

Generic Business Plan for a Producer-Owned Meat Marketing Company

Conducted for:

United States Department of Agriculture
Rural Development

April 2011

Conducted by:

Food & Livestock

Planning, Inc.

9534 N. Myrtle Ct. Kansas City, Missouri. 64156
www.foodandlivestock.com

Table of Contents

		<u>Page</u>
Section 1	Executive Summary	4
Section 2	Introduction	7
Section 3	Market Plan	8
3.1	Market Development	8
3.2	Target Markets	9
3.3	Products Manufactured	9
3.4	Features and Benefits of Products	9
3.5	Market Concept Names and Branding	10
3.6	Marketing Budget and Requirements	10
3.7	Competitive Programs	11
Section 4	Livestock Supply	12
4.1	Numbers	12
4.2	Production Types	13
4.3	Compensation Strategies for Producers	15
4.4	Numbers and Species Used For Planning	16
4.5	Other Species	16
Section 5	Harvest and Processing Plan	17
5.1	Facilities	17
5.2	Expected Processing Cost	17
5.3	Dry Aging Beef	18
5.4	Composite Carcass Value	19
5.5	Distribution Plans	21
Section 6	Corporate and Management Plan	22
6.1	Best Fit Legal Structure	22
6.2	Governance	23
6.3	Personnel Needs and Their Tasks	24
6.4	Expected Total Capital Needs	25
6.5	Company Shares and Share Value	25
Section 7	Financial Plan	27
7.1	Development of Financial Models	27
7.2	Financial Statements	28
7.3	Financial Summary	37
Section 8	Barriers to Entry/Core Competencies	38
Section 9	Literature Cited/ Credits	39

TABLES

	<u>Page</u>
3.6 Promotion and Marketing Budget	11
4.4 Numbers and Species Used For Planning	16
5.2 Expected Custom Processing Fees (including further processing) by species	19
5.4 Carcass value by species	20
6.5 Expected capital need of the business	25
7.1.1 Live animal purchase price and assigned premiums	27
7.2.1 Monthly income statement and cash flows for Year 1	29
7.2.2 Monthly income statement and cash flows for Year 2	31
7.2.3 Monthly income statement and cash flows for Year 3	33
7.2.4 Annual balance sheet	35
7.2.5 Annual financial summary	36
7.2.6 Net margin by livestock category	37
7.2.7 Sensitivity analysis	37

Section 1 Executive Summary

This generic marketing company business plan was designed to represent a producer-owned company who desires to accomplish scale and efficiency by marketing their own meat products from their own livestock in a cooperative manner. Scale is important in order to service many customers, to reduce the workload on individual producers, and to more efficiently work with processors. In many situations, single family enterprises already brand and label their own meat products after they have their animals processed by small USDA-inspected meat plants. However, these meat plants are not always easily accessible and are shrinking in number, not expanding. A generic meat processing plant business plan will accompany this plan in cases where there are extremely limited processing options.

The goal is for livestock producers in a region to band together and fund a marketing company that would

- purchase their market-ready livestock at a fair price;
- arrange the commercial processing of the meat in a regional USDA-inspected meat plant;
- and, market specialty meat items to discriminating markets in the region.

It is important for the producer group to analyze the local or regional market opportunities by interviewing independent retail grocers and grocery chains, local restaurants, and food service distributors. These interviews will accomplish the following:

- Gauge local or regional interest in the local meat products that could be produced.
- Estimate volume of business.
- Begin to establish possible market partnerships (i.e., possible distributor for delivering products to customers).
- Begin the task of getting your project recognized by prospective customers.
- Provide insight as to the type of products desired by customers so that the farmers can produce to that specification.

The marketing company will be legally organized as a producer-owned limited liability company (LLC) or a closed cooperative. A board of directors or governors (in the case of an LLC) will set the direction of the company and hire a general manager to run the day-to-day operations and sales. This company will have a business relationship with one or more USDA-inspected meat plants for meat processing services.

The livestock producers will attempt to develop common production practices and use similar genetics to limit animal variability and create consistency in meat products. However, it may be important that the species and production practices have some level of uniqueness to where the products are distinguishable from commodity products. For the purposes of this generic business plan, the following species and production types will be used:

- Beef cattle
 - Grass-finished natural beef (follows USDA guidelines for grass-fed labels (assume 600 per year by year 3)
 - Grain-finished natural beef (no implants and antibiotics)(assume 600 per year by year 3)
 - Cull cows (no antibiotic residues)(assume 180 per year by year 3)
- Pork
 - Naturally produced hogs (no antibiotics used in production)(assumed 1,200 per year by year 3)
- Lambs/goats (no special production criteria)(assumed 600 per year by year 3)

The range of products offered for sale include fresh beef, pork and lamb/goat carcasses, primals and subprimals, frozen offal, fresh and frozen ground products, precooked and cured beef and pork products, sausages of various flavors and types, and possibly portion-cut steaks. It is expected that a business relationship will be entered in with a regional distribution company to warehouse and deliver these products to customers throughout the region.

The company needs capital to finance administrative costs, marketing expense, the purchase of live animals, and processing costs. It is expected that an equity offering would raise \$280,000 to \$300,000 to start the company.

The business model predicted the following financial results over a three-year period:

	Year 1	Year 2	Year 3
Revenue, \$000	1,229	2,219	3,121
Cost of Goods Sold, \$000	728	1,318	1,856
Operating Expenses, \$000	548	842	1,118
Net Income, \$000	-49	56	147
Return on Sales, %	-4	3	5

When evaluated by species, the model predicted the following financial results by marketed species in year 3.

Species	Net margin, \$/animal
Grass-finished, natural beef	\$167
Grain-finished, natural beef	\$261
Cull cows	\$138
Natural Pork	\$12
Lamb	\$33

Food companies with return on sales of 5% and higher and the high species net margins represented in this business plan would be considered high performing companies. Nevertheless, aggressive marketing, high focus on product quality and consistency, and diligent customer service will all be necessary to achieve this projected success.

Section 2 Introduction

There is a trend in the U.S. of increasing interest of small farmers and livestock producers desiring to direct market their own meat products or market through a local or regional marketing program featuring locally grown, niche, natural or organically produced products. To accomplish this task, the producer's livestock must be processed through a USDA-inspected meat or poultry processing plant. This business plan encompasses livestock producers coming together to form their own meat marketing company that is affiliated with or has a business arrangement with a USDA-inspected processor in the region. A business plan for developing a USDA-inspected meat processing plant will adjoin the marketing business plan.

There is already compelling evidence that the market rewards farmers who produce livestock that are high quality, healthy, identify-preserved, and locally produced in an environmentally sustainable way if they are converted into high quality specialty meat products. This business plan will focus on bringing these producers together under a common company with common goals to cooperatively and successfully market these products. Working together, farmers and livestock producers can supply scale to their customers as well as having negotiating credibility with the processor, distributor, and other service providers.

Section 3 Marketing Plan

3.1 Market Development

It is important for the producer group to analyze the local or regional market opportunities by interviewing independent retail grocers and grocery chains, local restaurants and food service distributors. These interviews will accomplish the following:

- Gauge local or regional interest in the local meat products that could be produced.
- Estimate volume of business.
- Begin to establish possible market partnerships (i.e., possible distributor for delivering your products to customers).
- Begin the task of getting the project recognized by prospective customers.
- Provide insight as to the type of products desired by customers so that the farmers can produce to that specification.

