

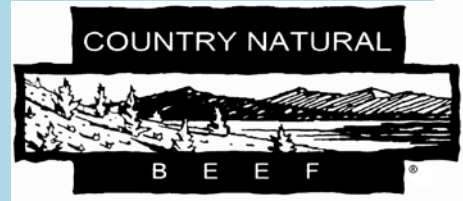
Values-based food supply chains: Country Natural Beef

Steve Stevenson, CIAS June, 2009

Spokespersons: Doc and Connie Hatfield, Norm Birch, Dan Probert, Mary Foreman

Interview Dates: 01/09/07, 08/14/08 and 09/24/08

Website: www.oregoncountrybeef.com¹



Historical development

Introduction. Country Natural Beef is a rancher cooperative that started in the mid-1980s. At that time, commodity beef prices were down (65 cents/lb. for yearling calves), interest rates were high and land values were falling, resulting in a dire economic picture for commodity beef ranchers. The idea of marketing a differentiated beef product began with a conversation between Connie Hatfield and a health and fitness club owner in Oregon. He was looking for local or regional sources of beef for his clients that contained no antibiotics or growth hormones and was “short fed,” or fed for less time in the feedlot than conventional beef, resulting in leaner meat.

Country Natural Beef started with 14 ranching families marketing 200 head of “natural” beef cattle in 1987. Their first customer to order significant volumes of their product was the Japanese restaurant company, Kyotaru, which began buying 60 beef animals per week in 1990. Country Natural Beef’s education in value chain business relationships began through this business partnership. The Japanese company operated on the basis of “Shin Rai,” which roughly translates as mutual support and reward (See Appendix A, page 16).

A good history of Country Natural Beef can be found in an article entitled “The Natural” in the online publication *Rural Cooperatives*, July/August, 2006 <www.rurdev.usda.gov/rbs/pub/jul06/jul06.pdf>.

Founding principles and organizational goals.

Country Natural Beef is consumer driven; producer controlled; helps ranching families retain “every possible bit of independence”; contains administrative costs to a bare minimum; pays operating costs from a percentage of producers’ revenue instead of borrowing operating funds; and uses stable pricing mechanisms based on production costs, a return on investment and a reasonable profit (*Rural Cooperatives*, <www.rurdev.usda.gov/rbs/

pub/jul06/jul06.pdf>; Country Natural Beef’s 1986 Organizational Goal Statement and 1991 Mission Statement, <http://countrynaturalbeef.com/index.php?option=com_content&task=category§ionid=6&id=18&Itemid=29>).

Philosophical expressions. “*Country Natural Beef is an idea that needs to be constantly examined, not an entity that can be bought and sold*” (*Rural Cooperatives* <www.rurdev.usda.gov/rbs/pub/jul06/jul06.pdf>). Other philosophical expressions of Country Natural Beef include a poem by Doc Hatfield <countrynaturalbeef.com/index.php?option=com_content&task=view&id=17&Itemid=37> and Jack Southworth’s “wagon train” analogy (See Appendix B, page 21).

*“Country Natural Beef is an idea that needs to be constantly examined.”—
1986 CNB
organizational goal*

Historical growth curves. From 1990 to 2000, Country Natural Beef increased the number of cattle it sold from 3,000 to 14,000 head. Country Natural Beef experienced rapid growth from 2000/2001 to 2004/2005, riding growing markets for “natural” food products. During this period, sales of cattle rose from 14,000 to 40,000 head. Sales increased from \$12 million to \$38 million; and the number of ranching families participating in Country Natural Beef increased from 37 to 78 (Doc and Connie Hatfield, Internal Partners for Marketing, interviews, 01/09/07 and 08/14/08; Norm Birch, Logistics Manager, interview, 10/07/08).

Country Natural Beef’s rate of growth slowed to around 15 percent in 2006, with 47,000 cattle sold from 93 participating ranches (Norm Birch, interview, 01/17/07). In 2007, cattle and rancher numbers remained similar to 2006, though Country Natural Beef’s gross sales increased due to better utilization of carcasses and moderate price increases. Country Natural Beef’s sales in the 2006/2007 fiscal

¹All websites referenced in this document were accessed on 4/23/09. Links in pdf are live.

year amounted to just under \$49 million (Doc and Connie Hatfield, interview, 08/14/08; Norm Birch, interview, 10/07/08).

Other scale indicators. In 2007, Country Natural Beef ranches had 101,660 cows and managed 6,355,817 acres under its Grazewell principles that describe how its members manage both private and public lands sustainably (Dan Probert, Internal Partner for Production, email, 01/13/08). Grazewell principles are described on the cooperative's website <countrynaturalbeef.com/index.php?option=com_content&task=view&id=38&Itemid=29>. (See cross-case study observations #1 and #2 on page 14).

Current dynamics

Creating and marketing differentiated, higher value food products. Value chains are predicated on producing and marketing significant volumes of differentiated, higher value products (See Appendix A).

An excellent discussion of Country Natural Beef's recognition that differentiation is an ongoing process can be found in an article entitled "Matching Consumer to Rancher" in the August, 2008 issue of *Beef Magazine* <beefmagazine.com/marketing/0801-matching-consumer-rancher/index.html>.

Product differentiation and branding. Key dimensions of differentiation include Country Natural Beef's story and the quality of its products, ranches and cooperative. *Country Natural Beef's* story can be read on its website:

- "What Makes Country Natural Beef Unique?" <countrynaturalbeef.com/index.php?option=com_content&task=view&id=41&Itemid=29>
- "Frequently Asked Questions" <countrynaturalbeef.com/index.php?option=com_content&task=view&id=18&Itemid=68>

1) *Quality of Country Natural Beef cattle and meat.* Cattle are raised from birth on Country Natural Beef ranches. Some competitors buy weaned calves via video auctions. Cattle are raised without growth hormones, antibiotics

or animal byproducts. All Country Natural Beef ranchers sign affidavits promising to not use these inputs. Cattle spend less time in the feedlot (90 to 95 days versus 120 to 150 days for conventional beef), resulting in leaner meat. While in the feedlot, Country Natural Beef cattle are fed cooler rations including potatoes, alfalfa, barley and some corn. As a result, Country Natural Beef's meat is leaner than that of its competitors, reaching USDA grades of "high select" and "low choice" versus the fattier "high choice" and "prime" grades produced and sold by competitors.

- 2) *Quality of Country Natural Beef ranching operations.* Emphasis is placed on family-owned ranches as well as on land and animal stewardship.
- Country Natural Beef's Grazewell principles <countrynaturalbeef.com/index.php?option=com_content&task=view&id=38&Itemid=65>
 - Country Natural Beef's humane treatment statement <countrynaturalbeef.com/index.php?option=com_content&task=view&id=39&Itemid=65>
- 3) *Quality of the Country Natural Beef cooperative.* Money earned from the sale of cattle flows directly to individual ranching families, with few middlemen and administrative costs. All Country Natural Beef families are involved with the cooperative's decisions and are knowledgeable of the cooperative's products. Country Natural Beef's business partnerships are based on the Japanese value chain business model known as "Shin Rai" (mutual support and mutual reward).

Standards and certification. Food supply chains that are larger and more complex than direct-to-consumer marketing require clearly communicated standards and, often, third-party certification (See Appendix A). Country Natural Beef operates within the following standards and certification protocols:

1) *Grazewell principles:* Developed internally by the Country Natural Beef cooperative in 1992, these principles focus on stewarding land and water resources and maintaining biological diversity on grazed lands operated under holistic

ranch management. Led by one of Country Natural Beef's ranchers serving as an internal partner for the cooperative, a working group of the Country Natural Beef cooperative is devoted to educating its ranch members about pasture management practices that maintain grass and plant diversity, water resources and healthy streams. More information about these principles is found on the Country Natural Beef website <countrynaturalbeef.com/index.php?option=com_content&task=view&id=38&Itemid=65> and in the *Rural Cooperatives* article <www.rurdev.usda.gov/rbs/pub/jul06/jul06.pdf>.

- 2) *Food Alliance standards:* All Country Natural Beef ranches are certified under the Food Alliance's environmental and social standards. On-ranch certification inspections are performed every three years by the International Certification Service <www.ics-intl.com>. For the Food Alliance standards, see www.foodalliance.org/certification/farm-ranch.
- 3) *Age and source verification protocol:* Country Natural Beef has joined with AB Foods, a strategic partner that slaughters and processes the co-op's cattle, to qualify animals for a USDA "Age and Identity Preserved" certification program that ensures buyers of the age and ranch source of beef products. This certification is expected to provide important differentiation in the near future for both international and domestic markets (Attendees at the Country Natural Beef semi-annual meeting, interviews, 01/10/07).
- 4) *Choice not to seek USDA organic certification:* Country Natural Beef's members steward very large acreages of privately- and federally-owned rangeland. It would be extremely difficult to guarantee that all of this land was managed under organic standards. Therefore, the cooperative has made a considered choice not to seek organic certification for its meat products. For more information, see the *Rural Cooperatives* article <www.rurdev.usda.gov/rbs/pub/jul06/jul06.pdf>.



