

## **1.0 EXECUTIVE SUMMARY**

This document outlines a business model and plan to establish a local meat-processing and marketing service for producers in the Kenora District Federation of Agriculture. The plan calls for the utilization and enhancement of local capacity to provide price and market stability to area producers. Following community economic development principles, the plan seeks to match local production with local consumption.

Conceived as a New Generation co-operative, the new entity requires members to invest \$200 per delivery share, and expects that 380 delivery shares will be sold. Each delivery share will require a producer to provide one head of beef cattle (or bison) or 6 hogs for processing. This will generate \$70,000 in member equity.

Total capitalization is projected at \$234,000 with annual sales in excess of \$553,000. This will create 3.5 full-time jobs as well as provide additional revenues to the local abattoir and potentially increase sales for two regional retail co-operatives.

Implementation of this plan requires area producers to work co-operatively and do things differently in the past. In exchange for this extra effort, producers can expect a modest return on investment, and to be somewhat insulated from the arbitrary consequences of international trade disputes and high levels of concentration within the meatpacking sector.

## **2.0 BUSINESS CONCEPT**

The feasibility study conducted on behalf of the Kenora District Federation of Agriculture concluded that a project to create local capacity for value-added processing of meat would be the best prospect for further development. This determination was made in light of several factors. Firstly, there is a critical mass of livestock operations in the area that would mean potential benefit could impact the largest segment of the Federation membership. Secondly, there is some significant local capacity that can contribute to such a project. Thirdly, the BSE crisis has both illustrated the wisdom of maintaining local processing capacity, and has created a public interest in purchasing locally grown meat.

This business planning exercise starts from the conviction that local production for local consumption is the soundest basis on which to develop agriculture in the district. The plan strives to find a solution that will meet the expressed goals of local producers. These goals include maintaining a secure local market for their livestock and creating price stability. Predicting higher beef prices after the borders open up may not be accurate. At least one livestock economist believes that pre-BSE prices were set to fall not as a result of the border closure, but as a consequence of the rising Canadian dollar.<sup>1</sup> Another report indicates that cattle prices will continue to be under pressure not only from over supply, but from increased handling costs related to BSE and to currency fluctuation.<sup>2</sup> Beef exporters saw a 20% decline in their 2004 prices related solely to the rising Canadian dollar, and some of this has been passed on to producers.

Some of these issues can be addressed by a local processing strategy, but while producers want to achieve the benefits of working together, but are reluctant to surrender too much of their independence to produce as they see fit.

This section of the business plan describes the business concept in detail, starting with a brief description of the industry. It then examines existing capacity in the Dryden area, including producers, the local abattoir, and a cut-and-wrap facility. It then goes on to describe a conceptual business model to be utilized, that will meet the project goals and take best advantage of existing capacity.

### **2.1 Industry Description**

In 2001, there were over 90,000 Canadian farms and ranches with beef cattle, and an average herd size of 53 head. By 2004 this represented over 5 million beef cattle in Canada, the largest single source of farm cash receipts. In 2002, beef production

contributed \$30 billion to the Canadian economy, but by 2003 impacts from BSE reduced this to \$21 billion. In 2002, 60% of Canadian beef and cattle were exported, and 87% of these exports went to the U.S. By 2003, the BSE crisis reduced this so that only 34% of Canadian beef and cattle were exported.<sup>3</sup>

In recent years, the beef and meat-packing industries in Dryden are similar to many other Canadian communities. Local producers tend to be concentrated in cow-calf operations, and send their cattle outside the community for finishing. In the case of Dryden, unfinished animals have historically gone either south to the U.S. or to the large feedlots in Alberta, where most of the largest meat-packing concerns maintain processing plants.

Most of the beef consumed in Dryden is trucked into the community by local retailers, who buy from the federally-inspected plants in Alberta. It is conceivable that a hamburger consumed in Dryden may have made a 3,000 kilometer round trip to Calgary for processing. The Meyers Norris Penny report indicates that the meat packing industry “is highly concentrated, with the top four processors slaughtering 89% of federally inspected cattle.”<sup>4</sup> Most major grocery retailers enter into contracts with large meat-packing concerns to supply stores nationwide.<sup>5</sup>

The vulnerability of beef (and pork) producers to external out-of-community factors has resulted in developments along three themes: food safety, dependence on exports, and local processing capacity.

### 2.1.1 Food Safety

As far back as 2002, there were clear indications that food safety was a critical issue for agriculture. At that time, the Agriculture Minister Lyle Vanclief was advocating that farmers need to close the “disconnect” between themselves and consumer expectations regarding food safety. He was advocating a move towards Hazard Analysis Critical Control Point process (HACCP), and identity preserved systems.<sup>6</sup>

Interest in custom slaughter and producers retailing directly to local consumers had been rising prior to the BSE crisis, and included producers of bison, goat, and lamb in addition to beef and swine.<sup>7</sup> Bison are seen by some as an alternative worth exploring either because of BSE or more general concerns about growth hormones, antibiotic use, or animal by-products in feed. At present, the U.S. sees 31,000 head of bison slaughtered annually.<sup>8</sup>

The consumer concern over food safety issues are inextricably linked with animal welfare issues and product quality. A recent research project in Manitoba examined alternative food distribution systems and found that consumers tended to place a high value on food they felt was “natural”, a term that seemed to embrace elements related to higher quality, fewer additives, and a better quality of life for the animal. Many consumers seemed ambivalent about organic or Humane Society certification, but did want more natural production methods.<sup>9</sup>

Of course the BSE crisis has heightened consumer awareness of food safety issues related to meat. At the same time, Canadian consumers have reacted to the crisis by eating more beef, demonstrating their belief that the Canadian beef supply is essentially safe.<sup>10</sup> Some inquiries were made regarding the potential market niche for “BSE-free” beef that has been 100% tested. The results of those inquiries are detailed in Appendix G, but it is clear that at least in the short term, this option will not be permitted by the Canada Food Inspection Agency, which appears to be moving in lockstep with the large meatpacking concerns.

Although it appears that the borders are poised to re-open to Canadian beef, the BSE issue will continue to impact the industry for some time. At one point during the crisis, pundits were suggesting the future division of Canada into two distinct bio-security zones with no livestock movement between the two, so that any future outbreaks would only impact half of the country. The consultants did not find any indications that such a development is imminent or even commonly endorsed, but if it did become policy, the impacts on Dryden area farmers would be severe. Advocates of such a policy identify the Ontario-Manitoba border as the logical dividing line for such zones. Such a policy would place Manitoba auction marts, Alberta packing houses, and all feedlots in the west out of bounds, forcing all livestock to be shipped east around the Great Lakes at much higher cost.

The development of local markets and processing capacity can serve as a hedge against border closures related to food safety issues. The development of this local capacity should be undertaken with a view towards high standards of food safety practice in order to reinforce the competitive advantages of local producers.

### 2.1.2 Dependence on Exports

The BSE crisis has illustrated how vulnerable Canada’s beef-producing sector is as a result of export-based production. But the re-opening of the Canada-U.S. border to Canadian beef, while a welcome development, may not be the end of producer vulnerabilities flowing from an export-based strategy.