It is hoped that this strategy makes these markets feel like part of the planning process for the new company and would be incentive for them to become customers.

To help ascertain the size of the market opportunity, it is important to ask the amount of beef, pork and lamb sold or used. If this information is elusive, prior experience of the authors has shown that a retail grocer sells approximately 1,000 pounds per week of fresh and ground beef. Some larger stores sell double this amount in one week. Fresh pork is typically sold at 25% the volume of beef. Processed pork (ham, bacon, sausage) is often 50% that of fresh beef. Depending on location, some retail markets sell modest amounts of lamb legs and racks and others sell none. To estimate the volume used by restaurants, one can assume a single restaurant uses approximately 200 lbs of beef per week. The amount of pork and lamb used is extremely variable according to location and type of restaurant.

A distribution partner to deliver to customers in the prescribed region is usually achievable. The option usually exists whether to sell directly to the distribution company or pay for pick-up and drop off services.

If using a regional distribution company is not possible due to size of customers, size of sales volume, scheduling problems, etc., the marketing company may want to act as their own distribution company and set up a cooler and freezer and purchase a refrigerated delivery truck or trailer. It is expected that charges paid for storage and distribution will be offset by assigned freight charges to the customer.

3.2 Marketing Targets

A blend of restaurants and retail stores will be required for proper whole carcass utilization of cattle, hogs, and lambs. As a starting point, the primary marketing targets for the producer-owned marketing company are inclusive of many of the food distribution companies, restaurants, and retail grocers in the local area or region. Hopefully, many of them have been interviewed as part of the market analysis research discussed in Section 3.1. Part of the reason for selecting the interview targets is to familiarize these potential customers with the project and prospective new marketing company that is being planned.

3.3 Products to be Marketed

- Fresh and frozen beef subprimals (i.e., ribeye, strip loin, tip sirloin, inside round, etc.)
- Fresh and frozen pork subprimals (i.e., pork loin, spare ribs, etc.)
- Fresh and frozen lamb subprimals (i.e., rack, loin, leg)
- Fresh and frozen whole lamb carcasses
- Frozen beef, pork, and lamb offal (i.e., tongue, liver, tails, hocks, etc)
- Frozen portion controlled beef, pork, and lamb cuts and steaks individually packaged.
- Various types of cured and smoked pork ham
- Various flavors of pork and beef bacon
- Fresh and cooked sausages (summer sausage, bratwurst, breakfast sausage, etc.)
- Fresh and frozen ground beef, ground pork and ground lamb in various portion weights
- Other types of processed meats as desired by customers (i.e., corned beef, jerky, precooked lamb shoulders, etc.)
- Cooked and pulled, barbeque pork and beef

3.4 Features/Benefits to Products

The following include perceived advertisable features and benefits to the above-listed products. Depending on what is exactly chosen for particular species and label claims for a particular program, the following features and benefits may not all fit the prescribed production program. Detailed production programs matching the label claims will be addressed in the Livestock Production section (Section 4.2).

- *Locally grown*

Locally grown is a powerful marketing tool. It represents “trust” with the products and farmers who raise them. It represents that products are fresh. Locally grown in a particular region will conjure a nice scene of cattle, hogs, and lambs grazing or housed in the typical landscape of that region. Another feature to locally-grown products is the money stays locally resulting in a multiplication effect on the local economy and communities.

- *All natural or organic*

The principal features and benefit to organic labeled products is the exclusiveness and strict requirements for organic labeled meat that most of the industry is not capable of doing. Organic labeled grass-fed beef raised on organic certified pastures is probably the least cost compared to the certification of all other meat species. Nevertheless, organic certification of cattle and their pastures remains arduous.

According to USDA definitions, “natural” only refers to “minimally processed, no artificial ingredients”. In addition to the USDA definition, “natural” to most marketing companies means the livestock were not fed antibiotics or were administered hormone implants. Also, when the animal becomes sick, it is removed from the natural market-place. Naturally raised cattle typically are not implanted with growth-promotants. Natural raised hogs are typically not fed the beta agonist, Ractopamine.

- *Grass-fed*

Cattle and lambs are life-time raised and fed on vegetative grass or harvested forages, not grain. Cattle are not confined to feedlot pens but rather left on land where they can graze. The cattle have more space to roam freely and can keep comparatively cleaner than feedlot cattle. Nutrition and health benefits from grass-fed cattle insinuated by the following, but cannot be claimed on the label:

- Lower fat/calorie content
- Higher Vitamin A and E content
- Omega-3 fatty acids. The most publicized nutritional benefit to grass-finished beef is the increased levels of omega-3 fatty acids and conjugated linoleic acid (CLA). Some beef marketers are attempting label claims for increased omega-3's.
- The published benefits of CLA:
 - Anti-carcinogenic
 - Increased lean muscle mass and reduced body fat
 - Treating heart disease
 - Preventing onset of diabetes

Boosting immune system

- *Commitment to customers*

Attributes to the marketing company's products is the genuine commitment to their customers of:

- Flavor
- Compassion (land and livestock)
- Source identified livestock
- Consumer confidence

3.5 Marketing Concept Names and Branding

The concept name for the marketing company as well as product labels should be one that is identifiable, short, concise, and easy to say and remember. One should try to avoid words which have been overused and just extend the name such as "premium" and "quality".

3.6 Promotion and Marketing Budgets

The following table will be used as a guide for the first year's marketing budget.

Table 3.6. Example of first year marketing budget

Promotional literature/P-O-P Materials/Copies	\$25,000
Website development	\$4,000
Label development and stock	\$15,000
Samples	\$5,000
Total marketing costs	\$49,000

Annual budgets after the first year would be lower due to elimination of the website and label development fees.

3.7 Competition

It is important for the marketing company to know and understand competitive meat programs that could create difficulties. The most obvious competitors are low-priced commodity meat programs sold in most grocery stores and restaurants. Also, there are usually several existing small independent livestock

producers in the region that get their animals processed at a USDA-inspected plant and then market their own-labeled products directly to consumers, restaurants and stores. Often, there are other national or regional branded programs offering natural, grass-fed, or other niche meat programs.

Section 4 **Animal Supply Plan**

4.1 Numbers

4.1.1 Potential Number of Eligible Livestock

It is important to research the approximately inventory of livestock in your particular region or most likely area of draw for livestock in your program. The USDA national or state Agricultural Statistics Services provide good estimates. There may also be numbers available from the county extension service and state or local livestock organizations.

4.1.2 Numbers Used in Predictions

The numbers of livestock to use will dependent on

- Numbers available within the region and within the potential membership.
- The processing capacity of USDA-inspected processing plants you intend to use.
- The expected sales volume from potential customers.

Predicting the numbers of cattle, hogs, and lambs needed for the first three years in operation will be difficult due to the uncertainty of the number of customers serviced. Typically, the marketing company will start with a few customers and will be expected to grow monthly as supplies grow and experience and confidence is gained with customers.

It is important to have a supply contingency plan if demand grows beyond your original numbers. Often, the most difficulty in contingency planning is tied to processing capacity. The plan should include attempts to expand capacity of existing processors or extend the geographical area to include more processors.

