, U.S. Department of Labor)

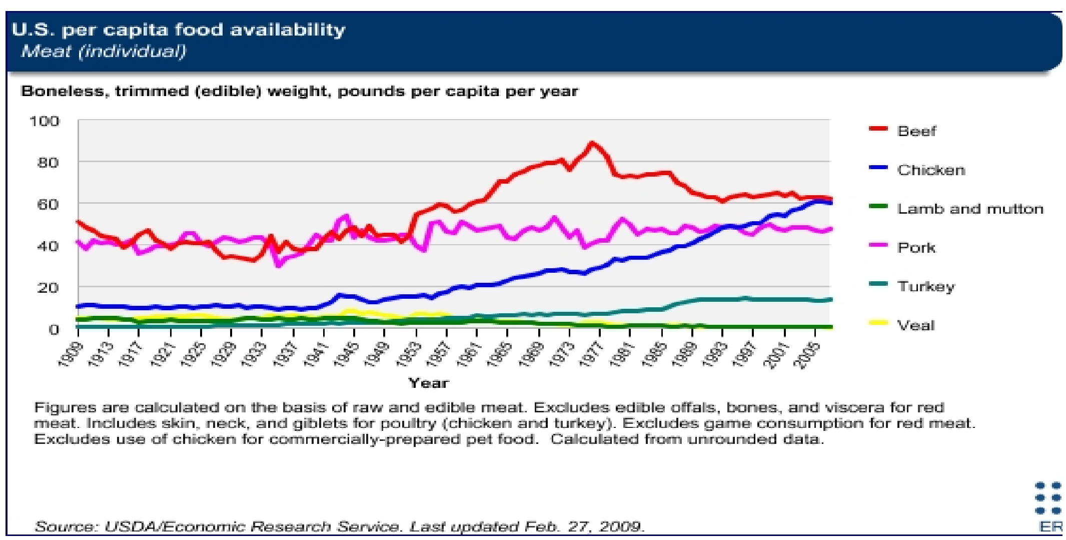


Exhibit 9: Beef Consumption Trends (Source: Mintel Red Meat 2008 Report)

Animal Welfare Standard	Industry Guidelines (NCBA)	National Organic Program (USDA)	Certified Humane Program (HFAC)	American Humane Certified (AHA)	Animal Welfare Approved (AWA)	Global Animal Partnership Step 5 Plus
Antibiotics	Not prohibited	Prohibited	Permitted for treatment of disease only	Permitted for treatment of disease only	Permitted for treatment of disease only	Prohibited (all steps)
Growth Hormones	Not prohibited	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited (all steps)
Access to Pasture	Not required; confinement to feedlots allowed	Required; temporary confinement allowed in some situations; feedlots prohibited	Not required; cattle may be maintained in feedlots	Not required; cattle may be maintained in feedlots	Access to pasture required throughout lifetime when climate permits	Cattle must live continuously on range or pasture
Identification	Hot branding and ear notching allowed; jaw brands are not to be used	Not addressed	Hot iron branding & ear cutting prohibited; ear tagging permitted	Hot iron branding & ear cutting prohibited; ear tagging permitted	Hot iron branding & ear cutting prohibited; ear tagging permitted	Branding, wattling & ear notching are prohibited; ear tagging permitted
Castration	Recommended be done before 4 months of age; no recommendation regarding anesthesia	Physical alterations must be performed as needed to promote animal welfare & in a manner that minimizes pain & stress	Recommend be done at earliest age possible; anesthesia required for surgical removal after 2 months of age	Recommend be done at earliest age possible; anesthesia required for surgical removal after 2 months of age	Recommend be done before 2 months of age; use of anesthesia required	Prohibited
Debudding/ Dehorning	Recommended be done before 4 months of age; no recommendation regarding anesthesia	Physical alterations must be performed as needed to promote animal welfare & in a manner that minimizes pain & stress	Debudding in first 4 months using hot iron; anesthesia not required	Debudding in first 4 months using hot iron; anesthesia not required	Dehorning prohibited. Debudding only permitted on calves 2 months of age or younger	Dehorning prohibited (all steps); Debudding prohibited
Spaying of Heifers	Not prohibited	Not addressed	Prohibited	Prohibited	Prohibited	Prohibited (all steps)
Minimum Weaning Age	No limit; usually 7-8 months of age	Not addressed	Not addressed	Not addressed	6-9 months of age	Natural weaning is required
Electric Prod Use	Permitted, but voltage must be less than 50 volts	Not addressed	Permitted in emergencies only	Permitted in emergencies only	Prohibited	Permitted in emergencies only

Exhibit 10: Comparison of Animal Welfare Standards by Program-Beef Cattle (Source: <u>The Truth Behind Labels: Farm Animal Welfare Standards and Labelling Practices.</u> FarmSanctuary.org)