On October 20th, 2004, the U.S. imposed preliminary anti-dumping duties of 14% on Canadian hogs shipped to the U.S. This duty, to be paid by the importer of record, will likely reduce the demand for weanlings currently bought by U.S. hog feeders. If the duty is upheld, Canadian hog producers will have little ability to respond. Not only does the \$5 per head represent almost all of an already thin margin, but even if Canadian producers wanted to absorb this additional cost, it would likely trigger a further trade challenge. This is an example of an export strategy vulnerability based not on bio-security or food safety, but on protectionist trade practices in the U.S.<sup>11</sup>

Some industry observers feel that smaller scale producers are less vulnerable to the volatility of the pork market. Pork producers and their income are threatened by packer concentration, potential for restricted trade (through tariffs or bio-security concerns) or by currency fluctuation. Dips in profitability tend to chase out passive investors in the sector such as lawyers, doctors or accountants, while the small scale producer is more likely to stay in. They are able to do so because of their passion for their operation, and through tangible competitive advantages such as producing their own feed and supplying their own labour.<sup>12</sup>

These smaller scale producers are more likely to pursue specialty and niche markets, including local markets. While cow-calf operations tend to be less capital intensive than modern hog barns and see fewer passive investors, the flexibility of smaller producers is the same. They are more likely to be able to produce for local and niche markets. Meyers Norris Penny conclude that within the meat packing sector, there is *“opportunity particularly in niche markets that provide higher product value.”*<sup>13</sup>

### 2.1.3 Local Processing Capacity

Farmers and ranchers have learned that relying exclusively on the large meat packing concerns is no guarantee of being able to ship their livestock. As a result of the border closures, there have been a number of initiatives to re-establish local processing capacity throughout the western provinces. Meyer Norris Penny report that by the end of 2005, Canada will increase beef processing capacity to 4.6 million head annually or 92% of domestic production.<sup>14</sup> As recently as January 18th Rosanne Wowchuk, Manitoba Minister of Agriculture, Food and Rural Initiatives, called for producers to keep their resolve to develop local processing capacity.<sup>15</sup>

Previously, the Winnipeg Free Press called for an upgrade to existing, provincially - licenced meat packing plants. Among other factors cited, they stated that livestock

transportation regulations will be coming under review, and that there is some pressure to harmonize these regulations with European standards. This will result in increased transportation costs, and since meat moves easier than livestock, local packing facilities will have a competitive advantage.<sup>16</sup>

Small, local slaughter facilities may not alleviate the crisis for the beef industry as a whole, but can have important local impact. Oak Ridge Meats, located in McCreary Manitoba was started by eight producers and has a maximum slaughter capacity of 50 head per week. In its first month the plant was slaughtering 36 head per week, with two thirds of those being finished animals. By December, the plant was slaughtering 45 animals per week.

The company originally created 11 full-time jobs in the community. (reported as being up to 14 jobs in December) The company does not appear to have any product differentiation other than purchasing from local producers, meaning that it competes with big packing plants based on price. The facility is 3,200-3,800 square feet in size, and plans called for a natural gas or diesel fired incinerator to burn offal with little odour or ash. Cost of the facility has been reported as \$300,000 to \$400,000.<sup>17</sup>

Rancher's Choice Beef Co-op will be proceeding with developing slaughter capacity in Manitoba. The current plan is to purchase a mothballed U.S. plant and re-assemble it in Dauphin Manitoba. The cost of the project is approximately \$15 million. Beef producers have raised \$1.2 million in shares, with the Manitoba government pledging a combination of \$11.5 million in loans and investment. This amount includes \$2 million that the government had originally asked producers to raise. The co-op must find private financing of \$3 million, but has had some difficulty securing an operating line of credit with the Farm Credit Corporation without an assembled management team and signed contracts for the meat to be processed.<sup>18</sup>

Ontario has also assisted beef slaughter facilities. Gencor, a dairy genetics co-op purchased a closed slaughterhouse in Kitchener and started operations this past summer. This project received \$5 million in loans from the Farm Credit Corporation, \$3 million from CanAdapt, and an unspecified amount from the Ontario Mature Animal Abattoir fund. It is expected to be able to produce up to 400 head a day.<sup>19</sup>

In addition to developing additional slaughter capacity, farmers are utilizing provincially licensed abattoirs and selling directly to consumers. These strategies include niche marketing, internet based marketing, and farmer owned retail meatshops.

Prairie Grass Fed Meats is a marketing umbrella for three Manitoba producers who are selling grass fed beef direct to consumers. They offer individualized cutting instructions and delivery on sides and shared sides, marketing on the strength of the health benefits and low environmental impacts of grass fed beef production.<sup>20</sup>

Another Manitoba producer sells through an internet storefront at *www.manitobabeef.com* a dedicated website<sup>21</sup>. This product is hung for 21 days, and sold as sides, freezer packs, or boxed cuts ranging from 5-20 pounds per box. Free local delivery is also available. The operation markets on local origin, quality and price.

Calvin Vaags, a producer with a mixed farm including 200 head of beef cattle has expanded during the recent crisis by opening a feedlot (up to 1200 head) and a retail meat shop called The Carver's Knife. Located on Regent in Winnipeg, the store aims to sell about 300 carcasses annually. The rest of the feedlot cattle ship to an Alberta packing plant. The retail store markets on local origin, service and quality, hanging the beef for 21 days. The meat is conveyed from the abattoir in quarters, hung in the shop, and cut to customer specification.<sup>22</sup>

## **2.2 Existing Capacity**

Much of the response to the border closure has been to develop new processing capacity. In many instances this seeks to establish federally-inspected plants at a relatively high capital cost. For instance, Meyer Norris Penny estimate a slaughter-only facility with capacity for 50,000 head annually would cost \$8.6 - \$9.2 million.<sup>23</sup> The federal inspection process requires a high volume of animals in order to rationalize the costs related to inspection. Peace Country Tender Beef Co-op or Ranchers' Choice are examples of such a high volume approach. The volume of cattle required to supply such a plant cannot generally be absorbed into local markets, requiring export internationally or at least inter-provincially.

The above approach is not a suitable one for the Dryden area, and by all indications, even the greater number of cattle farmers in the Emo-Rainy River area does not justify such an approach in northwestern Ontario. Consequently, the current strategy seeks to minimize capital investment and to match local production and processing with local demand. An examination of existing capacity is therefore in order.

### **2.2.1 Local Producers**

In the feasibility study phase of this project, it was determined that the Dryden area had diverse beef operations, with producers of various sizes and operations including cow-calf, finishing, local processing, and marketing. Most beef operations were reported as

quite small and 60% of respondent farms reported less than 19 cows, while 80 % had less than 49 cows. Approximately 25 producers involved in beef cattle production were interviewed. They reported a total of 841 mature animals which produce approximately 740 calves per year. Of these, 566 are marketed as unfinished animals, with 48 being resold locally. Approximately 100 animals are finished and marketed locally for freezer beef, while 38 are finished and marketed elsewhere. There is no local feed lot in operation at the present.

Producers interviewed by the project do not necessarily represent all of the cattle in the District. According to a probability survey on the OMAFRA website<sup>24</sup> in April 2004, the Kenora District likely had 2,700 head of cattle. This includes 50 bulls, 450 dairy cattle, 900 beef cows, 100 beef heifers, 100 steers over 1 year, and 1,100 calves under 1 year. Local producers are interested in price stability for beef cattle, and in the presence of such stability, could increase production.