4.2 Production types

4.2.1 Grass-fed beef

To fit a grass-fed production specification or qualify for grass-fed labeling, all livestock production must be pasture/forage based. The USDA's current definition of grass-fed includes grass (annual and perennial), forbs (legumes, brassicas), browse, forage, or stockpiled forages, and post-

harvest crop residue without separated grain shall be at least 99 percent of the energy source for the lifetime of the ruminant specie, with exception of milk consumed prior to weaning. Routine mineral and vitamin supplementation may also be included in the feeding regimen. Grass (forage) fed claims will be verified, as provided in 7 CFR part 62, by a feeding protocol that confirms a grass or forage-based diet that is 99 percent or higher.

Unlike counties like New Zealand and Uruguay, grass does not stay productive year-round in most regions of the U.S. There are periods of draught in the summer and dormant grass in the winter where cattle have to be fed supplemental forages in order to continue to gain weight. Regional grass production differs according to season and year. Most grass-fed cattle ranches perform some type of rotational grazing regimen because it is effective in increasing grass and beef production per acre. Grass finishing has becoming more sophisticated as more producers are getting involved and more information is available on best-techniques. One great advantage of several beef produces producing for a company they have ownership, there becomes a sharing of strategies and a consistency of production between ranches, which improves the meat products.

Early maturing cattle largely of British decent tend to result in more acceptable carcasses on grass-fed programs. Angus, Hereford, and Shorthorn cattle are the most logical breeds for grass-fed programs but there still remain large variations within breeds for consistent production of acceptable carcasses. Certain ranches have been selecting cattle for optimum grass-finishing traits and there have been established tools to aid the process such as ultrasound. These technologies and knowledge will be encouraged for producers raising cattle for this business.

4.2.2 *Natural or organic beef*

The cattle in this program could fit into “organic” label specifications or “natural” label specifications.

On December 21, 2000 the final national organic standards were published in the Federal Register. Organic meat must come from certified organic livestock. According to the Organic Trade Association, organic livestock must be fed organic feed. Conventional feed will be allowed only if the organic feed supply has been compromised by a national, state, or local weather emergency, or by fire or flood on an organic farm. Growth promoters and hormones are prohibited. Synthetic vitamins and minerals are allowed. Animals must not be overcrowded, and must be allowed periodic access to the outdoors and direct sunlight. Antibiotics, wormers and other medications may not be used routinely as preventative measures. Antibiotics or other medications, however, cannot be withheld if

such treatment would save an animal's life. If antibiotics or other medications are used, the animal must be sold as conventional, not organic. Any entity that touches the raw product must have organic certification in order to label it or sell it as "organic" on the menu or in the meat case. This includes the slaughterhouse, processor, portion cutting facility, butcher, chef, and farmer.

Most marketed "Natural" production programs have the same prohibition against implants and antibiotics but do not have the same restrictive organic feed requirements.

4.2.3 *Natural pork*

Natural pork has different meanings by different companies. To some companies, natural pork means no antibiotic residues; whereas, natural in others mean no antibiotics ever in the pig's life and no Ractopamine. Typically, naturally raised hogs come from small farms where hopefully tight management can replace antibiotics especially through the sensitive nursery stages.

4.2.4 *Cull cows*

Cows are culled from a herd for a variety of reasons, but the most common include:

- Reproductive unsoundness (open)
- Structural unsoundness (feet, legs, utter)
- Poor milkers, significant drop in milk production – low weight gain of calves

Typically ranchers sell their cull cows at a regional auction market and get what the cattle buyers at that sale dictate. This marketing company may provide an acceptable market for these cows and then turn them into value-added products (ground beef, sausages, and cooked products like jerky) for the company. Most of the cull cows are available in the fourth calendar quarter of the year but prices are better by holding them and selling them during natural low periods of supply (i.e., winter).

4.3 Compensation Strategies for Producers

Producers selling their animals to the marketing company will be provided a market price commensurate with industry prices. Regional market information is easily accessed and weekly or daily prices will be set by the marketing company based on current regional prices. Payment to the producers for the livestock can either be made according to USDA Packer and Stockyards guidelines or

because these are classified as a “custom sale” (sold by the livestock owners to the company of which they own), payment could be delayed in a disciplined payment regimen that corresponds to normal payment terms of the meat customers.

4.4 Numbers and Species Used for Planning Purposes

For the purposes of this business plan, the following numbers were utilized in a ramp-up strategy over the course of three years.

Table 4.4 Expected numbers and types of animals used

Species	Year 1	Year 2	Year 3
Cattle, grass-finished	227	425	600
Cattle, grain-finished	227	425	600
Hogs	443	875	1,200
Lambs	275	480	600
Cull cows	103	120	180

4.5 Other Species

This business plan only incorporates amenable species of meat animals according to the USDA (cattle, hogs, lambs or goats). Non-amenable species such as rabbits, bison, and elk are not incorporated but could be added. Adjustments would have to be done to accommodate USDA voluntary inspection expense, and differing cost of goods sold, processing costs, and revenue expectations.

Section 5 Harvest and Processing Plan

5.1 Facilities

The primary facility for processing the livestock from this marketing company will be a USDA-inspected facility in the region of the marketing company. It is important that the processor is able to perform the following services:

- Humane harvesting
- Adequate carcass cooling for proper cool-down and marbling bloom prior to boning
- Boning into subprimals
- Vacuum packaging of subprimals
- Storage racks or rail trees in the carcass sorting cooler to place middle meat subprimals for dry aging if required by the customer.
- Meat grinding
- Sausage forming
- Curing
- Cooking/Smoking
- Vacuum packaging or roll-stock packaging of processed meats

To get proper margins and for proper whole-carcass utilization, it will become necessary to further process pork and beef.

5.2 Expected Processing Costs

Processing costs are typically set as a margin above the plant's processing costs or as a competitive number compared to other processors in the region. A marketing company has some negotiating power if the company can bring consistent volume.

For the purposes of this business plan, the costs in the following table (Table 5.2) will be used for the various species: These costs were derived from FLPI data of custom plants across the U.S. and can be adjusted with local information when it becomes available.

Table 5.2 Expected custom processing costs (including further processing) by species:

	Grass-finished beef	Grain-finished beef	Cull cows	Hogs	Lambs/goats
Harvest costs, \$/hd	\$75	\$75	\$75	\$50	\$60
Processing costs ^a , \$/lb	\$0.60	\$0.60	\$0.60	\$0.70	0
Avg. carcass wt., lb	725	813	576	160	65
Total processing costs, \$	563	510	421	162	60

^a. Processing includes boning, grinding, curing, smoking, sausage manufacture.

5.3 Dry Aging Beef

Some customers desire dry-aged beef for enhanced flavor and tenderness. Dry aging is the traditional process of placing either an entire carcass or subprimal (without covering or packaging) in a refrigerated room for 14 to 21 days at 80 – 85% relative humidity and with an air velocity of 0.5 – 2.5 m/sec. In situations where this is desired, the particular beef subprimal cut will be placed on racks or rail trees in the carcass cooler for the appropriate time period. Dry aging an entire carcass is extremely expensive and not necessary for much of the carcass. Plus, cutting the bones out of a dry-aged carcass is very hard on the workers.

5.4 Composite Carcass Value

A cut-out is yield model of individual cuts and their wholesale values compiled back to a whole carcass value. Cut-out models are necessary to determine red meat yields for the various cuts and will help determine revenue opportunities for each individual cut or product and the role they have in total carcass value. Plants differ in their cut-out styles and yields. The following table depicts a composite of several plants that Food and Livestock Planning, Inc. (FLPI) have worked with across the U.S. and estimated yield totals for fresh, whole-muscle cuts, offal, and further processed items from differing species of animals. Exact yields from each product are not included for proprietary reasons. Further processed meats were utilized as much as possible because of expected higher margins.