A rancher store visit at New Seasons Market.

Identity preservation through the value chain. A feature of the food value chain model is that farmers and ranchers have the right to maintain their identity or brand on the product as deeply into the supply chain as they choose. Co-branding with other value chain partners is a viable strategy² (See Appendix A).

- 1) *Country Natural Beef's products are identified differently in different retail settings.* In smaller supermarkets such as New Seasons Market in Portland and Puget Consumer Co-ops in Seattle, products are identified as Country Natural Beef directly on their packaging. In fast food restaurants such as Burgerville in Portland, the products are identified on a large menu board. In older Whole Foods stores, products are identified on a large display board next to the meat counter (Doc and Connie Hatfield, interview, 01/09/07).
- 2) *Country Natural Beef's largest customer identifies individual ranches, not the cooperative.* Country Natural Beef's primary customer is Whole Foods, the international natural foods supermarket chain. In new Whole Foods stores, meats are identified by the individual farm or ranch where they were raised rather than by brand names such as Country Natural Beef (Doc and Connie Hatfield, interview, 01/09/07). At the cooperative's semi-annual meetings for the past several years, members have questioned the lack of Country Natural Beef identification in many Whole Foods stores (Country Natural Beef

² For an example of co-branding, see the "Identity preservation" section of the Shepherd's Grain case study.

meetings, observations, 11/30/05 to 12/02/05 and 01/09/07 to 01/11/07).³

Interaction with and feedback from customers.

Country Natural Beef's target customers are health conscious and willing to pay a premium for high-quality, lean, "natural" beef products. Country Natural Beef's retail and food service business partners are companies that focus on these consumers.

Advertising strategies. Country Natural Beef has chosen not to invest in conventional advertising. The co-op has determined that the funds required for expensive, conventional advertising are better returned to its ranchers (Doc and Connie Hatfield, interview, 08/14/08). Instead, Country Natural Beef's marketing efforts focus on: a) point of sale materials developed by the Country Natural Beef marketing team; b) Country Natural Beef's website <www.oregoncountrybeef.com>, which is updated regularly by the co-op's marketing team. Website queries are answered directly by members of the cooperative or value chain business partners who can provide prompt and comprehensive answers. Responses to the most-asked consumer questions can be seen on the "FAQ" page of the Country Natural Beef website <countrynaturalbeef.com/index.php?option=com_content&task=view&id=18&Itemid=68>; c) educational seminars for meat cutters and chefs from Country Natural Beef-affiliated retail stores and food service companies conducted by the co-op's marketing team every three to four months (Norm Birch, interview, 01/17/07); d) customer outreach events. Each year, Country Natural Beef ranches are required to participate in three of these outreach events, where ranchers interact directly with meat cutters, chefs and consumers. These events include in-store demonstrations, campus visits, speaking engagements and hosting chefs or reporters on ranches. Country Natural Beef's marketing team has begun experimenting with an "adopt-a-store" program in which two Country Natural Beef ranches establish a close relationship with a particular retail store in their region (Country Natural Beef annual meeting, 01/09/07-01/11/07); e) three or four annual visits to all of the co-op's retail stores by professional members of the cooperative's

marketing team (Norm Birch, interview, 01/17/07) (See cross-case study observations #4 and #10).

Creating effective internal organizational forms.

Successful value chain businesses aggregate and market product through effective organizational structures, and develop and/or hire competent leadership and management (See Appendix A).

A special kind of cooperative. "Country Natural Beef is an idea that needs to be constantly examined, not an entity that can be bought and sold" (*Rural Cooperatives* <www.rurdev.usda.gov/rbs/pub/jul06/jul06.pdf>).

- 1) *Comparative context.* For an analysis of how the Country Natural Beef cooperative differs from many other agricultural co-ops, see the article in *Rural Cooperatives* referenced in the "Historical development" section, page 1 <www.rurdev.usda.gov/rbs/pub/jul06/jul06.pdf>.
- 2) *Key characteristics of the Country Natural Beef cooperative.* The Country Natural Beef co-op has: a) no equity positions for its members. Members assume no financial ownership of the co-op, and all financing is done from the proceeds of annual cattle sales; b) no capital assets or financial liabilities. The co-op has no bricks, mortar, trucks or debt; and c) no employees. Country Natural Beef hires members as internal partners who work from their homes as independent consultants to the Country Natural Beef cooperative.



Country Natural Beef cuts in the meat case.

³Country Natural Beef & Red Tomato engage parallel dynamics related to identifying both individual producers and the company brand.

3) *Country Natural Beef operates like a post-capitalist business enterprise.* Country Natural Beef functions like an “other-than-for-profit” organization with dual responsibilities to provide both affiliated ranchers with sustainable prices and affiliated store and company customers with quality meat and high order fill rates (Norm Birch, interview, 01/17/07). In its key roles of facilitating, coordinating and stewarding supply chain relationships—or *protecting the value chain commons*, Country Natural Beef is a good example of the business models described in *Capitalism 3.0*, authored by Peter Barnes (Berrett-Koehler Publishers, 2006) (See cross-case study observation #11).

4) *Country Natural Beef membership requirements.* Membership requirements include Food Alliance certification, placement in the feedlot of a minimum of 160 head of cattle annually (two 80-head lots), attendance at two semi-annual member/director meetings, and three days of Country Natural Beef customer outreach. When demand for Country Natural Beef products indicates the need for additional co-op members, these new members must be nominated and sponsored by an existing member, go through a two-year trial membership and meet the above membership requirements. Conscious efforts are made to encourage and support the entrance of young and/or beginning ranchers into the Country Natural Beef co-op, including second generation Country Natural Beef families. *“My definition of sustainability is when over 25 kids below the age of five require daycare at our semi-annual meetings”* (Connie Hatfield, interview, 08/15/08). At the request of Whole Foods Markets, Country Natural Beef is currently exploring the establishment of a semi-autonomous group of member ranches east of the Rocky Mountains.

5) *Sociological reasons complement economic reasons for participating in Country Natural Beef.* All Country Natural Beef members are defined as “directors” of the cooperative. A sophisticated circle meeting format that facilitates egalitarian participation, active listening and the honoring of others whose work has been supportive of the cooperative’s goals is employed during

business meetings. Over the years, the co-op’s understanding of the unique contributions of ranch women has grown, and it is strongly committed to the full participation of women in its business. Child care is provided at the semi-annual meetings, and women candidates for organizational positions are common (Country Natural Beef semi-annual meetings, author’s observations, 11/30/05-12/02/05 and 01/09/07-01/11/07).

Country Natural Beef members list a number of sociological reasons for participating in the

“My definition of sustainability is when over 25 kids below the age of five require daycare at our semi-annual meetings”—
Connie Hatfield, Internal Partner for Marketing

cooperative, including: a) being around other progressive, successful ranchers; b) enjoying the direct connection with consumers during store visits; c) watching young families enter ranching and seeing opportunities for one’s own children; d) the integrity of the people involved and the cooperative’s standards; e) the emphasis on environmental stewardship and high-quality cattle; and f) the satisfaction of business relationships based on fairness, trust and handshake agreements (Country Natural Beef semi-annual meetings, author’s observations and interviews, 11/30/05-12/02/05 and 01/09/07-01/11/07).

Competent, adaptive leadership and management structures. Historically, Country Natural Beef has developed effective organizational structures by activating leadership and management skills within its rancher base, judiciously hiring skilled outside professionals and selecting good external business partners. (See cross-case study observation #7). As the Country Natural Beef organization matures, however, current efforts are underway to clarify and realign leadership and management functions.

1) *Internal partners:* Three internal partners carry out key business management functions for the co-op. These internal partners are skilled Country Natural Beef ranchers operating as

independent consultants to the cooperative. The *Production* Internal Partner is responsible for rancher coordination and for sequencing the placement of cattle in the feedlot. The *Marketing* Internal Partner is responsible for selling Country Natural Beef products and managing supply chain logistics from the placement of cattle to the delivery of boxed beef cuts to customers. The *Finance* Internal Partner is responsible for invoicing customers, paying ranchers and maintaining the books.

The Marketing Internal Partner has hired two experienced meat industry professionals with responsibilities for taking orders, meat manager relations and overall supply chain logistics. Management costs are relatively low at \$35 per head of cattle that grades well enough to “make the program,” or less than four percent of Country Natural Beef’s gross revenue (Norm Birch, interview, 01/17/07; Mary Foreman, Internal Partner for Finance, interview, 01/18/07).