Increasing production aside, local producers will have to develop their skills to finish cattle to a uniform standard, for direct sale to the consumer. Many local producers do not currently finish, and some readily admit that they need advice on how to best finish beef cattle. This is not a unique situation, as Meyers Norris Penny cited two of the significant challenges for Manitoba beef producers were “finishing knowledge”, and product uniformity.<sup>25</sup>

Pork production in the Dryden area is confined to 4 farms, two of which are very small, and two which could be categorized as medium-sized family operations. There are about 40 sows in the area, producing 600 weanlings annually. Wall’s Pork sells its entire production locally, and on occasion supplements the supply with additional hogs from Manitoba. It seems there is room to expand pork production aimed for consumption in the local market.

During the feasibility study process, two bison producers were identified. One slaughters, processes, and sells 50 animals per year. The other herd has not been slaughtering any animals to date, but growing herd size indicates that this herd may be able to bring up to 25 animals to slaughter annually in the immediate future.

However price stability, while desirable, may not be the primary goal for all producers. As indicated in the feasibility study, most Dryden area farmers have off-farm employment, and need to configure their operation to work around their full-time job. For some, the convenience of shipping unfinished cattle to the auction mart according to their own schedule, outweighs the benefits of value-added processing in the community. Others (including bison and pork producers) are already accessing local

markets. Clearly, a local farmer-owned meat processing business will not be attractive to all producers.

### 2.2.2 Wall's Pork

In addition to operating one of the area hog farms, Wall's Pork operates the only licenced abattoir in Northwestern Ontario. As of January 2005, the abattoir audit program operated by Ontario Food & Agriculture gave Wall's Pork an "A" rating, meaning that it meets all regulatory requirements.

At the time of interview, the abattoir was approved for 353 inspection hours annually. This translates into approximately 4,590 animal units. Animal units are used as a standard measurement to gauge capacity across species. The abattoir's annual capacity might consist of the ability to slaughter 250 steers, 400 pigs and 100 lambs within the current hours. Additional hours can be applied for if sufficient demand exists.

At the time of interview, the abattoir charged \$40 to slaughter a steer, and \$0.35 per pound for cut and wrap services. The price structure is currently under review.

The abattoir has a new drilled well, and has reasonable road access, but does not have any retail/display space as part of the operation. The current limitation of the operation is cooler space, which can accommodate up to six beef carcasses at one time. While mobile reefer units have been used to create additional short-term capacity, a longer term solution is required. At present, offal and waste are disposed of by burial on site, an issue that may need a different long term solution, particularly if slaughter capacity increases.

Wall's had indicated a willingness to consider reducing cut and wrap services in order to create more slaughter capacity as part of a local strategy.

### 2.2.3 Griffith's Country Meats

Griffith's Country Meats is a former abattoir currently operated on a seasonal basis as a cut and wrap facility. At present, the bulk of the business is in deer and moose processed for hunters, with some custom meat-cutting of beef, pork or lamb for local farmers. It is located conveniently close to the main highway, and has a modest retail space at the front of the facility. The owners are currently interested in selling the business.

The facility is fully-equipped with an overhead rail system, two large coolers, and a walk-in freezer. (lack of cooler space is listed as one of the main barriers to expansion by existing meat processing plants)<sup>26</sup> In addition to the normal equipment for cutting, grinding, weighing and wrapping meat, the facility has a smokehouse and sausage stuffer.

Although the facility seems adequate for its current purpose, it is unlikely to be re-opened as an abattoir. The Meyers Norris Penny report states that environmental standards have changed dramatically since most provincially licensed facilities were built, and re-opening such a plant would trigger the new requirements and likely be cost prohibitive.<sup>27</sup> An abattoir under the Ontario Meat Inspection Act has numerous requirements to meet, and the current facility would have to address the following:

- (a) wall surfaces in the meat cutting room must be hard, smooth and impervious to moisture. There are exposed wood beams and different types of wall covering that would likely need to be re-surfaced.
- (b) Food establishment regulations generally require all meat to be inspected, but does have exemptions for uninspected meat (i.e. wild game) if it can be stored and processed separately. Abattoirs do not appear to be eligible for a similar exemption under the Meat Inspection Act. Wild game currently represents most of the trade for this business.
- (c) The Meat Inspection Act requires offal and disposed carcasses that are buried to be covered by at least 10 cm of dirt. The land base for the facility does not appear large enough to accommodate this practice on an ongoing basis.
- (d) The facility relies on a dug well, and anecdotally, some area residents report the well was inadequate when the facility previously operated as an abattoir.
- (e) At present, the smokehouse is located in what used to be the kill room. If the kill room were re-opened, this would have to be re-located, and it appears this would require an addition to the building.

Based on this assessment, the “highest and best use” for this facility is likely as a cut and wrap operation that also processes wild game. In that role, the business now provides custom cut and wrap to hunters and local farmers who are selling to

consumers. With little or no walk-in retail trade, the business may not need to comply with the strictest interpretation of the regulations governing food establishments. If a new co-operative business sought to increase retail operations and to wholesale to local grocery stores, these regulations would become more directly relevant.

Based on such a proposed use, the Griffith's Country Meats facility would need to address the following issues under new ownership:

- i) Waste meat, offal and carcass disposal remains an issue, even at reduced volume, if for no other reason than how retail customers would perceive the facility.
- ii) The wall surfaces in the main cutting room may still need recovering with a "wipe-able" surface. The floor currently has some cracking, and would definitely need re-surfacing to comply with regulations.
- iii) Freezer space is limited when compared to cooler size. This may need some expansion.
- iv) Increasing the volume of inspected meat processed, while maintaining the current volume of wild game, would require careful management. Although there are two separate coolers, the overhead rail requires carcasses to pass through one cooler to get to the second. This means that in the strictest interpretation of the regulations, the facility may not be able to hang inspected meat at the same time as it is processing wild game.

It is beyond the scope of this business plan to assess the structural integrity, zoning, or suitability of building systems such as heat or septic. Any proposal to purchase Griffith's Country Meats should only be undertaken after such due diligence has been conducted. Having said that, Griffith's Country Meats would need to be valued according to a combination of factors, including its worth as a going concern, its equipment/asset value, and its utility for the purpose of the purchasing group. Some reference points for such a valuation are included in Appendix C.

Of course the value of such an operation is also related to other options. The Carver's Knife in Winnipeg, mentioned earlier, set up a meat cutting shop in a retail location. In that instance, the landlord renovated the space as part of the lease agreement. The business owner outfitted it with equipment, reported to cost \$40,000-\$50,000. If a

comparable retail space were available in Dryden under similar conditions, this would set an important reference point for the value of Griffith's Country Meats.

### **2.3 Business Model**

Based on the review of existing capacity, and consistent with the community economic development principles advanced in the feasibility study portion of the project, the consultants are recommending a co-operative business model based on a flexible processing and marketing service to area producers. Such a model requires producers to work together, but allows them a greater degree of autonomy in production.

The proposed model relies on bulk sale of sides, hinds/quarters, and boxed meat to residential and commercial customers. Although the model is not recommending an in-town retail meat store during the first phase of business development, such a future possibility is envisioned. The business plan focuses on the immediate bulk sales potential, but some reference to comparable retail operations are made for the purposes of comparison and to assist future planning.