Table 5.4 Carcass value table by species

	Grain-finished beef		Grass finished	Cull Cows	Pork		Lamb
	Conv.	Natural	Beef		Conv.	Natural	
Carcass wt., lb	813	813	725	550	160	160	65
% of carcass wt. sold as fresh subprimals	27.50%	27.50%	26%	14%	18%	18%	44.25%
Benchmark value of fresh subprimals ^a , \$/lb	2.85	2.85	2.85	1.94	1.55	1.55	4.75
Benchmark value of fresh subprimals, \$	637	637	537	149	45	45	137
Define specialty program for fresh meats	None	Natural	Grass-fed	None	None	Natural	None
% premium for specialty meats	0	20%	40%	0%	0	25%	0
New value with premium	637	765	752	149	45	56	137
% of carcass wt. sold as processed meats ^b	37%	37%	36%	56%	52%	52%	20%
Benchmark value for processed meats ^c , \$/lb	4.40	4.40	4.40	3.27	2.45	2.45	3.00
Benchmark value for processed meats, \$	1,324	1,324	1,148	1,007	204	204	39
Define specialty program for processed meats	None	None	None	None	None	Natural	None
% premium applied for specialty program	0	0	0	0	0	25%	0
New value with premium	1,324	1,324	1,148	1,007	204	255	39
% of carcass wt. sold as frozen offal ^d	2%	2%	2%	2%	3%	3%	0%
Benchmark value of offal ^a , \$/lb	1.45	1.45	1.45	1.52	0.35	0.35	0
Value of offal, \$	23.58	23.58	21.03	16.72	1.68	1.68	0
Total value of carcass	1,984	2,112	1,922	1,173	250	312	176

^a USDA reported carlot trade of individual subprimals 2010

^b Ground, sausage, jerky, cooked/smoked, cured, hams, bacon, etc.. In the case of lamb = ground trim and shoulders

^c Value of processed meats determined by FLPI data

^d Pork offal includes hocks and jowels

In addition to the footnotes, cutting yields and processing yields and premium percentage were determined from FLPI company data.

5.5 Distribution Plans

Delivery of meat products from the warehouse of the processing plant to the dock of the customer is typically done: a) 'in-house' by the meat company with their own trucks (owned or leased); or, b) 'out-sourced' by a distribution company.

5.5.1 In-house distribution

Usually, with a small company focused on servicing local customers, the plant will use one or two refrigerated delivery trucks. In-house distribution requires attention to be placed on the following overhead criteria:

- a). Truck or trucks equipped with refrigeration units
- b). Labor (truck drivers)
- c). Insurance
- d). Truck maintenance
- e). Fuel costs

In-house delivery should be considered a separate profit or cost center and all costs should be captured through delivery costs to the customer.

5.5.2 Out-sourced distribution

There are two methods to outsourced distribution:

- a). Companies that will pick up meat products and deliver them to a company's customers for a fee per pound or a fee per drop.
- b). Companies that will purchase the meat products and then resell them to the customer.

5.5.3 Expected Distribution and Warehousing Costs

Previous work by the authors has shown that whether the products are transported in-house or out-sourced, the expected total warehouse and transportation cost to the customer is approximately \$0.13 per pound.

Section 6 Corporate and Management Plan

6.1 Best-Fit Legal Structure

The best-fit legal structure for this business will depend on:

- a. the project's ability to attract investment;
- b. the project's ability to engage the producers utilizing the business;
- c. state security laws; and
- d. the nature of the business plan.

There are several options to legally structure the producer-owned marketing company. The most likely options are a standard C corporation, closed cooperative or limited liability company (LLC). A typical C corporation is a simple structure which can accommodate many owners but has complications when solicitation for the selling of stock to those investors and requires securities registration. The latter two are the most logical because of elimination of double taxation.

6.1.1 Closed Cooperative

A closed cooperative is a traditional cooperative, with a closed membership structure. This legal structure works best if the predominant suppliers of animals to the marketing company are willing investors. This business structure offers numerous advantages as summarized below:

- a. The cooperative model affords strong legal protection from anti-trust claims. Anti-trust issues always exist in the context of exclusive marketing agreements. The Capper-Volstead Act allows producers to organize and to collectively market products without being in violation of otherwise applicable anti-trust laws.
- b. Securities offered by agricultural cooperatives generally are exempt from registration under state law. Under federal law, a limited offering exemption may be available regardless of whether the entity is organized as a cooperative. However, one could obtain a separate more flexible exemption from federal registration requirements in the event that we obtain Section 521 tax-exempt status (which would certainly be available to the cooperative, although such status comes with some restrictions).
- c. The cooperative governance structure is simple - one member/one vote. Other aspects of cooperative governance are fairly standard and not as complicated as an LLC structure.
- d. The cooperative model allows for a straightforward production and delivery structure. Here, it would allow for the beef, pork, and lamb production of the members to be a central focus of the business plan - since the cooperative legal and business structure is designed to

implement a patronage form of business between the members and the cooperative.

- e. **Marketing Advantages.** The producer-owned cooperative model allows for a simple marketing message - producer owned and controlled, with all of the advantages of quality, source verification, and process verification.

The disadvantages to the cooperative system are difficult accommodation of non-member business and the treatment of patronage. This company may need to purchase non-member livestock to keep a continuous supply of meat to customers. In this case, non-members who sell their livestock to the cooperative are eligible for patronage, just as members.

6.1.2 *Limited Liability Company (LLC)*

A LLC has the single taxation advantages and can accommodate both investor and non-investor businesses better than closed cooperatives. The primary advantage of a LLC over a cooperative is flexibility – typically in the fact that returns are made on the basis of investment/ownership and not on the basis of patronage.

The disadvantages include: Partnership taxation can actually be more complicated for the individual owners - requiring filing state income tax returns in all states where income is earned. Moreover, you have no control over the allocation and flow-through of taxable income to the members, unlike in a cooperative. Moreover, it is more difficult to offer securities in the LLC model as compared to a cooperative. If there are a large number of potential investors in two or more different states, the LLC structure may be difficult.

6.2 Governance

The governance is only slightly different between a LLC and closed cooperative. An LLC is governed by a Board of Governors elected from the group of investors on an annual basis. Shareholders vote their shares in determination of their representation on the board and closed cooperative members have one-member-one-vote. Board representation can be one, two or three-year terms. The Board of Governors hires the company's CEO or General Manager (GM) and set the company's direction and policies according to the company's bylaws. The company's CEO or GM runs the day-to-day operations of the company and reports to the Chairman of the Board. The board elects their own officers at the annual meeting.

6.3 Personnel Needs and Their Tasks

Initially, the marketing company only needs one full-time employee and that is the GM, who will handle all responsibilities listed below. Many of the responsibilities will be handled by the GM and many can be outsourced or part-time until such time as the business warrants full-time personnel.