- 2) *Organizational committees*: Other organizational functions are carried out by committees of Country Natural Beef members. Some are standing committees (membership and environmental education are two examples), and others are specially appointed by the Country Natural Beef chairperson.
- 3) *2007 restructuring*: Over the past several years, Country Natural Beef’s leaders have recognized the need for restructuring the leadership and authority relationships within the cooperative. A committee was appointed to study this issue. At the January, 2007, semi-annual membership meeting, the committee offered recommendations on two key issues for Country Natural Beef: 1) the cooperative’s efficiency as a larger organization, and 2) clarification of boundaries and relationships between the cooperative’s membership and management.

Key points in the final recommendation that was adopted by the cooperative’s members included: a) creation of a membership-based management team whose members would serve as contact persons for sets of nine to ten ranchers,



A Country Natural Beef rancher moving some heifers.

represent and advocate for ranchers with the internal partners, and lead key committees, including the environmental and new rancher committees; and b) in order to avoid conflicts of interest, internal partners cannot serve on the management team. A nine-member management team was elected; new members are chosen on a rotating basis. A three-member executive committee was appointed and empowered to make rapid decisions when necessary and lead weekly teleconferences of the management team. It was decided to try this leadership structure out for several years to see if, in addition to the executive committee, an executive director was needed, as some members argued. The drawing of clear boundaries between the internal partners and this newly structured, membership-based management team was not seen as a mechanism to micro-manage the internal partners. Instead, the intention was to free up their time by interacting with nine representatives, not 100 ranchers.

- 4) *Leadership succession planning*: Country Natural Beef’s founders and leaders recognize the importance of developing and implementing leadership succession strategies (Doc and Connie Hatfield, interview, 01/09/07 (See “Leadership succession,” page 11) (See cross-case study observation #7).

Selecting markets and value chain partners.

Successful value chain partners have similar values, different competencies and complementary business models (See Appendix A).

Complementarities and challenges. The business models and goals of all Country Natural Beef partners complement the cooperative's goal of producing and marketing high-quality, natural beef products to health-conscious consumers who are willing to pay a premium for such products. Country Natural Beef is currently involved in working out some dissonance in its relationship with a major retail partner (See "Issues with supply chain partners," page 11).

Rancher partners. Country Natural Beef's rancher membership requirements are described on page 5. The amount of a given ranch's income secured through Country Natural Beef ranges from 50 to 100 percent, the average being 70 percent (Doc and Connie Hatfield, interview, 08/14/08). The co-op recognizes that the Country Natural Beef model does not fit all ranchers (See "Achieving economic sustainability," page 9) (See cross-case study observation #5).

Primary retail partner: Whole Foods <www.wholefoods.com>. There is a high degree of fit between Country Natural Beef's business model and Whole Foods' customer base. Originally developed for business with the Sodexo food service company, Country Natural Beef's current purchasing agreement with Whole Foods is the co-op's first attempt to translate the key dimensions of a value chain relationship into a legal contract. These dimensions were previously expressed through handshake agreements (See Appendix B). *"The main value of the contract is that it forces regular, documented communication. We don't refer to it at all between meetings, but it forces everyone to continually forecast ahead ... a critical part of matching supply with demand"* (Doc Hatfield, email, 10/07/08).

Whole Foods accounted for 60 percent of Country Natural Beef's business, and 86 percent of its tenderloin steaks and prime rib sales in 2006. However, *"Whole Foods is a monoculture"* that demands primarily the top meats (tenderloins and prime rib) and is much less interested in cuts such as chuck roasts, round or sirloin steaks, and hamburger which represent two-thirds of the carcass (Norm Birch, interview, 01/17/07). As profitability requires selling all meat cuts, Country Natural Beef has established business partnerships that create

profitable markets for the meat cuts remaining after sales to Whole Foods. For a description of changes in Whole Foods' purchasing patterns in the current economic recession, see "Future dynamics," on page 11 (See cross-case study observation #12).

Other key retail/food service partners. **New Seasons Market** <www.newseasonsmarket.com> is an important retail customer whose order mix helps balance that of Whole Foods. **Burgerville** <www.burgerville.com> is another significant customer whose demand for hamburger provides important balance. **Bon Appétit** <www.bamco.com> and other food service customers also order lower-value meat cuts.

Production partners. Beef Northwest Feeders <www.beefnorthwest.com> is Country Natural Beef's only feedlot. It is located in Boardman, Oregon. Owner John Wilson is also a Country Natural Beef rancher and key strategic partner. He segregates and provides space for 12,000 to 15,000 head of Country Natural Beef cattle at any one time, and provides special feed trucks and care including humane animal handling and non-antibiotic first treatment of ill cattle ("Country Natural Beef's Humane Treatment Statement <countrynaturalbeef.com/index.php?option=com_content&task=view&id=39&Itemid=65>"). *"We constantly collaborate with the ranchers on animal handling, health and nutrition ... Beef Northwest Feeders essentially acts as a partner in a vertically integrated extension of Country Natural Beef"* (John Wilson, in *Rural Cooperatives* <www.rurdev.usda.gov/rbs/pub/jul06/jul06.pdf>). Country Natural Beef ranchers pay Beef Northwest directly for feeding 80-head lots of cattle.

"We constantly collaborate with the ranchers on animal handling, health and nutrition ... Beef Northwest Feeders essentially acts as a partner in a vertically integrated extension of Country Natural Beef"—
John Wilson, Managing Partner,
Beef Northwest Feeders

AB Foods, formerly Washington Beef <www.wabeef.com>, serves as both Country Natural Beef's abattoir and financial/logistical partner. The co-op's rancher members individually sell live cattle to AB Foods, and Country Natural Beef buys back boxed beef cuts that the cooperative seeks to sell. Any

carcass cuts that Country Natural Beef does not buy back are retained by AB Foods at commodity beef prices. Like Beef Northwest Feeders, AB Foods is a strong strategic partner.

Distribution partners. Country Natural Beef has no involvement with the distribution of its meat products. Its products are delivered to customers on AB Foods trucks.

Strategic partnerships replace capital and expertise. The Country Natural Beef business model features the use of strategic partnerships to replace the need for internally or externally generated capital (no bricks, mortar, trucks or debt) and much post-production expertise (See cross-case study observations #9 and #13).

Developing effective supply chain logistics. In addition to values-based business relationships, successful value chains require increasingly sophisticated logistical systems as they grow larger and more complex (See Appendix A). Country Natural Beef's logistical system includes:

Production and aggregation. Over 47,000 head of cattle were sold by Country Natural Beef in 2006, coming from nearly 100 ranching families. Cattle and rancher numbers remained stable in 2007.

1) ***Supply control.*** Given the growth cycle of cattle, Country Natural Beef's Production Internal Partner works with ranchers 18 months before their cattle are placed at Beef Northwest Feeders. The cooperative recruited larger ranches during the rapid growth years of 2000-2005. When growth slowed in 2005, recruitment of new co-op members eased off and selected ranchers pulled cattle out of the pipeline. These ranchers were honored at the co-op's 2005 winter membership meeting (Country Natural Beef's semi-annual meeting, author's observations, 11/30/05-12/02/05). As commodity beef prices were high at that time, these ranchers were not penalized economically. Had they been, they would have been compensated, as was the case when Country Natural Beef lost markets in three New Orleans Whole Foods stores during hurricane Katrina (Doc and Connie Hatfield, interview, 08/15/08) (See cross-case study

observation #2). For parallel supply control dynamics at Organic Valley, see the "Economic sustainability" section of the Organic Valley case study.

2) ***Sequencing control.*** The Production Internal Partner coordinates a sophisticated schedule that assigns member ranches to feedlot placement dates and cattle numbers throughout the year. Ranchers who are willing to breed for difficult calving windows are paid an extra \$3 to \$4 per hundredweight. Country Natural Beef's Hawaiian ranchers also breed during difficult windows. The Marketing Internal Partner places additional cattle in the feedlot to serve as insurance, ranging from 1,000 head in the summer to 3,000 during the winter holiday season (Norm Birch, interview, 01/17/07).

3) ***Quality control.*** At its 2005 winter membership meeting, Country Natural Beef members discussed violations of its standards. The use of growth hormones and the purchasing of cattle from off-ranch are serious violations that would significantly hurt the Country Natural Beef cooperative, and therefore require immediate notification and suspension. Lax environmental stewardship on BLM land and submitting poor-quality cattle to the feedlot are also important violations that require notification, discussion and rancher education (Country Natural Beef semi-annual meeting, 11/30/05-12/02/05).

Processing and distribution. Country Natural Beef's supermarket cuts are processed at the AB Foods' Washington Beef Processing Plant in Toppenich. Additional hamburger processing for Burgerville, as well as other restaurants and food service partners, is done at Fulton Meats in Portland, Oregon. Fulton Meats is a subsidiary of the Sysco food service distribution corporation <www.sysco.com>.

Six warehouses associated with, and owned by, Country Natural Beef's major customers and value chain partners provide storage space. The cooperative neither owns nor rents warehouses. Its beef products are sold to its customers' warehouses at prices negotiated by the Marketing Internal Partner. Country Natural Beef controls its inventory

but doesn't take possession of it. Its products are transported on AB Foods trucks. Sysco provides trucking for Country Natural Beef's accounts served by Fulton Meats.