The basic approach is to organize the co-operative as a slaughter, processing and marketing service to participating producers. This would allow each producer to market a distinct product, have the freedom to produce to their own standard, and to maintain their own customer list. The model will be flexible enough to allow producers to take an active role in selling the meat, or to have the co-operative perform that function.

The advantages of this model, relative to a retail storefront meat shop, are several. This model accommodates different finishing standards for different producers, requires less capital investment, simplifies inventory control, and can operate in more affordable premises. It also provides the producer with a very direct incentive to pay attention to market signals. This leaves considerable risk with the producer, who will develop loyal customers if they like the product, but will have the option to choose others if they don't.

Operation of the model requires four main roles: livestock producers, the abattoir, the cut and wrap service, and a marketing/sales service. Each of these roles is outlined below.

### **2.3.1 Producer Role**

One of the main challenges to a meat processing co-operative is ensuring a steady supply of carcasses at a predictable quality. The supply and quality control issues are made somewhat more manageable by allowing for individual preference. Consumers will know which producer's product they are purchasing, when it is available, and how it is produced. This will allow consumers patronizing the co-operative to select from meat with different degrees of marbling, leaner versus higher fat content, etc. , and allows the possibility for some producers to pursue organic or grass-fed production without requiring all producers to follow suit. At the same time, if all producers subscribe to a common protocol, the co-operative can develop a consistent marketing message.

The recommended business model requires livestock producers to commit to the following 4 elements (each of which is outlined further in subsequent sections):

- A. ***Common Production Protocol.*** This protocol can be negotiated among participating producers, but once it is determined, producers have to stick with the protocol. Elements of the protocol are likely to include elements such as sourcing of livestock from Northern Ontario, no use of artificial growth hormones, no subtherapeutic use of antibiotics, all feed to be free of animal protein.
- B. ***Guaranteed Supply to the Co-op.*** Each participating producer must commit to a contract to deliver a specified number of finished animals to the co-operative. Meyers Norris Penney suggests that this stability of supply is critical to the success of the processor.<sup>28</sup> Conversely, the co-op must commit to processing the specified number of animals.
- C. ***Standardized Pricing.*** Participating producers must agree to a minimum price structure, and agree not to sell below that price. Some producers may choose to charge a premium for specialty product (i.e. grassfed, etc.) but co-operative members cannot undercut each other on price.
- D. ***Equity Investment.*** Each participating producer must be prepared to make a significant equity investment in the co-operative, in proportion to the amount of processing they require. This not only improves the financial health of the co-operative, but it provides a concrete incentive for the producers to actively support the co-operative.

### **2.3.2 Abattoir Role**

The recommended business model calls for Wall's Pork, as the existing regional abattoir, to fulfill two roles with the co-operative. First, it is a producer-member that will supply pork according to the role outlined above. Secondly, it will be a contractor and strategic ally to the co-operative, providing slaughter services to the co-operative.

This will require the co-operative and the abattoir to enter into long term agreements to provide slaughter services at an agreed upon price. (perhaps indexed to inflation). The long term contract is required to protect the interests of the co-operative, which will rely heavily on the availability of local slaughter services. There are several critical components to the abattoir role (in addition to price) that the parties will need to agree on. These include:

- (a) ***Non-Competition.*** Wall's Pork would need to agree to restrict its cut and wrap services to its own pork product, and to sell pork products at a price consistent with the co-op's price structure.
- (b) ***Priority Scheduling.*** The abattoir would need to agree to give the co-operative and its members priority in scheduling for slaughter time. This provides the co-operative more security in scheduling production.
- (c) ***Disposal Services.*** The abattoir will normally provide disposal services for the waste coming from the slaughter process, but should enter discussions with the co-operative about developing joint capacity to dispose of waste from the cut and wrap service as well. While the landfill technique will serve in the short term, the option of an incinerator should be explored.
- (d) ***Transport & Delivery Service.*** The co-operative and the abattoir must develop a common capacity to move carcasses and boxed meat in refrigerated transport. This could take the form of a reefer van or a custom reefer trailer. The unit can be owned by either the co-op or the abattoir, but must be available to both businesses for a per day, per mile or per hour charge. This component is critical to overcoming the shortage of cooler space at the abattoir, and to avoid the transportation of "hot" carcasses to cut and wrap facilities.

### **2.3.3 Cut and Wrap Service**

The proposed business model calls for the co-operative to provide a cut and wrap service to participating producers. While a few producers will continue to cut and wrap their own product once it is slaughtered, if Wall's Pork stops providing cut and wrap to other producers, the co-operative will be the primary option for processing local meat.

The co-operative will charge participating producers a preferred price for cut and wrap services, (on a per pound basis) and offer priority scheduling to members. Producers not belonging to the co-operative, or coming from outside the local area, will pay a slightly higher rate for cut-and-wrap, and be scheduled subject to availability. This offers a further incentive for producers to become co-operative members.

Some producers will choose to use this service and then sell the meat directly to customers, locating these customers, arranging for payment, and making delivery on their own. Other producers will choose to use the marketing services of the co-operative, as described in section 2.3.4.

The custom cut and wrap service will continue to process wild game in season, to the extent that this can be accommodated within provincial regulations and still maintaining acceptable service to domestic meat processing.

### **2.3.4 Marketing Service**

The proposed business model would see the co-operative conducting some general local marketing through print media advertising, flyers, brochures and maintaining a common webpage. This would make consumers aware of participating producers, price structure, and ordering procedures. This general marketing service would include all co-operative members.

The co-operative would also offer more extensive marketing services for producers who elect not to become directly involved with selling their product. For a fee, the co-operative would be the main point of contact for customers, would coordinate orders, take cutting instructions, receive payment, and where appropriate arrange delivery. This would take less of the producer's time, but would return less of the overall price to the consumer.

### **3.0 MARKET RESEARCH**

According to the Statistics Canada<sup>28</sup>, based on a 10 year average from 1992 to 2002, each Canadian consumes 30 kg of beef carcass annually. This converts to 21.9 kg or 48 lbs of retail weight. About two-thirds of food sales are for home consumption<sup>29</sup>, meaning that the per capita annual purchase of beef for home consumption is 14.6 kg or 32 pounds retail weight.

If one accepts that the Dryden trading area has 15,000 people, all of whom are average Canadians, the Dryden area will consume 720,000 pounds of beef annually. A 1200 pound steer will yield a dressed carcass weight of 700 lbs, and about 525 lbs at retail weight. This means that Dryden is consuming the equivalent of 1,370 animals annually. This is twice as much as the entire production of the local beef cattle producers interviewed.

Statistics Canada, using the same sort of 10 year average, estimates per capita pork production at 28 kg. carcass weight (21.4 kg. retail weight equivalent).<sup>30</sup> The Ontario Swine Industry<sup>31</sup> shows pig production from 1997-2003 to be evenly split three ways between pigs under 20 kg, pigs 20-60 kg, and pigs over 60 kg. For sake of argument, let us assume all pigs under 20 kg are feeder pigs, and that the average pig for slaughter will weigh 60 kg. and yield a 36 kg carcass. The 15,000 people in the Dryden area would consume 420,000 kg (carcass weight annually), the equivalent of 11,666 hogs. This is approximately 19 times greater than the annual local production of weanlings.

These calculations show that the Dryden area has the ability to consume the entire beef and pork production of local producers. This is confirmed by the experience of local producers who are already selling a fair amount of their production locally.