- General business management. This would involve managing all business responsibilities including personnel, investment and distributions to investors, and the engagement of accounting and auditors as necessary to assist in the management of finances.
- Sales and Marketing. A person with sales and marketing responsibilities ensures that current and future customers are being served adequately, represents and promotes the meat products in the marketplace, manages other sales persons and brokers, and creates demand for products.
- Accounting and financial management. A person with accounting and financial management responsibilities manages the cash flow of the business, pays for live animals and processing costs, and manages account receivables and payables.
- Animal procurement officer. This responsibility includes working with all members to schedule delivery times to the processing plant, monitors regional market prices and sets pricing strategies.
- Quality control. This person is responsible for working with the custom processing plant to make sure the livestock are processed according to company needs. This person monitors packaging, labels, and product appearance both at the plant and with customers to ensure company standards are being met.

6.4 Expected Total Capital Needs

The only use of invested funds in this business is for the initial financing of the working capital needs of the business. Working capital needs include labor, office expense, marketing expense, payment for the live animals, and payment for processing services. There are no hard assets (plant, property or equipment) to be financed in this business plan. It is possible that the marketing company may in the future want to construct refrigerated storage and purchase a refrigerated delivery truck for situations where their customers are inadequately serviced by existing third-party distributors.

The expected capital needs of the business are included in the following table:

Table 6.4. Expected capital needs of the business

Capital Needs	(\$)
<i>Pre-Operations</i>	
Market Development	\$20,000
Start-Up G&A	\$30,000
Insurance prepayments	\$1,000
Legal fees	\$15,000
Equity drive expense	\$20,000
<i>Beginning Inventory Balance</i>	
Livestock purchases (1 month)	\$13,933
Subtotal Pre-operations	\$100,693
<i>Operational working capital</i>	\$100,000
Total capital to be raised	\$199,933

The business models assume the members will deliver their finished livestock to the plant for processing and then wait for approximately 30 days for payment. In this way, the marketing company does not need additional financing for receivables and inventory. It is expected that all income from the sale of various products from the carcass are sold and the cash received within 30 days. Payment terms for most customers are net-10 days and it is expected that all products will be sold to customers within 21 days of processing.

6.5 Company Shares and Share Value

As in most states, a business law firm should be engaged to facilitate filings of state security registrations and preparation of the disclosure documents for the selling of shares or securities. This business plan can be used as part of the disclosure documents. Share value is determined by the amount of capital required to be raised divided by the number of expected investors. The share numbers and share values are dependent on the type of organized corporation.

6.5.1 LLC, C-Corp, Subchapter S

For example if there are 35 producer-investors and you desired to raise \$280,000, the share value would be \$8,000/share for 35 shares.

6.5.2 Closed cooperative

For a closed cooperative, the share value is based on a value per annual delivered animal. The share value per animal unit is set by the board.

- For example: 1 beef share = \$200 with a minimum of 10 shares to be purchased per investor (no maximum).
 - At 1,300 beef cattle delivered per year * \$200/share = \$260,000 of capital raised from beef producers.
- For example: A lamb and hog share = \$40/animal with a minimum of 50 lambs or hogs to be delivered per year per investor (no maximum).
 - At 600 lambs and 1,200 hogs delivered per year = \$72,000.
- The total combined capital raised in example = \$260,000 + \$72,000 = \$332,000.
- For a closed cooperative, the capital raised per share value is only raised up-front, not annually. Producers will sign a “Uniform Marketing Agreement” , which is a right and obligation to deliver a specific number of market-ready animals to the company annually.
- There are several detailed delivery rules that the board of directors will work out as a part of the company bylaws.
- The marketing cooperative can purchase animals from outside of the membership to ensure continuous supplies to customers. In this case, the animals would be paid for by the cooperative according to USDA P&S rules. Patronage rules apply.
- Each member can deliver more livestock than their share purchase minimums and the board will work out the rules and details. Patronage rules apply.

Section 7 Financial Plan

7.1 Development of Business Enterprise Model and Outcomes

A business enterprise model was developed, which is able to simulate business outcomes across differing inputs. As in the case with any model, the financial predictions are only as good as the assumptions used.

7.1.1 Revenue expectations, raw material costs, cost of production assumptions

- Revenue
 - Derived from information in Table 5.4.
- Prices paid for market livestock based on USDA reported prices 2010 plus assigned premiums derived from FLPI.

Table 7.1.1 Live animal purchase prices and assigned premiums

	Carcass Wt., lb	USDA Baseline Price ^a Select \$/lb carc.	Choice \$/lb carc.	Production Premium %	Adj. Live price Value, \$	Selling Commission ^c 2%	Live price final
Beef steers/heifers							
Grass-finished	725	1.51		16%	1,270	25	1,245
Grain-finished	813		1.57	3%	1,315	26	1,288
Market hogs		USDA (national hogs)					
	160	0.76		16%	142	3	139
Market lambs		USDA (national lambs)					
	65	1.30		0%	85	2	83
Cull cows (breaker)	Live wt.	USDA (specific location)					
	1200	0.57		0%	690	14	676

^a All baseline prices based on 2010 reported USDA prices

^b Niche production premiums based on FLPI data

^c Discount equal to commission for selling at terminal market

- Assumes truck and delivery expenses to be a separate cost and profit center and costs will be offset by delivery charges.
- A bank line of credit will be used to finance inventory and receivables and kicks in when the bank balance approaches 0.
- Assumes payment for live animals at 30 days after delivery.
- Assumes payment for services (processing) when they occur.
- Number of beef cattle, hogs, and lambs used per year is speculation by authors.
- Processing costs based on information in Table 5.2.