Accounting. Invoicing, payments and accounting are done by the Finance Internal Partner (See cross-case study observation #6). Country Natural Beef, along with Beef Northwest and AB Foods, is exploring the coordinated adoption of an animal and meat identification system that uses electronic tags (Country Natural Beef semi-annual meeting, 01/09/07-01/11/07). The system will not only provide a secure platform for Country Natural Beef's "Age and Identity Preserved" initiative, but will also create a more accurate database for invoicing, accounting and payment. Additionally, the electronic system can provide useful information for feedlot performance and ranch management decisions. This might include feedback on ranchers' strategies related to animal genetics and pasture management. Finally, Country Natural Beef sees the adoption of an internal electronic identification system as "... a way to stay ahead of a national animal ID system" (Mary Foreman, interview, 01/18/07).

Logistical coordination. An experienced meat industry professional associated with the Marketing Internal Partner coordinates the co-op's logistics. He works with all sectors of Country Natural Beef's supply chain including the internal partners for production, marketing and finance; external production partners including Beef Northwest Feeders, AB Foods and Fulton Meats; and retail customers. This coordination is highly complex and involves the projection of inventory requirements 18 months before cattle are placed at Beef Northwest Feeders, matching sales and production, and accounting for special events such as store openings and holiday seasons. Large kills are scheduled in November and December to meet increased demand for tenderloin and New York steaks during the Christmas season, followed by smaller kills in January and February. Logistical coordination also involves placing extra cattle in the feedlot as insurance, balancing different cuts to unique retail partners, and adjusting prices to move unwanted inventory (Norm Birch, interview,

01/17/07) (See cross-case study observation #6).

Division of labor among the Marketing Internal Partners. Doc and Connie Hatfield, two of Country Natural Beef's Internal Partners for Marketing, focus on establishing new accounts and responding to troubled or terminated accounts (births and post-mortems in Doc's veterinary terminology), while Marketing Internal Partner Norm Birch focuses on supply chain logistics and short-term pricing decisions. "*Doc and Connie fly at 30,000 feet and I fly at tree top level, communicating with everyone in the forest*" (Norm Birch, interview, 01/17/07).

Administrative efficiencies.

The total costs of Country Natural

"We're in the beef business, not the cattle business."—Norm Birch, Logistics Manager

Beef's administrative services run by the internal partners is 3.5 percent of gross sales, which is a very impressive number by industry standards (Doc and Connie Hatfield, interview, 08/14/08).

Achieving economic sustainability. In successful value chains, commitments are made to the economic welfare of all strategic partners (See Appendix A).

Pricing philosophy. "*We're in the beef business, not the cattle business*" (Norm Birch, interview, 01/17/07). Seeking to escape the roller coaster cycles of the commodity beef market and achieve economic sustainability for its member ranches, Country Natural Beef prices its products to cover members' costs of production, a return on investment and a reasonable profit. Price stability and predictability are advantageous to all value chain members (See cross-case study observation #1).

In 2008, Country Natural Beef developed a written contract with its primary retail partner, Whole Foods Markets. Key issues engaged in the contract included product quality, cost of production-based pricing, lead time, quarterly communications regarding regional product needs, seven-day invoice payments, and a long-term, "green" business relationship (See Appendix C).

Production costs are calculated on an annual basis using a sample of Country Natural Beef ranches. Costs in 2006, based on figures from nine representative ranches, averaged \$1.04/lb. liveweight for an 800-pound yearling. With a three percent profit margin added, the target return came to \$1.12/lb. for an 800-pound yearling (Harry Smith, rancher, report presented to Country Natural Beef ranchers, 01/09/07-01/11/07).

Country Natural Beef ranchers sell live cattle to AB Foods. The cooperative then buys back boxed beef cuts according to a formula based on the price of live cattle. These cuts are shipped to customers via AB Foods trucks. Cuts that Country Natural Beef cannot sell are sold back to AB Foods at commodity prices, resulting in “shrink,” or reduced income for the cooperative. The final prices received by Country Natural Beef depend on multiple factors, including how much of the carcass the co-op must sell back to AB Foods at commodity prices, and how many price cuts must be made to reduce unwanted inventory (Norm Birch, interview, 01/17/04) (See cross-case study observation #3).

Higher rancher costs lead to seasonal price increases for 2007. Prices for 2006 averaged \$1.04/lb. liveweight for an 800-pound yearling. This average price covered production and family living costs for Country Natural Beef ranches, but provided no profit or return on investment. A decision was made by the Marketing Team to strategically raise prices on a seasonal basis, with emphasis on price increases on more expensive cuts during the fall holiday season dating from September 15 to December 31. This seasonal strategy sought to increase average prices paid to ranchers in 2007 to \$1.05/lb. liveweight for an 800-pound yearling (Norm Birch, interview, 01/17/07).

Current price points and returns to ranchers. Country Natural Beef’s pricing structure during the 2007/2008 accounting year yielded ranchers an average price of \$1.06/lb. liveweight for an 800-pound yearling. This price covered costs of production and family living, but offered no additional return on investment. Due to higher input and energy costs in 2008, Country Natural Beef would have needed to earn \$1.13/

lb. liveweight for an 800-pound yearling in order to cover production and transaction costs plus a three percent profit margin. “*This is clearly not economically sustainable over a long period, but we’re waiting to see where the economy goes in the next few months before formulating our new price points*” (Doc and Connie Hatfield, interview, 08/23/08). The average price paid to ranchers during the 2008/2009 accounting year is projected at \$1.10-\$1.12/lb. liveweight for an 800-pound yearling. This price would cover production and family living costs but offer no return on equity.

Payment practices. Country Natural Beef is in the wholesale beef business, and ranchers are paid over a period of time in six installments. The first installment comes at feedlot placement, where the price per head differs depending on the time of year animals are placed. The second payment comes at slaughter, when commodity beef prices are paid by AB Foods. The next two payments are made according to carcass quality. After a designated lot of cattle is closed and graded, payments are made for three levels of quality. If carcasses do not make Country Natural Beef’s minimum grade, they earn the commodity price and the meat is left with AB Foods. The fifth payment is through the age and source verified program for cattle under 20 months old. AB Foods pays a \$10/head premium for what the company is able to market. Finally, any funds left after Country Natural Beef’s administrative costs are paid are divided among ranchers each year. This fits Country Natural Beef’s founding principle of self-financing operating costs rather than borrowing operating funds (See “Historical development,” page 1).

It can take 12 to 18 months for all of these payments to come in, so bankers need to be on board (Mary Foreman, interview, 01/18/07). “*Not all ranchers are willing to maintain ownership of their cattle, pay for trucking to the feedlot and feedlot costs, and wait for full payment ... that’s the downside of being in the beef business versus the cattle business*” (Norm Birch, interview, 01/17/07). Few ranchers left Country Natural Beef between 2003 and 2006, when commodity beef prices were higher than Country Natural Beef’s average price (report from Country Natural Beef chairperson at semi-annual meeting, 01/09/07-01/11/07). A long-time



Founders Doc and Connie Hatfield.

rancher member who sold cattle through Country Natural Beef and commodity channels calculated that, over fifteen years, he averaged \$75 per head more with Country Natural Beef (Country Natural Beef semi-annual meeting, rancher interview, 01/09/07-01/11/09) (See

cross-case study observation #1).

Securing technical support. Country Natural Beef secures technical support through: 1) hiring expertise (logistics managers); 2) paying internal and external consultants (internal partners and early coaching on meeting facilitation); 3) partnerships with experts (AB Foods on age and source verified beef); 4) trading (swapping hunting rights for help on website design); and 5) developing internal expertise (environmental education and internal partner succession planning). Country Natural Beef is currently working with Yale University to evaluate the carbon footprint of its ranching systems (See “Future dynamics” below). The co-op provides technical support to other ranchers and alternative food system organizations. At the request of Whole Foods Markets, Country Natural Beef is actively supporting the development of a sister organization of ranchers east of the Rocky Mountains in Texas, New Mexico and Colorado.

Future dynamics

Internal organizational issues

The new organizational structure. Country Natural Beef’s organizational restructuring, begun in 2007, is generally going well. However, the strict separation proposed between elected team leaders and internal partners has been modified. The management team now consists of team leaders, who represent ranchers and maintain the co-op’s goals and visions, and internal partners responsible

for the technical work of production, marketing and finance. An executive committee composed of a management team coordinator and two elected team leaders has the authority to make decisions between management team meetings.