### **3.1 Market Segmentation & Competition Analysis**

According to the Meyers Norris Penny report, the majority of the overall market for beef is for sub-primal cuts from fed cattle, and is marketed through a tightly integrated value chain involving close relationships between processors and large food retailers.<sup>32</sup>

Much of this sold as boneless boxed beef product, cut but not individually wrapped. Although the boneless designation entails higher processing costs, this product is more likely to be eligible for export.

The report goes on to indicate however, that there are other important market segments to consider. Manufactured beef is the term for lean beef from cull cows, and is usually

ground into hamburger. Manufactured beef represents 15% of total beef consumption, and is currently attractive due to the depressed prices for animals over 30 months of age, resulting from oversupply.<sup>33</sup> Of course, once the oversupply of cull cattle resolves itself over the medium term, this opportunity will become less attractive as live cattle prices rebound.

The report states that organic and “natural” beef have rapidly growing market share, and middle cuts can achieve price premiums of 20-30%, resulting in an increase of 10% in the overall value of the carcass. Consumers requesting natural or organic beef require a higher standard of animal traceability, and the report suggests that smaller processors have a relative advantage in meeting this higher standard.<sup>34</sup>

At present, the Dryden area market has several major supermarket chains but no specialty meat shops other than an M&M Meat Shop franchise which concentrates on pre-cooked and deli-style offerings. The major supermarkets generally do no custom cutting on-site, and cannot feature locally produced meat since they source their product from out-of-area federally inspected plants. Some Dryden residents apparently shop for their meat at the Co-op store in Vermillion Bay, largely because of the in-store butcher service. It is likely that many of the restaurants, hotels, resorts and independent grocers in Northern Ontario rely on meat brokers who, according to Meyers Norris Penny, deal mostly in federally-inspected product.

In Manitoba, most of the provincial abattoirs are also small processors, and most of the demand for provincially inspected beef is currently being met. This demand is in small, independent meat markets, hotel and restaurant purchasers, as well as institutional sales.<sup>35</sup> . The recent increases in provincially licensed processing capacity aim to sell direct to consumers, circumventing retail food sellers.

While not a competitor in the Northwestern Ontario market, Oak Ridge Meats (mentioned earlier) is a useful comparison in evaluating the market potential for provincially-inspected beef. In an interview with the plant manager, the consultants learned that the plant is killing 45 animals per week, but could go to 60 per week. They custom cut and wrap 9 beef carcasses a day. They have sold approximately 700,000 pounds of meat.

Oak Ridge Meats sells direct to customers, as well as some institutional customers. They recently opened a store in Thompson, Manitoba after they had success selling meat there from a reefer truck. The margins in remote communities are quite good. Large grocery chains have not emerged as customers. Oak Ridge Meats sell on the basis

of price and promoting a locally grown and processed product. They do not market the meat as “natural” or organic.

The Carvers Knife, also mentioned earlier, operates a retail meat shop in Winnipeg. The owner says they do not compete primarily on price, but on quality and service, hanging meat for 21 days. Their price is comparable to Safeway but higher than Costco, Sobey’s or Supervalue. Although some media stories have referred to the store as carrying “natural” product, the owner says that is only partly accurate. While his beef are free of growth hormones, urea, or chemical proteins they do not advertise it as anti-biotic free or organic. He finds the customers who do request organic often are satisfied with his product once he explains his production methods.

### **3.2 Marketing Strategy**

The marketing strategy for the proposed co-operative is to develop a local branding that also preserves the identity of the individual producer. This transparency will explain some variation in product and maximize the advantages gained from the personal loyalty among neighbours that currently exists for many producers. At the same time, the business model described earlier gives producers a direct incentive to promote their product (and the co-op) to friends, neighbours and relatives. These personal networks are seen as a mainstay of the marketing approach. During the summer, these networks can be supplemented by selling through the farmers market.

Adherence to the production protocol (see section 2.3.1) will allow the co-op to develop their branding as a “Quality Local Natural Meats” image, differentiating the product from that currently found in local stores.

The pro forma financial statements project an advertising budget of \$9,000 annually. This is sufficient to allow for the maintenance of a central website that accommodates electronic ordering and explains cutting options and price structures (similar to *www.manitobabeef.com*). The budget should allow for some selective local print advertising, flyers, business cards, and bulletin board posters.

In addition to direct-to-consumer sales, a portion of the sales are projected to be made on the basis of wholesale sides to one or more retail co-operatives. These sales will be more dependent on a steady flow of consistent product, and more price sensitive. The Vermillion Bay Co-operative reports their consumers are supportive of local product,

and in the past have been able to sell a couple of sides per week. Staff are supportive of the concept, provided it is priced competitively.

The Workers Co-operative of Consumers in Thunder Bay gave much the same feedback. They have 2 butchers on staff, and would be prepared to purchase whole carcasses if the price is competitive. They have recently done some local beef as a “one-off” deal, hanging it longer than the product they usually carry. This sold very quickly, and the Co-op believes that carrying local product is a marketing advantage for them over the national chains. Again, the staff are open to the concept, but reinforce the point that this must be price competitive.

### **3.3 Pricing Strategy**

Below are some samples of pricing for bulk meat sales in both Canada and the U.S. The Meyers Norris Penny report states that some beef brokers are selling hind quarters to grocery stores at \$2.24 per pound. Their review of boxed beef prices in 2004 showed prices ranging from \$1.93 to 2.25 per pound based on a 700 pound carcass weight. Boxed beef requires less labour for wrapping, as the cuts are not individually wrapped. The website *www.manitobabeef.com* is currently selling sides cut and wrapped at \$2.43 per pound.

In Washington State, *www.harderspringsranch.com* has 2004 prices as \$2.00 pound live weight for pork, includes kill, cut and wrap. (pasture and grain-fed). Beef sells at \$2.75 hanging weight (both prices at \$USD).

*www.gartnersmeats.com* (Portland Oregon), listed beef at 2.35 per pound for sides, 2.59 for hind quarters, and \$2.25 for front quarters. Pork sides were \$1.79 per pound and “luau pigs” of 40-60 lbs went for a flat \$160 (\$2.67 to \$4.00 per pound).

Bison meat is lower in fat, cholesterol, and calories, but higher in protein and iron. A pound of ground bison retails for \$4.99 as compared to \$4.00 for high quality ground beef.<sup>36</sup> . Pop’s Frontier, organic bison is \$6.13 per pound retail weight, cut and wrapped in freezer.

Based on the above examples, the price structure for consumers and for services provided to producers is projected in the following table. It is understood that the co-op may sell variety packs or specific cuts at different prices, but these prices should be determined by taking these average prices and applying the Model Cut Yield. (An example of the Model Cut Yield from the MNP report is included in Appendix E.) In

other words, sale of a carcass cut-by-cut needs to average out to the overall price for a side.

	<b>Price</b>	<b>Kill Fee</b>	<b>Cut and Wrap</b>	<b>Marketing Fee</b>
<i>Beef (HRI)</i>	\$2.40/lb (hanging weight)	\$50	\$0.50/lb members \$0.60/lb non-members	20% where applicable
<i>Beef Quarters</i>	\$2.00/lb (hanging weight)	\$50	\$25 for quartering and local delivery.	20% where applicable
<i>Pork</i>	\$1.40/lb (hanging weight)	\$15	\$0.25/lb for members \$0.35/lb for non-members	20% where applicable
<i>Bison</i>	\$5.00/lb (freezer weight)	\$50	\$0.50/lb members \$0.60/lb non-members (hanging weight)	20% where applicable

Not all producers will incur the marketing fee, as some will take orders, coordinate cutting instructions, take payment, and make delivery. These direct-selling producers will still qualify for the member pricing, but will not pay the marketing fee.