7.2 Finance Statements

Table 7.2.1 Monthly income statement and cash flows of 1st year in operation

	Startup	Mo 1	Mo 2	Mo 3	Mo 4	Mo 5	Mo 6	Mo 7	Mo 8	Mo 9	Mo 10	Mo 11	Mo 12	Total
Revenue														
Beef, grass-fin.	-	7,686	15,372	15,372	23,058	28,823	28,823	38,431	48,039	48,039	57,646	57,646	67,254	436,190
Beef, grain fin.	-	8,447	16,894	16,894	25,341	31,677	31,677	42,235	52,794	52,794	63,353	63,353	73,912	479,371
Pork	-	2,498	3,123	4,684	6,246	9,368	9,368	12,491	15,614	15,614	18,737	18,737	21,860	138,340
Lamb	-	1,405	1,756	2,107	2,634	3,512	3,512	4,391	5,269	5,269	6,147	6,147	6,147	48,296
Cull cows	-	3,686	6,144	6,144	12,287	12,287	12,287	12,287	12,287	12,287	12,287	12,287	12,287	126,558
Hide Credit	-	0	0	0	0	0	0	0	0	0	0	0	0	0
Total revenue	-	23,723	43,289	45,202	69,567	85,668	85,668	109,835	134,003	134,003	158,170	158,170	181,459	1,228,755
Cost of goods sold														
Cattle, grass-fin.	-	4,978	9,956	9,956	14,934	18,668	18,668	24,890	31,113	31,113	37,335	37,335	43,558	282,504
Cattle, grain-fin.	-	5,154	10,307	10,307	15,461	19,326	19,326	25,768	32,210	32,210	38,652	38,652	45,094	292,469
Hogs	-	1,112	1,390	2,084	2,779	4,169	4,169	5,558	6,948	6,948	8,338	8,338	9,727	61,560
Lambs	-	662	828	994	1,242	1,656	1,656	2,070	2,484	2,484	2,898	2,898	2,898	22,773
Cull cows	-	2,028	3,379	3,379	6,758	6,758	6,758	6,758	6,758	6,758	6,758	6,758	6,758	69,612
Total cost of goods sold	-	13,933	25,860	26,721	41,175	50,577	50,577	65,046	79,514	79,514	93,982	93,982	108,036	728,918
Gross Margin	-	9,789	17,429	18,481	28,392	35,090	35,090	44,790	54,489	54,489	64,188	64,188	73,423	499,837
Expenses														
Total processing costs	-	7,329	12,905	13,835	21,220	26,358	26,358	33,642	40,926	40,926	48,210	48,210	55,194	375,113
G & A	-	500	-	-	-	-	-	-	-	-	-	-	-	500
License/fees	-	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Office supplies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Professional fees	-	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Accounting fees	-	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Meals and entertainment	-	4,083	4,083	4,083	4,083	4,083	4,083	4,083	4,083	4,083	4,083	4,083	4,083	49,000
Marketing costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Brokerage @ 4.5%- x% of volume	-	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	84,000
Admin. Labor	-	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Office/utilities/phone	-	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Postage	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Car lease/travel expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Insurance	-	600	600	600	600	600	600	600	600	600	600	600	600	7,200
Director expense	-	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Miscellaneous expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	86,000	100	100	100	100	100	100	100	100	100	100	100	100	1,200
EBITDA	86,000	22,212	27,289	28,219	35,603	40,741	40,741	48,025	55,309	55,309	62,593	62,593	69,577	548,213
Interest expense	(86,000)	(12,423)	(9,860)	(9,738)	(7,211)	(5,651)	(5,651)	(3,236)	(821)	(821)	1,595	1,595	3,846	(48,376)
Depreciation expense	-	-	-	-	-	-	-	60	183	190	297	288	376	1,394
Net income (loss)	\$ (86,000)	\$ (12,423)	\$ (9,860)	\$ (9,738)	\$ (7,211)	\$ (5,651)	\$ (5,651)	\$ (3,296)	\$ (1,003)	\$ (1,010)	\$ 1,298	\$ 1,307	\$ 3,469	\$ (49,770)
		Mo 1	Mo 2	Mo 3	Mo 4	Mo 5	Mo 6	Mo 7	Mo 8	Mo 9	Mo 10	Mo 11	Mo 12	Total
Statement of Cash Flows														
Net income (loss)		\$ (12,423)	\$ (9,860)	\$ (9,738)	\$ (7,211)	\$ (5,651)	\$ (5,651)	\$ (3,296)	\$ (1,003)	\$ (1,010)	\$ 1,298	\$ 1,307	\$ 3,469	\$ (49,770)
Depreciation		-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities:														
Accounts receivable		(23,723)	(19,566)	(1,913)	(24,365)	(16,101)	-	(24,167)	(24,167)	-	(24,167)	-	(23,289)	(181,459)
Inventory		(11,927)	(860)	(14,454)	(9,402)	-	(14,468)	(14,468)	-	(14,468)	-	(14,054)	13,640	(80,463)
Accounts payable		41,073	5,937	15,384	16,787	5,138	14,468	21,752	7,284	14,468	7,284	14,054	(6,656)	156,974
Net cash used in operating activ.		(7,000)	(24,350)	(10,720)	(24,192)	(16,613)	(5,651)	(20,179)	(17,887)	(1,010)	(15,586)	1,307	(12,836)	(154,718)
Financing activities														
Line of credit, net		-	-	-	-	-	-	8,706	17,887	1,010	15,586	(1,307)	12,836	54,718
Members' contributions		-	-	-	-	-	-	-	-	-	-	-	-	-
Members' distributions		-	-	-	-	-	-	-	-	-	-	-	-	-
Net increase (decrease) in cash		(7,000)	(24,350)	(10,720)	(24,192)	(16,613)	(5,651)	(11,473)	-	(0)	-	0	-	(100,000)
Cash at beginning of period		100,000	93,000	68,650	57,930	33,738	17,124	11,473	-	-	(0)	(0)	-	100,000
Cash at end of period		\$ 93,000	\$ 68,650	\$ 57,930	\$ 33,738	\$ 17,124	\$ 11,473	\$ -	\$ -	\$ (0)	\$ (0)	\$ -	\$ -	\$ -

Table 7.2.2 Monthly income statement and cash flows of 2nd year in operation

	Mo 13	Mo 14	Mo 15	Mo 16	Mo 17	Mo 18	Mo 19	Mo 20	Mo 21	Mo 22	Mo 23	Mo 24	Total
Revenue													
Beef, grass-fin.	57,646	57,646	57,646	57,646	67,254	67,254	67,254	76,862	76,862	76,862	76,862	76,862	816,655
Beef, grain fin.	63,353	63,353	63,353	63,353	73,912	73,912	73,912	84,471	84,471	84,471	84,471	84,471	897,501
Pork	18,737	20,298	21,860	21,860	21,860	21,860	21,860	24,982	24,982	24,982	24,982	24,982	273,245
Lamb	7,025	7,025	7,025	7,025	7,025	7,025	7,025	7,025	7,025	7,025	7,025	7,025	84,299
Cull cows	12,287	12,287	12,287	12,287	12,287	12,287	12,287	12,287	12,287	12,287	12,287	12,287	147,447
Hide credit	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	159,048	160,610	162,171	162,171	182,337	182,337	182,337	205,627	205,627	205,627	205,627	205,627	2,219,146
Cost of goods sold													
Cattle, grass-fin.	37,335	37,335	37,335	37,335	43,558	43,558	43,558	49,780	49,780	49,780	49,780	49,780	528,918
Cattle, grain-fin.	38,652	38,652	38,652	38,652	45,094	45,094	45,094	51,536	51,536	51,536	51,536	51,536	547,574
Hogs	8,338	9,033	9,727	9,727	9,727	9,727	9,727	11,117	11,117	11,117	11,117	11,117	121,592
Lambs	3,312	3,380	3,380	3,380	3,380	3,380	3,380	3,380	3,380	3,380	3,380	3,380	40,492
Cull cows	6,758	6,758	6,758	6,758	6,758	6,758	6,758	6,758	6,758	6,758	6,758	6,758	81,102
Total cost of goods sold	94,396	95,159	95,853	95,853	108,518	108,518	108,518	122,572	122,572	122,572	122,572	122,572	1,319,677
Gross Margin	64,652	65,451	66,317	66,317	73,819	73,819	73,819	83,055	83,055	83,055	83,055	83,055	899,469
Expenses													
Total processing expense	48,510	49,320	50,130	50,130	55,494	55,494	55,494	62,478	62,478	62,478	62,478	62,478	676,962
G & A Licenses/fees	500	-	-	-	-	-	-	-	-	-	-	-	500
Office supplies	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Professional fees	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounting fees	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Meals and entertainment	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Marketing costs	3,125	3,125	3,125	3,125	3,125	3,125	3,125	3,125	3,125	3,125	3,125	3,125	37,500
Brokerage @ 4.5%- x% of volume	-	-	-	-	-	-	-	-	-	-	-	-	-
Admin. Labor/benefits	-	-	-	-	-	-	-	-	-	-	-	-	-