Leadership succession. Country Natural Beef is looking at how to engage a conscious succession strategy once its founders and leaders decide to step down. This strategy is being honed for the Marketing Internal Partner position, where two younger ranchers have been brought onto the marketing team for a three- to four-year mentorship and transition period prior to leadership. Along with members of the management team’s executive committee, the senior of these two emerging leaders is responsible for current negotiations with Country Natural Beef’s value chain partner, Whole Foods Markets. The junior rancher, who hails from a second-generation Country Natural Beef ranch, is responsible for coordinating the rancher outreach events, including the “adopt-a-store” program. Lessons learned from the Marketing Internal Partner leadership transition will inform subsequent leadership transitions across the organization, as well as the eventual leadership transition in marketing. Country Natural Beef’s succession strategies are grounded in a commitment to activate leadership and management skills within the rancher base, with particular attention to recruiting younger ranchers who will carry on the cooperative’s culture.

Other internal organizational issues. Several sociological dynamics need ongoing attention if Country Natural Beef is to continue functioning as “a special kind of cooperative.” These include active attention to issues of gender and power, and consciously facilitating the full participation of ranch women.

Issues with supply chain partners.

Dissonance with the new leadership of Whole Foods Markets’ protein (meat) division. Though the written contract between Country Natural Beef and Whole Foods continues to be honored (See Appendix C), new leadership in Whole Foods’ meat division has engendered dissonance in the historically close relationship between the co-op and its largest retail partner. This dissonance seems

to be grounded in dynamics associated with the rapid growth of Whole Foods, which required a national meat procurement division. While this shift to national purchasing initially moved Country Natural Beef from partner status to more of a vendor status, that relationship is moving back to the partner status (Doc Hatfield, interview, 09/24/08) (See cross-case observation #11).

Slowdown of the Country Natural Beef expansion east of the Rockies. Dissonance in the relationship with Whole Foods has resulted in a slowdown of Country Natural Beef's expansion east of the Rockies. Sufficient progress has been made to confirm that value chains can replicate through the supportive use of the knowledge base and administrative platform of a mature value chain enterprise.

Other issues. Country Natural Beef has been caught in a labor unionization flap between the United Farm Workers and one of its strategic partners, Beef Northwest. For a description of the issues, see capitalpress.com/Main.asp?SectionID=948&ArticleID=42185 (See cross-case study observation #14).

Economics and efficiencies.

Gaining efficiencies. Country Natural Beef is consciously seeking to gain efficiencies at all levels of the supply chain through improved cattle genetics and grazing management at the ranch level; multi-rancher sharing of backgrounding opportunities at the co-op level; and shared use of electronic animal identification tags with Beef Northeast and AB Foods at the supply chain level. The cooperative is in conversation with a beef industry consultant regarding ways to better compete through efficiency gains (Doc and Connie Hatfield, interview, 08/25/08).

Strategies for a maturing market.

Commodification of "natural foods" and the need for ongoing differentiation strategies. For a good description of how Country Natural Beef has historically differentiated its products, practices and story based on consumer feedback, see the online article "Matching Consumer to Rancher" in *Beef Magazine*: beefmagazine.com/marketing/0801-

[matching-consumer-rancher](http://beefmagazine.com/marketing/0801-)>. *"It's not as easy as finding a niche market and sticking with it ... the niche is always changing. Consumers demand change. If you want to satisfy consumer demand, you have to stay ahead of the curve"* (Mary Foreman, quoted in *Beef Magazine*, see above). Country Natural Beef's current thinking about differentiation focuses on environmental sustainability and social justice. *"Where food service and the institutional trade are heading today is sustainability and social justice. Consumers want to know that the people raising the products are making a decent living. They also want to know if the carbon footprint caused by the food they're eating makes environmental sense"* (Doc Hatfield, quoted in *Beef Magazine*, see above).

A graduate student from Yale University is gathering data from three Country Natural Beef ranches to evaluate various components of the carbon footprint of Grazewell production systems (Doc and Connie Hatfield, interview, 08/25/08).

Diversification beyond Whole Foods. Country Natural Beef recognizes that broadening its retail partner base is important. However, a strategic tension exists between this diversification goal and the goal of maintaining highly efficient logistical and administrative systems that result from doing business at a large scale. Whole Foods orders Country Natural Beef products at a scale that other potential customers currently cannot provide. Many individual Whole Foods stores regularly order more than 65 boxes of Country Natural Beef products weekly, while individual food service locations such as university or corporate cafeterias might use two to five boxes per week (Doc and Connie Hatfield, interview, 08/25/08).

A mature Country Natural Beef: Has Country Natural Beef grown up?

Expansion through replicating associated cooperatives. At its current base in the Pacific Northwest, Country Natural Beef is a reasonably mature enterprise. Its effort to develop a sister organization east of the Rockies is an example of the model advocated by Country Natural Beef logistics manager, Norm Birch. This model focuses on the creation of regionally specified rancher cooperatives that could associate with Country Natural Beef

through the use of existing logistical infrastructure (See cross-case study observation #8).

Positioning value chains in a troubled (and contracting) economy. Country Natural Beef sales were up three to four percent in 2007/ 2008, with “*consumers ordering less expensive meat cuts*” (Doc Hatfield, interview, 09/24/08). To achieve a three percent profit margin in 2008/2009, Country Natural Beef will have to pay its ranchers \$1.19/lb. for an 800-pound yearling. This price exceeds the choke point for consumers. So, Country Natural Beef will seek to cover costs of production “... *and wait out the next several months. ... We’ve lived off our equity before and can do it again. But we all must keep figuring out ways to better communicate to customers and consumers the values behind our products*” (Doc Hatfield, interview, 09/24/08). “*Because of the economy over the past four months, Whole Foods and all of our retail customers have shifted away from their heavy usage of steaks and other middle meats, and now are balanced to the point that we are taking on some steak restaurants for the first time in 22 years*” (Doc Hatfield, email, 10/07/08).

Cross-case study observations

Key Economic Decisions

1. All four enterprises have developed pricing systems based on two principles: 1) supply management and stable pricing, and 2) cost of production-based pricing. Creative work is being done (especially by Shepherd's Grain) to adapt value chain pricing mechanisms to volatile commodity markets.
2. All four enterprises recognize the need to balance supply with market demand through membership numbers. This is relatively easy to do when markets are stable or expanding predictably and much more difficult when demand falls.
3. All four enterprises depend on selling a high percentage of products as identity-maintained, differentiated, higher-value products; and having commodity market options available as back up for unsold product. Both Country Natural Beef and Shepherd's Grain sell their products to processors, yet retain identity, pricing and marketing authority. Their processors can sell their extra inventory into commodity markets, if necessary.
4. It is challenging but necessary for these businesses to communicate the deeper, more complex values that differentiate them from the mainstream. These differences include land stewardship, fair returns to all supply chain participants and maintenance of diverse farm and ranch structures. Shepherd's Grain is a leader in communicating land stewardship values.

Internal Enterprise Decisions

5. The screening of potential new producer-members by existing members in terms of both production capabilities and integrity is an important process for all four enterprises.
6. In all cases, competent managers serve as the pivot persons for the complex and time-sensitive logistical strategies that the supply chains require. As value chain enterprises grow and become more complex, the accounting functions (bookkeeping, invoicing and paying producers) are often the first to be separated off from the logistical bundle.
7. The two more mature cases—Organic Valley and Country Natural Beef—have developed leadership structures that couple farmers and ranchers with food system professionals, and implemented leadership succession strategies that maintain managerial competency and company culture.
8. Several of the case study enterprises are exploring business expansion models based on multi-regional growth and autonomy that build on core company competencies and infrastructure. Organic Valley is a leader in this sort of expansion model.
9. The four case enterprises all display a reluctance to invest in bricks and mortar. While Organic Valley did ultimately choose to build a new headquarters and distribution center, it takes advantage of much infrastructure owned by supply chain partners. The other three enterprises seek to own as little bricks and mortar as possible.
10. All of the enterprises employ farmers and ranchers as business representatives, storytellers and listeners with Country Natural Beef the most successful.

Supply Chain Decisions

11. All four enterprises have moved toward filling an “honest broker/fairtrader” role. The three farmer and rancher-based enterprises earned respect of their supply chain partners and thereby gained this responsibility, while Red Tomato has assumed a fair trader business role. In these roles, the four case enterprises are good examples of business models designed for the protection of a range of collectively important spaces, or “commons.” See Peter Barnes. 2006. *Capitalism 3.0*. San Francisco: Berrett-Koehler Publishers.
12. The enterprises often interact differently with “pioneer/smaller/niche” partners as compared to “follower/larger/mainstream” partners. Shepherd’s Grain is particularly clear regarding these differences. With a few notable exceptions, the value chain partners of the four enterprises are privately owned and not subject to Wall Street pressures.
13. For the three enterprises that deal with processed food products (Country Natural Beef, Organic Valley and Shepherd’s Grain), access to appropriately scaled and regionally located processing facilities has been critical to their success.
14. Value-chain-linked enterprises are particularly susceptible to perceived contradictions within their practices and/or the practices of strategic partners. Examples include Beef Northwest’s labor issues for Country Natural Beef and the family farming flap associated with a large Texas organic dairy farm for Organic Valley.