### 3.4 Sales Forecasts

The pro forma Income Statement (see Appendix A) incorporates the following sales assumptions. It is assumed that the co-operative will be able to sell 250 head of beef direct to consumers in HRI cuts. Half of these will be marketed through the co-op with the marketing fee applied. The other half will be sold by producers, who will pay for cut and wrap services from the co-op.

It is further assumed that the co-operative will sell 100 head of beef cattle as quarters to Vermillion Bay Co-op and Thunder Bay Co-op. These will need to be of a more consistent quality and scheduled on a continuous basis, so it is assumed that all these animals will be marketed through the co-op, which will coordinate with the retail co-operatives.

It is assumed that the co-operative will market 200 hogs annually (above and beyond what Wall's Pork is already selling direct to customers). It may be necessary to enlist hog producers from outside the immediate area to supply these additional animals

(perhaps from Rainy River district). It is further assumed that the co-operative will process and market 25 head of bison annually from local producers.

Lastly, it is assumed that the co-operative will be able to take on wild game processing that is currently handed by Griffith's Country Meats. This is estimated at an annual value of \$70,000 based on past performance.

This level of sales, within the planned price structure, are achievable within local production capacity and would result in modest profitability for the co-operative. This level of sales, while technically a little better than the breakeven point, is probably the minimum volume require to achieve long term feasibility.

## **4.0 FACILITY ANALYSIS**

The proposed co-operative, implementing the business model described above, will require access to an abattoir and a cut and wrap facility. The co-op has several options regarding these facilities. They are:

- A. Expand Infrastructure at Wall's Abattoir by adding cooler space, and additional cut and wrap room.
- B. Purchase or lease Griffith's Country Meats as a cut-and-wrap facility, making required upgrades.
- C. Rent retail space in Dryden, making leasehold improvements.
- D. Construct and equip a new retail outlet in Dryden, owned by the co-operative.

The relative advantages and disadvantages of each of these options is outlined below.

### **4.1 Expand Wall's Infrastructure**

This option would be less expensive than building new in Dryden, and may be comparable in cost to acquiring Griffith's Country Meats. The advantages are that the kill and processing would be in the same location, eliminating transport time and reducing the handling of carcasses. This would be a significant advantage.

There are disadvantages as well. Wall's is not as conveniently located as Griffith's Country Meats which is just off the main highway. Failure to purchase Griffith's Country Meats may result in it staying open, competing for the wild game processing. New construction would delay the start of the co-op until the expansion was completed. The largest disadvantage is that this would place both the abattoir and the co-op processing facility on the land of a single co-op member. This would likely result in the perception that there was an imbalance of power or influence. For this reason, this option is not recommended.

## **4.2 Purchase or Lease Griffith's Country Meats**

A more detailed description of Griffith's Country Meats was included earlier in the section on existing local capacity. The advantages to acquiring or leasing Griffith's Country Meats are several. Firstly, it would create a vacuum in wild game processing that the co-op could fill. Secondly, the owners are looking to exit, and the facility can likely be purchased or leased-to-purchase on favourable terms. Thirdly, most equipment is in place, requiring little immediate investment in new equipment. Lastly, the facility has an accessible location while maintaining the advantages of being outside Dryden itself.

The disadvantages to Griffith's Country Meats are listed earlier. The facility would be required to make upgrades to the cutting room, and eventually may have to expand freezer space. While carcass and offal burial can likely continue in the short term, eventually a different disposal method would be required. The facility could likely not be returned to an operating abattoir under current standards.

## **4.3 Rent Retail Space in Dryden**

Renting retail space in Dryden would be contingent upon finding a landlord willing to renovate, and a suitable location for retail trade. Based on the pro forma income statement, the co-op could pay a landlord \$12.00 per square foot (net of utilities and property taxes) for a 2,000 square foot facility.

Assuming that such a landlord and space are available at this rate, the advantages to such an approach are primarily in the larger market. The location would be more convenient for customers, and would provide access to both bulk meat buyers and those who buy a few cuts at a time. This does expand the potential market. The newly-renovated facility would also likely be to code, and equipment and fixtures would be newer.

The disadvantages are significant however. Renting retail space in Dryden would likely mean a change to the business model. A storefront would not simply do bulk sales, but would have to sell on a cut-by-cut basis. This means inventory management and pricing would be more complex, and the co-op would have to maintain a steady supply of animals on hand. The cost of the leasehold improvements would likely be higher, and this option would require buying or leasing the equipment to fully outfit the operation. Failure to acquire Griffith's may result in competition for the wild game processing, and it is an open question whether that processing could be accommodated in a downtown location.

#### **4.4 New Construction in Dryden**

Construction of a new facility in Dryden would have all the same advantages and disadvantages of renting retail space. It has the additional advantage of brand new finishes and appearance, and the design would be to specifications of the co-op.

This option has the additional disadvantage of being more costly. New construction would likely cost at least \$150 per square foot with cooler space, plus the cost of land. A 2,000 square foot facility in the town of Dryden would likely be in the neighbourhood of \$400,000. Based on the occupancy cost allowance, and assuming that the building could be amortized over 15 years, this means that a new building could service a mortgage of about \$200,000, implying that \$200,000 would have to be raised in member investment or government grants.

#### **4.5 Recommendation**

The option of either renting or constructing a full-service meat shop in downtown Dryden may be feasible, but is seen as much higher risk. The investment to create the space, as well as the changes to the business model, would mean a larger gamble without the guarantee that producers can organize themselves to supply product in a timely flow. This is seen as a later stage evolution for the co-operative, once it has firmly established itself in bulk meat sales and has demonstrated success in coordinating production, processing and sales.

The option of expanding infrastructure at Wall's is not recommended since it places the co-op's assets on private land, and may place unnecessary stress on the relationships needed to maintain the co-operative structure.

The recommended option is to acquire Griffith's Country Meats in a lease-to-purchase arrangement, with the existing equipment included. This option minimizes initial investment and reduces risk. In the event the co-operative were to fail or cease operation, the current owners would retain the asset, and be no worse off than their present position. The capitalization requirements in section 8.1 have been prepared assuming that the recommended option will be chosen.

## **5.0 PRODUCTION ISSUES**

Implementation of the business model will entail considering the production issues outlined below.

### **5.1 Local Suppliers**

The most fundamental aspect of the production plan is to have producers commit the appropriate number of animals for processing and/or sale by the co-operative. While the business model indicates that this commitment should be contractual in nature, it is important to ensure that the price to the producer is fair and reasonable. The price also has to be viewed in context. A stable, middle-of-the road price will be less than conventional prices at the peak of the cycle, but better than conventional prices at the bottom of the cycle.