Office/utilities/phone	7,250	7,250	7,250	7,250	7,250	7,250	7,250	7,250	7,250	7,250	7,250	7,250	7,250	87,000
Postage	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Car lease/travel expenses	100	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Insurance	600	600	600	600	600	600	600	600	600	600	600	600	600	7,200
Director expense	350	350	350	350	350	350	350	350	350	350	350	350	350	4,200
Miscellaneous expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	100	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Total operating expenses	62,735	63,045	63,855	63,855	69,219	69,219	69,219	76,203	76,203	76,203	76,203	76,203	76,203	842,162
EBITDA	1,917	2,406	2,462	2,462	4,600	4,600	4,600	6,852	6,852	6,852	6,852	6,852	6,852	57,307
Interest expense	259	253	243	228	300	270	240	307	262	216	171	124	124	2,875
Depreciation expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	\$ 1,657	\$ 2,153	\$ 2,219	\$ 2,235	\$ 4,300	\$ 4,330	\$ 4,360	\$ 6,544	\$ 6,589	\$ 6,635	\$ 6,681	\$ 6,727	\$ 6,727	\$ 54,432

	Mo 13	Mo 14	Mo 15	Mo 16	Mo 17	Mo 18	Mo 19	Mo 20	Mo 21	Mo 22	Mo 23	Mo 24	Total
Statement of Cash Flows													
Net income (loss)	\$ 1,657	\$ 2,153	\$ 2,219	\$ 2,235	\$ 4,300	\$ 4,330	\$ 4,360	\$ 6,544	\$ 6,589	\$ 6,635	\$ 6,681	\$ 6,727	\$ 54,432
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities:													
Accounts receivable	22,411	(1,561)	(1,561)	-	(20,167)	-	-	(23,289)	-	-	-	-	(24,167)
Inventory	(762)	(695)	-	(12,665)	-	-	(14,054)	-	-	-	-	(32,248)	(60,424)
Accounts payable	(6,330)	1,005	810	12,665	5,364	-	14,054	6,984	-	-	-	32,248	66,800
Net cash used in operating activ.	16,976	901	1,468	2,235	(10,502)	4,330	4,360	(9,761)	6,589	6,635	6,681	6,727	36,640
Financing activities													
Loan principal payments	-	-	-	-	-	-	-	-	-	-	-	-	-
Line of credit, net	(16,976)	(901)	(1,468)	(2,235)	10,502	(4,330)	(4,360)	9,761	(6,589)	(6,635)	(6,681)	(6,727)	(36,640)
Members' contributions	-	-	-	-	-	-	-	-	-	-	-	-	-
	(16,976)	(901)	(1,468)	(2,235)	10,502	(4,330)	(4,360)	9,761	(6,589)	(6,635)	(6,681)	(6,727)	(36,640)
Net increase (decrease) in cash	-	(0)	-	-	-	-	-	-	-	-	-	-	-
Cash at beginning of period	-	-	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	-
Cash at end of period	\$ -	\$ -	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ (0)	\$ -

-	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	-
---	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	---

Table 7.2.3 Monthly income statement and cash flows for the 3rd year in operation

	Mo 25	Mo 26	Mo 27	Mo 28	Mo 29	Mo 30	Mo 31	Mo 32	Mo 33	Mo 34	Mo 35	Mo 36	Total
Revenue													
Beef, grass-fin.	96,077	96,077	96,077	96,077	96,077	96,077	96,077	96,077	96,077	96,077	96,077	96,077	1,152,924
Beef, grain-fin.	105,588	105,588	105,588	105,588	105,588	105,588	105,588	105,588	105,588	105,588	105,588	105,588	1,267,061
Pork	31,228	31,228	31,228	31,228	31,228	31,228	31,228	31,228	31,228	31,228	31,228	31,228	374,736
Lambs	8,781	8,781	8,781	8,781	8,781	8,781	8,781	8,781	8,781	8,781	8,781	8,781	105,373
Cull cows	18,431	18,431	18,431	18,431	18,431	18,431	18,431	18,431	18,431	18,431	18,431	18,431	221,170
Hide credit	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	260,105	260,105	260,105	260,105	260,105	260,105	260,105	260,105	260,105	260,105	260,105	260,105	3,121,264
Cost of goods sold													
Cattle grass-fin.	62,226	62,226	62,226	62,226	62,226	62,226	62,226	62,226	62,226	62,226	62,226	62,226	746,707
Cattle grain-fin.	64,420	64,420	64,420	64,420	64,420	64,420	64,420	64,420	64,420	64,420	64,420	64,420	773,045
Hogs	13,896	13,896	13,896	13,896	13,896	13,896	13,896	13,896	13,896	13,896	13,896	13,896	166,755
Lambs	4,141	4,141	4,141	4,141	4,141	4,141	4,141	4,141	4,141	4,141	4,141	4,141	49,686
Cull cows	10,138	10,138	10,138	10,138	10,138	10,138	10,138	10,138	10,138	10,138	10,138	10,138	121,652
Total cost of goods sold	154,820	154,820	154,820	154,820	154,820	154,820	154,820	154,820	154,820	154,820	154,820	154,820	1,857,845
Gross Margin	105,285	105,285	105,285	105,285	105,285	105,285	105,285	105,285	105,285	105,285	105,285	105,285	1,263,418
Expenses													
Total processing expense	79,149	79,149	79,149	79,149	79,149	79,149	79,149	79,149	79,149	79,149	79,149	79,149	949,788
G & A													
Licenses/fees	500	-	-	-	-	-	-	-	-	-	-	-	500
Office supplies	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Professional fees	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounting fees	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Meals and entertainment	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Marketing fixed costs	3,042	3,042	3,042	3,042	3,042	3,042	3,042	3,042	3,042	3,042	3,042	3,042	36,500
Brokerage @ 4.5%- x% of volume	-	-	-	-	-	-	-	-	-	-	-	-	-
Admin. Labor													

Office/utilities/phone	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	90,000
Postage	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Car lease and travel expenses	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Miscellaneous expense	600	600	600	600	600	600	600	600	600	600	600	600	7,200
Total operating expenses	100	100	100	100	100	100	100	100	100	100	100	100	1,200
	93,591	93,091	93,091	93,091	93,091	93,091	93,091	93,091	93,091	93,091	93,091	93,091	1,117,588
EBITDA	11,694	12,194	12,194	12,194	12,194	12,194	12,194	12,194	12,194	12,194	12,194	12,194	145,830
Interest expense	303	224	141	58	0	0	0	(0)	(0)	(0)	0	0	725
Depreciation expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	\$ 11,392	\$ 11,970	\$ 12,053	\$ 12,137	\$ 12,194	\$ 12,194	\$ 12,194	\$ 12,194	\$ 12,194	\$ 12,194	\$ 12,194	\$ 12,194	\$ 145,105
	Mo 25	Mo 26	Mo 27	Mo 28	Mo 29	Mo 30	Mo 31	Mo 32	Mo 33	Mo 34	Mo 35	Mo 36	Total
Statement of Cash Flows													
Net income (loss)	\$ 11,392	\$ 11,970	\$ 12,053	\$ 12,137	\$ 12,194	\$ 12,194	\$ 12,194	\$ 12,194	\$ 12,194	\$ 12,194	\$ 12,194	\$ 12,194	\$ 145,105
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities:													
Accounts receivable	(54,479)	-	-	-	-	-	-	-	-	-	-	-	(54,479)
Inventory	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	17,138	(500)	-	-	-	-	-	-	-	-	-	(25,500)	(8,862)
Net cash used in operating activities	(25,949)	11,470	12,053	12,137	12,194	12,194	12,194	12,194	12,194	12,194	12,194	(13,306)	81,764
Financing activities													
Loan principal payments	-	-	-	-	-	-	-	-	-	-	-	-	-
Line of credit, net	25,949	(11,470)	(12,053)	(12,137)	(8,368)	(0)	(0)	(0)	0	0	0	(0)	(18,079)
Members' contributions	-	-	-	-	-	-	-	-	-	-	-	-	-
Members' distributions	-	-	-	-	-	-	(4,878)	(4,878)	(4,878)	(4,878)	(4,878)	(4,878)	(29,266)
	25,949	(11,470)	(12,053)	(12,137)	(8,368)	(0)	(4,878)	(4,878)	(4,878)	(4,878)	(4,878)	(4,878)	(47,345)
Cash at beginning of period	-	-	-	-	0	3,827	16,021	23,337	30,654	37,970	45,287	52,603	-
Cash at end of period	\$ -	\$ -	\$ -	\$ 0	\$ 3,827	\$ 16,021	\$ 23,337	\$ 30,654	\$ 37,970	\$ 45,287	\$ 52,603	\$ 34,420	\$ 34,420