Appendix A

Values-Based Food Supply Chains: Strategies for Agri-Food Enterprises-of-the-Middle

Steve Stevenson (gwstevenson@wisc.edu) and Rich Pirog (rspirog@iastate.edu)
www.agofthemiddle.org

Definitions and distinctions

The terms *value* and *values* are used in different ways when referring to food production and food business networks.

1. *Value-added* is used to characterize food products that are converted from a raw state through processing that gives the resulting products an incremental value in the market place. An incremental value is realized from either higher price or expanded market. For example, jams, cheeses and pre-cooked meats are considered value-added products.
2. *Value-added* is also used to characterize food products that gain incremental value in the marketplace through differentiation from similar products based on attributes such as geographical location, environmental stewardship, food safety or functionality. Examples of this type of higher value product include locally grown produce, organic or IPM-grown fruits, antibiotic and/or hormone free meat, or functionally specified hops and baking flours.
3. The words *value* and *values* are also used to characterize the nature of certain business relationships among interacting food business enterprises. In general, this collection of relationships is known as a supply chain (see below). When these relationships are expressly based in an articulated set of values, they are becoming known as *values-based supply chains* or *value chains*.

Some people in the agri-food business community use the term value chain to focus on supply networks that deal with food products given incremental value through processing and/or attribute differentiation (#1 and #2 above). **In the Agriculture of the Middle (AOTM) and Association of Family Farms (AFF) initiatives, the term values-based value chain embraces both product differentiation and the characteristics of the business relationships within a food supply network.**

A *food supply chain* is a network of food-related business enterprises through which products move from production through consumption, including pre-production and post-consumption activities. Typical links in the supply chain are:

inputs → producer → processor → distributor → wholesaler → retailer → consumer

For example, a food supply chain featuring pork products might include feed suppliers or veterinarians, a cooperative of farmers, meat packing and fabrication plants, food distributors, marketers, supermarkets and consumers. Pre-production activities might include university-based research and development, and post-consumption activities could include waste disposal and recycling, while government regulations would likely be engaged throughout the chain. Increasingly, supply chain analyses also are including such pre-production links as agricultural research (e.g., genetics) and post-consumer links such as waste disposal and recycling <www.valuechains.org/valuechain.html>.

Conventional food supply chains exhibit the following key characteristics:

1. Business relationships within the supply chain are often framed in win-lose terms, with resulting levels of inter-organizational mistrust. Relationships are constructed as competitive, even adversarial, whereby each company seeks to buy as cheaply and to sell as expensively as possible.
2. Farmers, ranchers and fishers are treated as interchangeable and exploitable input suppliers, often operating in restricted markets or under short-term contracts where they usually bear the risks.
3. The benefits and profits from the selling of finished food products are unevenly distributed across the supply chain, with food processors and marketers usually receiving a disproportionately higher share.

4. Operations are increasingly located and coordinated on a national and international scale, with food production, processing and marketing sited according to short-term economic gains for those parties who dominate the chain.

Traditional food supply chains can handle both undifferentiated (commodity) and *value-added* food products.

Values-based food supply chains differ from traditional food supply chains in the following important ways:

1. Business relationships among *strategic partners* within value chains are framed in win-win terms, and constructed on collaborative principles that feature high levels of interdependence and inter-organizational trust. All value chain partners have a strategic interest in the performance and well-being of other partners.
2. As producers of differentiated food products, farmers, ranchers and fishers are treated as strategic partners with rights and responsibilities related to value chain information, risk-taking, governance and decision-making.
3. Commitments are made to the welfare of all strategic partners in a value chain, including appropriate profit margins, living wages and business agreements of appropriate duration.
4. Operations can be effectively located and coordinated at local, regional, national and international scales.

These *values-based food value chains* are distinguished from traditional food supply chains by the combination of how they differentiate their products (food quality and functionality, and environmental and social attributes) and how they operate as strategic partnerships (business relationships). **Value chains can be smart from both business and ethical perspectives.**

Mid-tier food value chains are values-based strategic alliances between midsize, independent (often cooperative) food production, processing, distribution and sales enterprises that seek to create and retain more value on the front (farmer/rancher) end of the chain, and effectively operate at regional levels with significant volumes. Significant volumes for these value chains normally range between quantities handled by commodity systems and amounts produced for direct marketing. Regionality will vary with geography, geographic identities, food products and market demographics.

General characteristics of values-based value chains

Value chains have the capacity to combine scale with product differentiation, and cooperation with competition, to achieve collaborative advantages in the marketplace.

Value chains are successfully employed in such higher-volume, complex product industries as cars and trucks, consumer electronics and high-end apparel. The automobile industry provides good examples of cooperation within supply chains and competition between chains.

The Toyota value chain¹ is a good example of distinguishing between strategic (value adding) partners and non-strategic suppliers—makers of engines and transmissions contrasted with makers of belts and hoses:

- a. Successful value chains choose strategic partners that bring distinctive competencies but similar values, visions and goals.

Value chains contrast with two other models for complex business networks:

- a. Competitive bidding (arm's-length) relationships with suppliers; and
- b. Internal ownership of business activities (vertical integration).

¹For more information on Toyota, see:

Dyer, Jeffrey. 2000. *Collaborative Advantage: Winning Through Extended Enterprise Supplier Networks*. New York: Oxford University Press.

Handfield, Robert, and Ernest Nichols Jr. 2002. *Supply Chain Redesign: Transforming Supply Chains into Integrated Value Systems*. Upper Saddle River, NJ: Prentice Hall.

Value chains outperform other complex business models in rapidly changing markets.

Value chains emphasize high levels of performance and inter-organizational trust.

High levels of performance are essential to consistently deliver high quality products and services:

- a. Develop appropriate standards and conduct performance evaluations across the entire value chain;
- b. Employ quality assurance systems (with realistic allowances for surprise events);
- c. Employ continuous improvement systems and target support for underperforming partners in the value chain.

Inter-organizational trust among strategic business partners is pivotal:

- a. Inter-organizational trust is the mutual confidence that business partners will fulfill their agreements and commitments and will not exploit each other's vulnerabilities;
- b. Inter-organizational trust is different from interpersonal trust: the trust will still be in place even if key people leave their respective organizations;
- c. Inter-organizational trust is built upon the fairness, stability and predictability of agreements among strategic partners.

Value chains emphasize shared values and vision, shared information (transparency) and shared decision-making among the strategic partners.

Strategic partners need to share common values and a common vision regarding product quality, partner relationships and customer treatment.

Successful value chains develop effective systems for sharing information and governance:

- a. Shared information (transparency) improves productivity, enables rapid response to market changes and effectively engages discriminating customers. The Dell computer company, which has eliminated retail outlets and middlemen by selling custom-made computer systems directly to customers over the internet, employs a particularly effective information system to communicate with customers and strategic business partners;

- b. Shared governance means all strategic participants benefit from the value chain's business, and all have a say in business developments.

Value chain governance can be framed in familiar terms and mechanisms:

- a. Legislative (setting standards for the chain);
- b. Judicial (monitoring performance in the chain);
- c. Executive (coordinating procedures and flows in the chain).

In successful value chains, all partners experience an authentic sense of fairness and justice:

- a. Distributive justice, where rewards and profits are distributed fairly among all value chain partners;
- b. Procedural justice, where rules of business in the value chain are experienced as fair by all partners.

Value chains make commitments to the welfare of all strategic partners in the chain, including appropriate profit margins, fair wages, and long-term business agreements.

Partners in Japanese value chains express their relationships as "co-existence and co-prosperity:"

- a. Partners have strategic interests in the others' welfare;
- b. Together, they race to the top instead of the bottom.

Strategic partners are rewarded through agreed-upon formulas for adequate profit margins above production and transaction costs, and for adequate returns on investment:

- a. Cost-based pricing in which profit margins of strategic partners are built in from the beginning;
- b. Living wages and supportive workplaces for employees of strategic partners;
- c. Community-supporting business practices, e.g., opportunities for local community investment in value chain businesses

Cost-based pricing requires a high degree of information sharing regarding sensitive economic data:

- a. Sharing economic information can be a challenge for new value chains;
- b. All partners are required to know their true cost structures (production and transaction costs);
- c. Ongoing cost reduction strategies across the chain result in shared benefits.

Successful value chains are built upon long-term strategic partnerships:

- a. Agreements and contracts are for appropriate, extended time periods;
- b. Extended agreements provide confidence for investment in new productive or cost-saving assets;
- c. Legal contracts are often relaxed with development of substantial trust in mature value chains. Strategic relationships are increasingly held together by mutual obligations and opportunities, not legal force.

Additional applications to mid-tier food value chains

Mid-tier food value chains are appropriate for situations in which regionally oriented markets are developing for significant volumes of differentiated, value-adding food products.