It should also be recognized that delivering the animals to the local co-operative will save considerable time and/or money relative to shipping the animals west. Shipping live cattle as far as Winnipeg could result in the producer paying approximately \$18 per head freight, and a selling commission of \$10-\$18 per head. On top of this, an article in the *Western Producer*<sup>37</sup> indicates that shipped cattle could shrink by an average of 19 lbs on the trip from Dryden to Winnipeg. Longer trips increase the rate of shrinkage, and according to the article a 500 kg steer will lose between \$12 and \$41 in value during transport. If the stress to the animal results in it being downgraded to a “dark cutter” at the packing plant, the price can be reduced a further \$200-\$300.

For beef producers supplying to the co-op under the proposed pricing schedule, a 1200 pound finished steer would return \$944 (\$2.40 per lb. less abattoir fee, less cut-and-wrap cost, and less 20% marketing fee). If the producer took on the extra work of marketing, the animal would return \$1,280.

For hogs, a hog yielding a 150 lb. carcass would return \$115.50 after abattoir fee, cut-and-wrap, and 20% marketing fee. For bison, the producer would receive a net return of \$1,425 based on a 650 lb. carcass yielding 450 lbs of meat in the freezer.

### **5.2 Feedlots & Finishing**

At present there is no feedlot in the Dryden area for finishing cattle. Some local producers finish on a small scale for family and friends, and others who are already

selling direct to the public have their own methods of finishing cattle. The business model does allow for some variation in finishing methods among producers, but it is generally assumed that co-operative members will share knowledge in finishing techniques and be committed to developing their skills in this area. One or more local producers may emerge who are willing to set up small finishing operations, buying animals from other co-operative members.

Some consideration should be given to different finishing options. More producers in Manitoba are looking at the advantages of a forage-based system for finishing cattle.<sup>38</sup> This slow-finish system is not as quick as grain, but isn't necessarily less profitable. According to researcher Paul McCaughey, "You may not maximize profits in the high price years of the cattle cycle, but the system allows you to be profitable more often, and it does give you more marketing flexibility." The key advantage is that forage-based systems have lower costs of production: lower feeding costs for pregnant cows, less labour and facilities for calving and lower cost of adding weight to calves. The Brandon Research Center backgrounds steers on hay-only ration during the winter, with a target gain of 1.8 pounds per day, but this increases to 2.5 pounds per day once they are back on pasture.

Arborg farmer Bragi Sigmundsson has moved his calving dates to May and June as a way to reduce his production costs. This allows the cows to be back on pasture during the third trimester, when they need higher quality feed, and allows Sigmundsson to feed lower quality hay over the winter. He also backgrounds the calves through the winter and sells them the following year, rather than selling them in the fall. He estimates this will reduce his cost of production by \$80-\$100 per cow-calf pair.<sup>39</sup>

Using a forage-based finishing system will not only lend to the "natural" branding of the product, but the flexibility in this slower system will make it easier to hold cattle if necessary, in order to match producer supply to customer demand. This is particularly important in developing the capacity to supply the Vermillion Bay or Thunder Bay Co-ops with beef quarters.

### **5.3 Abattoir & Disposal**

At present, the abattoir buries carcass remains on site as a form of disposal. In the short to medium term, this is likely to remain a feasible method. Eventually, either a higher regulatory standard or the available land base, will probably require a different disposal technique. Although the abattoir is looking into composting techniques, the increased volume of slaughter suggest this may not be the easiest solution.

At such time as the abattoir and the cut-and-wrap facility are required to utilize a new disposal technique, they should consider collaborating on an incinerator. Oak Ridge Meats employs a Burn Easy Animal Carcass Crematory, which is clean burning, meeting current emission standards. At an average of 275 pounds of waste per slaughtered animal, a 700 pound unit would handle 2.5 animals per burn, each burn lasting 6 hours. One burn per day times 260 days means that the unit has the annual capacity to dispose of 650 cattle/bison remains.

This unit currently costs \$14,200 delivered. It consumes approximately 1.5 cents of diesel fuel per pound burnt. This would be an annual operating cost of \$2,700 if the unit operates at capacity. If we estimate a 10 year life for the unit, annual depreciation would equal \$1,500. This results in a total cost of 2.3 cents per pound, and would add about \$6.32 per animal to processing costs.

## **6.0 LEGAL & REGULATORY ISSUES**

### **6.1 Ownership Structure**

The proposed co-operative is to be incorporated as a New Generation Co-operative. New Generation Co-operatives are distinguished from other co-operatives by a key key characteristics. They generally require higher levels of member investment, the require members to enter into a contract with the co-operative regarding delivery rights, and membership is limited to those who purchase delivery rights. Three fact sheets on New Generation Co-operatives put out by the Ontario Co-operative Association are included in Appendix F.

Financial forecasts have been prepared assuming that the co-operative will be capitalized by issuing delivery shares at \$200 each. Each share would entitle/require the holder to deliver one head of cattle or bison, or 6 hogs. For the co-operative to process the volume projected in the pro forma financial statement, 380 shares would have to be issued.

In Ontario, a co-operative with less than 25 members is exempted from the requirement to file an Offering Statement. In order to qualify for this exemption, members of the proposed co-operative would need to purchase an average of 15 shares each, for \$3,000. (the minimum number of shares for membership should likely be 5, and the maximum number of shares could be set at 50). These minimum and maximum number of shares require a baseline level of commitment and also prevent a potential imbalance among producers that might result from large investment by a few producers.

If the co-operative exceeds 25 members as it grows, there is an additional exemption from the Offering Statement requirement, if the new members do not buy more than \$1,000 in shares in any given year. If the co-operative exceeds 25 members at start-up, it will need to prepare and file an Offering Statement.

### **6.2 Meat Inspection Act**

The abattoir is currently operating within the confines of the Meat Inspection Act, and has received a favourable audit report in this regard. The three main requirements of the act are that the animal is inspected prior to slaughter, the animal is slaughtered in an approved plant, and that meat should be stamped, labeled or tagged as "Ontario Approved". The proposed business model complies with all of these requirements, but assumes that additional inspection hours will be available upon application to OMAF.

The local inspector, when interviewed, indicated that they had capacity to accept additional hours.

The Meat Inspection Act contains some additional provisions that the co-operative must be aware of. Wild game cannot be processed in the slaughter facility itself, but can be accommodated at an off-site cut-and-wrap facility. The Act also requires that any meat cannot leave the slaughter facility unless it has been chilled to 2 degrees Celsius, and is transported in a refrigerated container. This latter requirement will directly affect the transport of carcasses/quarters from the abattoir to either the cut-and-wrap facility or direct to the retail co-operatives in Thunder Bay or Vermillion Bay.

For purposes of this plan, it is assumed that the co-operative will be willing to invest in a used reefer van or custom reefer trailer which could be jointly used with the abattoir on a cost recovery basis.(approximate investment of \$15,000 see Appendix D). The projected abattoir fee structure includes some allowance for these operating costs. The van/trailer could also generate capacity for the abattoir to enter “kill and deliver” arrangements with producers in the Rainy River area. Some further revenue could be generated by renting refrigeration space to vendors participating in the local farmers market.

### **6.3 Health Protection & Promotion Act - Food Premises**

The regulations for food handling establishments that would be applicable to a cut-and-wrap facility are contained in the regulations to the Health Protection & Promotion Act of Ontario. The most specifically relevant provisions include:

- (a) wild game may be custom cut and wrapped, provided that the meat does not come into contact with inspected meat at any point, is stamped “Uninspected Meat” and is labeled with the name and address of the person owning the meat.
- (b) the floor or floor coverings must be “smooth, tight, and non-absorbent”.
- (c) “the walls and ceilings of rooms and passageways may be readily cleaned and may be maintained in a sanitary condition”. This is usually interpreted to mean no exposed wood, and preferably wall coverings are stainless steel, tile, linoleum, or some other “wipeable” surface.