Table 7.2.4 Annual balance sheet

	Year 1	Year 2	Year 3
Assets			
Current Assets			
Cash	\$ -	\$ (0)	\$ 34,420
Accounts receivable-trade	181,459	205,627	260,105
Inventories	94,396	154,820	154,820
	<u>275,856</u>	<u>360,447</u>	<u>449,346</u>
Property and equipment	-	-	-
Accumulated depreciation	-	-	-
Total assets	<u>\$ 275,856</u>	<u>\$ 360,447</u>	<u>\$ 449,346</u>
Liabilities and Members' Capital			
Liabilities			
Accounts payable	156,974	223,773	214,911
Line of credit	54,718	18,079	0
Loan	-	-	-
	<u>211,692</u>	<u>241,852</u>	<u>214,911</u>
Members' Capital			
Members' contributions	199,933	199,933	199,933
Members' distributions	-	-	(29,266)
Retained earnings (deficit)	(135,770)	(81,338)	63,767
	<u>64,164</u>	<u>118,595</u>	<u>234,435</u>
Total liabilities and members' capital	<u>\$ 275,856</u>	<u>\$ 360,447</u>	<u>\$ 449,346</u>

Table 7.2.5 Annual financial summary

	Year 1	Year 2	Year 3
Revenue			
Beef, grass-finished	\$ 436,190	\$ 816,655	\$ 1,152,924
Beef, grain-finished	479,371	897,501	1,267,061
Pork	138,340	273,245	374,736
Lamb	48,296	84,299	105,373
Cull cows	126,558	147,447	221,170
Hides	-	-	-
Total revenue	1,228,755	2,219,146	3,121,264
Cost of goods sold			
Animal purchase price			
Beef, grass-finished	282,504	528,918	746,707
Beef, grain-finished	292,469	547,574	773,045
Hogs	61,560	121,592	166,755
Lambs	22,773	40,492	49,686
Cull cows	69,612	81,102	121,652
Total cost of goods sold	728,918	1,319,677	1,857,845
Gross Margin	499,837	899,469	1,263,418
Expenses			
Processing costs	375,113	676,962	949,788
G & A			
Licenses/fees	500	500	500
Office supplies	1,200	1,200	1,200
Professional fees	-	-	-
Accounting fees	12,000	12,000	12,000
Meals and entertainment	1,200	1,200	1,200
Marketing costs	49,000	37,500	36,500
Brokerage @ 4.5%	-	-	-
Admin. Labor	84,000	87,000	90,000
Office/utilities/phone	12,000	12,000	12,000
Postage	1,200	1,200	1,200
Car lease/travel expense	7,200	7,200	7,200
Miscellaneous expense	1,200	1,200	1,200
Total operating expense	548,213	842,162	1,117,588
EBITDA	(48,376)	57,307	145,830
Interest expense	1,394	2,875	725
Depreciation expense	-	-	-
Net income (loss)	\$ (49,770)	\$ 54,432	\$ 145,105
Financing activities			
Line of credit, net	54,718	(36,640)	(18,079)

	Year 1	Year 2	Year 3
Profit margin on sales	-4.05%	2.45%	4.65%
Return on Equity (ROE)	-75.61%	80.08%	206.72%

Table 7.2.6 Net margin (adjusted for processing costs) by livestock category

Species	annual #s	Gross Margins \$/hd	Margins Minus Proc. Costs
Cattle, grass-finished	600	677	167
Cattle, grain-finished	600	823	261
Hogs	1,200	173	11
Lambs	600	93	33
Cull cows	180	553	132

Table 7.2.7 Sensitivity analysis

For every:	Impact on 3-year average Net Income
\$0.05/lb + or - animal purchase price	\$54,000
5% + or - premium on beef and pork meat products	\$29,000
\$0.05/lb + or - wholesale meat price on all products	\$54,000

7.3 Financial Summary

According to financial models, the company has a slight loss in the first year due to low sales volume; it becomes positive in the second year; and nets approximately \$145,000 in the third year (Table 7.2.5). The company uses equity for financing cash deficiencies in months 1 – 7 (Table 7.2.1 & 7.2.2), uses a bank line of credit from month's 8 through 18; (Table 7.2.2 & 7.2.3) and then uses earnings to completely finance working capital from month 19 on (Table 7.2.4). According to information presented in Table 7.2.5, a total of \$55,000 was used from a bank line of credit.

At the end of the third year in operation, the financial models predict a return on sales of 5%, which is excellent compared to other meat companies in the U.S.

When analyzing the net returns by species processed and sold (Table 7.2.7), grain-fed natural beef had the highest margins followed by grass-finished beef. The reason for the

difference was due to heavier carcass weights and yields for grain-finished cattle. Net income per pound would be greater for grass-fed beef. Hogs actually resulted in the lowest net margins per animal because the meat was priced lower than the other species.

According to a sensitivity analysis (Table 7.2.7), company profitability is significantly impacted by animal purchase price, meat selling price, and premium percentages placed on beef and pork.

Section 8 Core Competencies and Risk Factors

8.1 Core Competencies

The following core competencies are necessary for a producer-owned meat marketing company to be a successful:

- Sustained margins of most products sold.
- High level of communication and service to customers.
- The successful hiring, training and supervision of the General Manager.
- High quality workmanship with meat processing.
- Disciplined control of overhead costs.
- Good record-keeping and sales analysis.
- High level service to customers.
- Business flexibility to make changes to take advantage of opportunities or correct problems.
- High quality and consistency of livestock used.
- High level of communication and cooperation amongst livestock producer members.

8.2 Risk Factors

Possible risk factors that could be a barrier to entry or could undermine positive earnings include the following:

- Poor quality livestock delivered and processed resulting in dissatisfied customers.
- Poor quality packaging (leakers, discoloration, non-uniform weights).
- Incidents of positive Listeria, or salmonella tests resulting in recalled products and loss of customer confidence.

- Inability to raise sufficient capital to purchase livestock and run the company.
- Some unhappy retail or food service customs spreading negative comments to other customers resulting in a loss of customers.
- Infighting amongst producer members.
- Ineffective manager higher (unaggressive, lack of customer service, mismanagement of accounts, etc.)

Section 9 Literature Cited and Credits

Literature Cited

Food and Livestock Planning, Inc. 2009 - 2011. Personal data.

NASS. USDA. 2010.

USDA. AMS. The United States Department of Agriculture Agricultural Marketing Service. Carlot Trade Report 2010.