1. The combination of significant volume and differentiated food products corresponds to the needs of a growing food service sector of the U.S. economy. Examples include Bon Appétit Management Company <www.bamco.com>, Hot Lips Pizza <www.hotlipspizza.com>, Sysco <www.sysco.com> and Shepherd's Grain <www.shepherdsgrain.com>.
2. Regional supermarket and restaurant chains seeking to distinguish themselves from national chains are also likely candidates for value chain partnerships. Examples include New Seasons Market <www.newseasonsmarket.com>, Burgerville <www.burgerville.com> and Oregon Country Beef <www.oregoncountrybeef.com>.
3. As evidenced by these four case studies, significant opportunities are emerging for farms-, ranches- and fisheries-of-the-middle.

Horizontal collaborations are often required to assemble sufficient volumes of differentiated food products for mid-tier value chains.

1. Multi-lateral collaborations such as co-ops and Limited Liability Corporations (LLCs). Examples include Organic Valley <organicvalley.coop> and Thumb Oilseed Producers <www.thumboilseed.com>.
2. Bi-lateral collaborations such as aggregating firms. Examples include Niman Ranch <www.

nimanranch.com> and Laura's Lean Beef <www.laurasleanbeef.com>.

Appropriate standards and efficient methods of third-party certification are applied throughout the value chain.

1. Standards related to key value chain dimensions (for example, food quality, environmental stewardship, animal welfare, workplace conditions and business ethics);
2. Efficient, computer-based certification systems.

Farmers and ranchers can maintain ownership and control of brand identities on food products throughout the value chain.

1. Development and defense of regionally meaningful identities and brands;
2. National seal to support regional and local brands.

Given historically adversarial business models in traditional U.S. food supply chains, it will likely take time for all strategic partners in new food value chains to become comfortable with alternative business models based on trust and organizational interdependence.

1. Participatory governance structures will be particularly important for food value chains that engage strategic partners of differing size and experience;
2. Non-strategic partners will likely be rare in mid-tier food value chains.

Challenges faced by farmers, ranchers and fishers when constructing mid-tier food value chains

Farmers, ranchers and fishers face several types of challenges in building mid-tier food value chains:

Finding appropriate value-chain partners and developing mechanisms for building trust, transparency and decision-making;

Determining effective strategies for product differentiation, branding and regional identity;

Developing food quality control systems that address weather, seasonality, multiple production

sites and quality-preserving distribution mechanisms;

Determining appropriate strategies for product pricing that are based on understanding true cost structures. Two contrasting strategies are cost-based pricing and paying premiums above commodity market prices;

Building sufficient trust among competing producer groups to form networks of farmers, ranchers and fishers large enough to supply significant and consistent volumes of high-quality, differentiated food products;

Acquiring adequate capitalization and competent management;

Accessing adequate technical, research and development support;

Creating meaningful standards and consistent certification mechanisms across the value chain; and

Developing equal economic power for value chain negotiations.

Appendix B Historical document and wagon train analogy



10.10.2008

“The rung of a ladder was never meant to rest upon, but only to hold a man’s foot long enough to enable him to put the other somewhat higher.”
 ~ Thomas Henry Huxley

Please review the following two documents. The first was written about twenty-two years ago. Doc found it and shared it with Jack Southworth; you will notice that they wrote it together with an early member. The second, is recently created as “where we are now” present situation.

This futures report was part of the original Country Natural Beef planning session with Don Green from the Savory Center. Don also had us do a present situation report which I can't find. In summary the present situation in September 1986 was that Country Natural Beef had beef in Newport Market in Bend and Zupans in Portland. Our beef had been on the market one month when this was written. We were processing 2-3 head per week and selling cattle packs. Our main attributes were no hormones, no feed antibiotics and a direct connection with the ranch families growing the beef. The dairy buyout was the final blow in the long chain from 1981-1986 that wiped out so many family cattle ranches. Falling land values, double digit interest rates and 5 years of very low prices had taken their toll. The Country Natural Beef concept was not a philosophical discussion. All of us had lived on our equity too long. The situation today in 2008 is the first time very major changes are occurring similar to that time.

Futures Report ... Country Natural Beef ... September 20, 1986 By Earl Bates, Doc Hatfield and Jack Southworth

Numerous books and articles cite data indicating the financial problems of ranchers are part of a major turnabout in the U.S. and world economy. We are entering a high-tech, high-touch era different from the mass-production, cheap-energy, throw-away society of the past 40 years. Megatrends, by Naisbitt, and The Next Economy, by Paul Hawken, are two books which make sensible explanations of the changes our country is experiencing.

We will continue to be dealing with a better informed consumer that is more interested in receiving value for dollars spent than in the past. That value can be in the form of a perceived healthier product for the health oriented consumer. For the active lifestyle consumer who eats on the run, the value may be in a portion controlled product that is easy to prepare. Since national studies place over half the consumers in the health and active lifestyle categories, these segments represent a major market.

Most information points to these trends increasing ... they are not just fads. People are becoming more health oriented. Traditional families with a mother at home, with the time to spend preparing elaborate meals, are a small minority of today’s population.

These trends, plus tax changes which limit the incentive to own land, all play a role in the future of the beef industry. No longer can cattle ranchers survive on inflation, low interest rates and appreciating land values. The future for traditional commodity beef with no history of background or potential performance is not bright. Although cattle numbers are down, price has not increased proportionately. Chicken has shown an increase in pounds produced and increased in price at the same time. It would be hard to find a more convincing example of our times.

Our future depends on separating our product from commodity beef. The following three paragraphs by Jack Southworth explain why this separation is so important.

Self determination, the right to achieve to one's potential, is one of the assumed, basic human rights we exercise in the United States. However, in the realm of agriculture production, this right has been arrested by the assumption that almost all agricultural products are treated as commodities, veritable peas-in-a-pod. A commodity eliminates uniqueness, in fact, abhors it. For a commodity to exist requires the perception that all of its ingredients are the same.

When a commodity is marketed by the producer, there is no reward to him for superior quality or performance. The only reward to a producer is to produce as much mediocre product as cheaply as possible. In the long run, the producer's situation becomes untenable. To be satisfied with ourselves, we must take pride and receive satisfaction from the things we do for our livelihood. A marketing system that inadequately rewards the producer creates dissatisfaction within ourselves and causes slovenly and shortsighted results in our work.

The goal of Country Natural Beef is to create a tenable and long lived marketing system for a handful of ranchers. It must be a system that rewards quality, good husbandry and the far sighted approach to resource management. Providing the consumer with an alternative beef product is one possible means of accomplishing this goal.

Just being there did not guarantee success for the railroads. The same is true for agriculture, including beef production. There are too few in agriculture and too many on the consumer end to expect government bailouts to save our sinking ship. And why should the government guarantee any producer of any product a profit? The time has come for producers to grow products only when they recognize a potential market for their goods before they produce them.

The traditional nature of the cow business and its basic lack of change in the past provide a great opportunity for those willing to seize it. Most great opportunities occur during times of major change. The decade of the 80's obviously is one of those times.

The future for commodity beef is not bright in the near future. However, an increasing share of a declining market can be very profitable. Country Natural Beef, with its ability to constantly adjust its product to fit the times, has great potential for the future regardless of the price of commodity beef.

Furthermore, the high-tech, high-touch society that is developing is tailor made for a grass roots producer owned, controlled, and communicated product. Because computers and machines are so much a part of most peoples' lives, they feel a need for more high-touch aspects in their products and relationships. The success of "Bartels and James" wine cooler advertising is a good example of this consumer appeal for personal feeling in a product.

The future for Country Natural Beef couldn't be brighter. All we need is to learn to work together to ensure

a consistent, year around supply. That supply plus constant adjusting and expanding of our product to meet consumer needs will place us in an extremely strong position in five years. It won't be easy and it won't be the same as it has always been, but the opportunity is very clear.

This recently created document is from Jack; who first used the analogy of Country Natural Beef resembling a wagon train many years ago. These members of the wagon train know the general destination but not the exact route. As a group, we refer to the wagon train frequently to help us understand how the "whole" moves forward, toward the same goal, under the general direction of the members with the Internal Partners / Team Leaders as guides.

If you don't mind a Q and A format, here's what I've been thinking: October 2008

Q: Who owns the wagon train?

A: No one owns the wagon train as a whole. What is owned is the right to guide the wagon train. Individuals own their individual wagons and the contents of their wagon.

Q: What is the current state of the wagon train?

A: Well, we're kind of scattered. Most of us are sticking together but we've had a few turn around and go back to Missouri or just separate from the train. Feed is short (high feedlot costs); we've had more than our share of Indian attacks (UFW) and the dust for some folks has just been terrible (OP). And we just arrived at Fort Hall and found that it is low on provisions it can sell us (credit crisis).

Q: So why are people still a part of the wagon train?

A: Because as hard as it is together, being alone on the plains right now seems horrendous. Sure, the feed's short, but we've altered our route a little and are making it. Sure, the Indian attacks are causing some fear, but as a group we're too big to be wiped out. Definitely, the lack of provisions at Fort Hall is a disappointment, but we've inventoried each other's supplies, and found by buying some at Fort Hall and exchanging between us, we'll be OK.