The cut and wrap facility must also have a record-keeping system to be able to identify the source of any shipment of meat or meat product.

#### **6.4 Insurance**

The co-operative will require general insurance on the premises and equipment, and the forecasts have been prepared on the assumption that this cost will be \$3,000 the amount currently paid by Griffith's Country Meat.

The co-operative employees will also require workers compensation coverage, which is included in the 15% provision for benefits made in the financial forecast.

## **7.0 HUMAN RESOURCES**

Implementation of this business plan will require a staff of 3.5 full-time equivalents. These include a salesperson/manager compensated at \$40,000 per annum plus 15% for mandatory benefits, one full time butcher at \$25 per hour, plus 15% benefits. The operation will require 1.5 f.t.e. positions for staff to make sausage, wrap meat and act as counter staff. These positions are budgeted at \$10 per hour plus 15% benefits.

The cooperative will also need to identify appropriate professionals to support the business, including an accountant and a lawyer. An annual budgetary provision of \$5,000 has been included in the operating expenses for these purposes.

## **8.0 FINANCIAL PLAN**

### **8.1 Capital Requirements**

Purchasing or leasing Griffith's Country Meats as the cut-and-wrap facility is the major capital requirement. Occupancy cost allowance in the projected income statements allow the co-op to make payments on \$96,000, at 9% interest over 5 years. If this lease was structured with a \$10,000 first payment, the total lease-to-purchase option would be valued at \$106,000. The facility will require some upgrades and leasehold improvements, as described earlier. An estimated provision of \$20,000 for such improvements is felt to be sufficient.

An annual equipment allowance of \$6000 presumes a \$500 per month payment which would service a 5 year lease at 9%, on a balance of \$24,000. . The down payment on leased equipment would be about \$6,000 and would come from member equity. This means the actual value of leased equipment would be \$30,000. This would include the reefer van/trailer and a new meat saw (bandsaw style) with perhaps a little left over.

The co-operative will require legal assistance to develop initial by-laws, incorporate and prepare the delivery rights contract between the co-op and the members. This is estimated at \$10,000 in the start-up phase.

The co-operative will require development of some initial marketing materials (logo, letterhead, business card, etc.) initial set-up of a website, and some consulting advice around their marketing strategy. This has been estimated at \$8,000 during start-up.

The co-operative will also require working capital to bring on staff and pay bills in the first few months until the business establishes cashflow. A provision for 3 months of operating expenses, about \$60,000, has been included.

The total projected capital requirements are re-capped in the table below.

<b>Start-up Capital Item</b>	<b>Financed Amount</b>	<b>Cash Outlay</b>	<b>Total</b>
Facility lease with basic equipment	\$96,000	\$10,000	\$106,000
Leasehold Improvements		\$20,000	\$20,000
Additional Equipment	\$24,000	\$6,000	\$30,000
Legal Fees		\$10,000	\$10,000
Marketing Set-up		\$8,000	\$8,000
Working Capital		\$60,000	\$60,000
<b>Totals</b>	<b>\$120,000</b>	<b>\$114,000</b>	<b>\$234,000</b>

It is proposed that the co-operative members sell 380 delivery shares at \$200 each to raise \$70,000 in equity. This money would provide the working capital and facility lease downpayment.

It is further proposed that the co-operative apply for a \$44,000 grant from the Agricultural Adaptation Council Canadvance Program. This project appears consistent with the “first pillar” of the program, intended to seek industry-led solutions to emerging issues. This would provide funds for the leasehold improvements, equipment lease downpayment, start-up legal fees, and initial marketing set-up.

The facility lease can likely be secured from among several options. If the vendors are sufficiently motivated, they could hold the lease themselves on a “lease-to-purchase” basis, holding title to the property as security and earning 9% on the outstanding balance. Alternatively, the current mortgage on the property may be assumable. In the event new financing is required, FedNor operates a Credit Union Agreement that guarantees credit union loans of \$25,000 - \$500,000 at prime plus 3%. There is also the Northern Ontario Economic Development Fund-Capital Projects, which may contribute up to 33% under the Community Partnerships stream.

The additional equipment lease could be secured from an existing lease company, or a lease company through the equipment vendor, if applicable. If the equipment purchase needs to be financed, the Fednor’s Credit Union Agreement program may be applicable.

Under this financing model, the co-operative members would be contributing 30% of the overall capital required, and over 60% of the funds needed for cash outlay for start-up (including working capital).

## **8.2 Projected Performance**

The pro forma income statement shows that if the sales forecasts in section 3.3 are achieved, the co-operative will generate \$553,250 in annual sales, with a cost-of-goods-sold of \$298,225. The operating expenses are projected at \$241,500, leaving a profit before taxes of \$13,525.

These projections assume that the major financing items can be structured as leases, so that the entire monthly payment can be expensed. Mortgages and term loans would result in only interest being expensed, which would increase taxable profits without

improving cashflow. Of course, leased equipment is not technically an asset on the balance sheet of the co-operative.

If the annual operating profit of \$13,525 is achieved, and 25% of this is reserved for a corporate tax liability of the co-operative, the remaining profit (just over \$10,000) would represent a 14.5% return on the \$70,000 in member equity. This return is not likely to be paid out in a cash dividend for some years, but would be retained by the co-operative in some balance of general reserves and patronage allocations held by individual members. Patronage allocations to individual members, usually in the form of surplus shares, would be allocated to members based on the number of animals they had processed that year. This increases the value of the member's investment, but leaves this money available to the co-operative as working capital and a contingency fund.

## **8.5 Conclusions**

Implementation of this business model and associated plan should bring a number of benefits to local producers and the community at large. These benefits include:

- a) price stability for local producers, at a sustainable level.
- b) improved net return beef cattle, once shipping, shrinkage and selling costs are factored in.
- c) establish a direct linkage between local demand and local supply of meat, rather than relying on the meat packing sector, large retail chains, and international trade issues.
- d) creation of 3.5 local jobs.
- e) provide local consumers with an array of high quality product that features local origin, "natural" production methods, and competitive pricing.
- f) provide area retail co-operatives with a quality local product that distinguishes them from national retail chains.
- g) creation of a flexible and co-operative structure that allows for a level of producer independence and does not displace existing local businesses.

These benefits can be achieved with a modest capital investment, building upon existing local infrastructure.

Of course these benefits are not achieved without risk. This particular business model depends upon successfully managing several factors. These include:

- i) Local producers must be able to work together effectively, and to make a significant investment in the processing capacity.
- ii) Local producers must be able to maintain a common production protocol and price structure.
- iii) Producers must be willing to develop finishing skills, and then must be accountable to market signals, adjusting their methods based on consumer response.
- iv) Producers must assume some risk, by being willing to coordinate their production with demand, possibly holding finished cattle until orders are secured.

The implementation of this business model and plan will require a number of producers who are willing to assume these risks in exchange for the articulated benefits, and who can collectively deliver 225 head of cattle, 200 hogs and 25 bison to the local market on an annual basis.