Q: Does this wagon train ever end?

A: Yes, each year. Every one of us delivers goods in our wagon to Fort Vancouver at an established price that we agreed upon before we set out. Sometimes it is less than the current market, but we were able to make our plans all the way across the plains based on that price. Next year is another wagon train. Certainty of price means a lot to us. What we can't have happen is to arrive at Fort Vancouver and discover there is no market for our goods.

Q: So what's the secret to making this wagon train work that no one owns?

A: Be fair. Be respectful. Communicate well and often. Always try to keep in balance the guides' expertise versus the needs of the members of the wagon train to know what's going on. Try not to blame the guides for drought, Indian attacks and sick oxen. Try not to blame the members of the wagon train for getting worn out and disappointed.

From the Marketing team:

Doc and Connie Hatfield	541.576.2455	Norm and Jennifer Birch	360.254.6380
Bob Otey	503.667.5822	Dan Barnhart	541.929.6263
Travis and Cynthia Hatfield	541.576.2454	Dick and Mary Bradbury	541.947.2711
Becky Hyde	541.533.2756		

Appendix C Beef Purchasing Agreement

BEEF PURCHASING AGREEMENT BETWEEN

**COMPANY PURCHASING, L.P. and
COUNTRY NATURAL BEEF (“CNB”)**

EFFECTIVE DATE: TBD

WHEREAS, CNB is in the business of producing cuts of beef from cattle raised under CNB’s system of sustainable practices which meet Retailers standards and which in addition have been approved and certified by the Food Alliance, a non-profit organization that promotes sustainable agriculture (the “Products”); and

WHEREAS, Retailer is the owner, operator, franchisor, licensor, agent, or manager of retail outlets selling food and other items to consumers, as well as certain other related lines of business, including food service management operations;

WHEREAS, Retailer desires to source a stable and reliable supply of healthy food products for its customers and consumers at prices not tied to commodity pricing;

WHEREAS, CNB desires to establish a stable and reliable market for its Products at prices not tied to commodity pricing;

WHEREAS, CNB’s system of sustainable practices and humane handling begins with calving, and CNB’s business operations require eighteen (18) month lead times for production of finished Products;

WHEREAS, Retailer and CNB desire to establish a long-term and sustainable business relationship for the supply and usage of Products;

WHEREAS, CNB and Retailer acknowledge the necessity of good communication and advanced planning (on at least a quarterly basis) for matching the availability of CNB’s Products to Retailer’s requirements to fill orders without shortages or allocations and that this will require direct communication between the Retailer National Meat Purchasing Office, Meat coordinators for the regions CNB serves and the CNB’s inventory manager to assure proper inventory placements to the appropriate Whole Foods Warehouses.

WHEREAS, CNB and Retailer desire to create a link between the family ranches that are members of CNB, who raise beef cattle under CNB’s system of sustainable practices, and chefs, food service purchasers and consumers to facilitate the creation of a more personal relationship between the ranchers who steward the land and raise food and the consumers;

WHEREAS, the parties desire that CNB ranchers will have direct relationships with the team members of Retailers and that these relationships provide sustainability for the ranches and a unique product for the markets of Retailers To establish and support this connection, Retailers and CNB will formally develop an “in-store, on-ranch” strategy to further the link between the land and the consumer. CNB and Retailers will develop personnel with specific responsibilities for the development, support, continuation and accountability for this program;

WHEREAS, individual ranchers, who are members of CNB, in reliance on Buyer’s obligations

under this Agreement, have and will continue to incur obligations and expenses to raise cattle from birth to fill the Buyer's orders under this Agreement; and

WHEREAS, CNB and Retailer have entered into this agreement, entitled "Perishable Purchasing Agreement," governing the terms for the purchase and sale of Products by CNB to Retailer.

THEREFORE, the Parties make the following agreements.

1. Purchase and Sale. This agreement (the "**Agreement**") governs the terms upon which CNB, on behalf of itself, its affiliates, agents and suppliers ("**CNB Supplier Parties**") will manufacture, package, label, ship and sell products identified on Exhibit A (each individually a "**Product**" and collectively "**Products**") to RETAILER Purchasing, L.P., and/or by any of its affiliated entities ("**Buyer**") and the terms upon which Buyer will purchase Products from CNB. Buyer will order Products by region ("**Region**") through the applicable Region's office, distribution center, store or national facility. Additional service sought by buyer will be defined as Addendum's to Exhibit A

a. Sales Forecasts Until the expiration or earlier termination of this Agreement, on or before April 1 each year (the "Annual Meeting"), the parties will meet and discuss and reach agreement on the volume of Products (broken down by specific cuts) (the "Annual Volume") to be effective for the Fiscal Year beginning on October 1 next following. A rough estimate of the volume needed for the following fiscal year beginning some 18 months later will be noted at this time and reviewed and adjusted at each quarterly meeting. CNB and Retailer will maintain open and frequent communications to ensure that the forecasting of supply meets the needs of the market. Because CNB raises all cattle from birth, CNB's must make supply commitments 18 months in advance to supply live cattle for the boxed beef inventory needs of its customers. Accordingly, Retailer and CNB must confer continually about the volume under this Agreement. This Agreement reflects a long term supply chain relationship, and both Parties recognize that unexpected volume swings, whether up or down, can have significant adverse consequences on supply, fill rates and surplus inventories, all of which the Parties desire to avoid. Until the expiration or earlier termination of this Agreement, on or prior to the beginning of each Calendar Quarter, the Parties will meet and discuss the Annual Volume, meat case and prepared foods applications, seasonal items and holiday projections, monthly usage per cut and fill rates.

At the Quarterly meeting the Parties will make such adjustments, up or down (but not by more than 10% unless the Parties otherwise agree), as may be necessary to reflect changes in conditions which were the basis of assumptions made at the Annual Meeting. At the Quarterly meeting, the Parties will establish the volume of each specific cut to be sold by CNB to Retailer and to be purchased by Retailer during that Calendar Quarter (the "Quarterly Volume"). Retailer meat coordinators and CNB need to maintain open communication for Product flow so that CNB can adequately and timely supply Retailer to meet its market needs. Retailer and CNB will determine the Product SKUs and volume of each to be maintained at warehouse level, through close weekly communication with each warehouse manager.

b. Purchase and Sale. CNB agrees to sell to Retailer and Retailer agrees to purchase from CNB during each Calendar Quarter the Quarterly Volume established for that Calendar Quarter at the prices established under to this Agreement. (not sure that the following paragraph should be here.....it makes a grey fluid relationship too black and white and could bite us worse than it might bite retailer) In the event that in any Calendar Quarter a Party fails to sell or to purchase, as applicable, at least 90% of the Quarterly Volume established for that Calendar Quarter, a Party that has fully performed its obligations under this Agreement shall have the right to suspend their performance under this Agreement; to terminate this Agreement upon the expiration of 30 days prior written notice to the other Parties; and to pursue such additional remedies as may be available at law or in equity.

c. To schedule delivery of Products, the Buyer will deliver to CNB a purchase order number (a **“Purchase Order”**). Payment shall be made by Buyer to CNB prior to the seventh (7th) day after delivery of Products and receipt of a correct Invoice for such Products. Neither this Agreement nor any Purchase Order may be modified by any terms in an invoice or other shipping document without written agreement of the parties. However, if CNB is unable to deliver the quantity requested in a Purchase Order, CNB will notify the applicable representative of the Region issuing the Purchase Order.

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Organizations involved with this report:

The National Task Force on Renewing an Agriculture of the Middle is concerned with a disappearing sector of mid-scale farms/ranches and related agrifood enterprises that are unable to successfully market bulk commodities or sell food directly to consumers. See www.agofthemiddle.org or contact convening chair Fred Kirschenmann, Iowa State University, 515-294-5588, leopold1@iastate.edu; or administrative chair Steve Stevenson, University of Wisconsin-Madison, 608-262-5202, gwsteven@wisc.edu. The task force has three areas of emphasis:

New business and marketing strategies will seek to create business networks or “value chains” that link farms/ranches-of-the-middle with food system partners to meet a growing demand for differentiated, high-quality food products. Currently operating as the Association of Family Farms.

Public policy changes include those that can be secured in the relatively short term that directly affect middle market development, and more systemic policy changes over an extended period of time that will fully equalize economic environments for farms/ranches-of-the-middle.

Research about and education support from scientists associated with the initiative and land-grant university community on the business and policy strategies, at both the regional and national levels.

The Center for Integrated Agricultural Systems (CIAS) is a research center for sustainable agriculture in the College of Agricultural and Life Sciences, University of Wisconsin-Madison. CIAS fosters multi-disciplinary inquiry and supports a range of research, curriculum and program development projects. It brings together university faculty, farmers, policy makers and others to study relationships between farming practices, farm profitability, the environment and rural vitality. For more information, visit www.cias.wisc.edu or call 608-262-5200.

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Photos from Country Natural Beef.