



United States
Department of
Agriculture

Rural
Development

Rural Business-
Cooperative
Service

RBS Research
Report 167

Contemporary Producer-Owned Lamb Processing Ventures

Lessons Learned



Abstract

The U.S. sheep and goat industry is in transition. Its producers have been forced to adjust to a more market-oriented environment with less Government income support, more international competition, and increased market concentration beyond the producer level.

In trying to realize higher returns for the lamb production enterprise in the early **1990s**, many lamb producers became involved in group projects that had value-added processing and marketing through vertical integration as the primary way to capture more of the consumers' food dollar. Most were unsuccessful.

Spokespersons for the U.S. sheep and goat industry, while not being critical of the unsuccessful ventures, believed that lessons learned from these business failures could greatly benefit future vertical coordination efforts in the lamb processing and marketing arena.

A case study approach was used to evaluate two producer-owned **ventures**—American Lamb Producers, Inc. and Virginia Lamb Cooperative. Findings from these case studies have relevance in determining the potential for future producer-owned ventures into value-added lamb processing and marketing in an industry characterized by significant concentration among a few established marketing firms.

Keywords: Lamb marketing, processing, cooperatives, case study approach, vertical integration.

Contemporary Producer-Owned Lamb Processing Ventures: Lessons Learned

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RBS Research Report 167

February 1999

Preface

Sheep producers faced substantial frustration during 1989-91. While lamb prices at the farm and ranch level had plummeted, producers observed that retail prices for lamb had not fallen accordingly-if at all-resulting in relatively large farm-to-retail price spreads for certain lamb cuts. Several groups of lamb producers across the country attempted to capture a part of this marketing margin by establishing producer-owned processing ventures. For a variety of reasons, many subsequently failed.

Sheep industry leadership suggested a study of some failed value-added ventures could categorize key pitfalls to avoid for producers involved in future vertical coordination efforts in lamb processing and marketing. This report provides a detailed view of the organizational processes and business actions of two unsuccessful **producer-owned** lamb marketing ventures-American Lamb Producers, Inc. and Virginia Lamb Cooperative. The first was organized as an investor-owned firm and the second was organized as a cooperative.

The study is partially funded under a cooperative research agreement with USDA's Rural Business-Cooperative Service (RBS) with support from the American Sheep Industry Association (**ASI**) and other State producer groups. State and Federal agencies working with the sheep industry also are interested in identifying market alternatives that might enhance industry competitiveness in light of reduced direct Government price and income support to the producer.

In conducting the case studies, the authors met personally with many of the key participants in the two ventures. Individuals interviewed were those involved in the conceptual development, investment, and/or management of the venture. The study focuses on: 1) the organizational background for the development of each failed venture; 2) the factors that may have contributed to the failure; 3) any positive outcomes as a result of the venture; and 4) the challenges facing producer-owners of similar ventures into vertical coordination. While the case-analysis approach used in this study requires some interpretation by the authors, the responses of participants to these four major areas of inquiry were consistent.

The authors acknowledge assistance received from other agencies and individuals in this study and, in particular, the principals in the two lamb processing ventures. While it was surely not easy to discuss the shortcomings faced by the organizations into which they committed either significant financial or human capital (or both), the candidness of the producers involved aided this study. Background information provided by RBS economists also was essential to the completion of the study. This publication was prepared under a cooperative agreement between Texas A&M University and Rural Business-Cooperative Service, United States Department of Agriculture.

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During its current transition period, sheep and goat industry producers have been forced to adjust to a more market-oriented environment. In trying to improve farm and ranch profits, many producers joined group efforts using value-added processing and marketing to capture more of the consumers' food dollar. Eleven lamb producer groups were formed in 11 different States between 1989 and 1992 with that objective in mind (Kirkpatrick, 1).

A few of these 11 ventures had some limited success, while the rest failed. Sheep industry leadership asked for a study on some of the failed ventures so that producers participating in future efforts into vertical integration might learn from the experiences. The request was proactive-the industry was not critical of the failed ventures. Industry spokespersons believed, however, that lessons learned from the business failures may be more helpful than those from the limited successes. Two such attempts into value-added processing and marketing were chosen for this study—American Lamb Producers, Inc. (ALPI) and Virginia Lamb Cooperative (VLC). ALPI was established as an investor-owned firm with most of the stock shares controlled by lamb producers. VLC was organized as a producer-owned cooperative. This report gives a more detailed view of the organizational process and business actions taken by two unsuccessful lamb marketing ventures.

The study was encouraged by both the American Sheep Industry Association (ASI) and the Texas Sheep and Goat Raisers Association (TSGRA). State and Federal agencies working with the sheep industry also are interested in identifying market alternatives that might enhance industry competitiveness now that direct Government price and income support to the sheep and goat producers has been eliminated. The termination of supports has forced producers to derive

their total revenue in markets where significant competition occurs from other meats and fibers and in which a few established firms dominate. Lessons learned from these case studies may help determine the potential for future producer-owned ventures into value-added processing and marketing.

Objectives and Methodology

Objectives

The objectives of this study were to: (1) provide an organizational background for the development of each failed venture—ALPI and VLC; (2) indicate the contributing factors; (3) present any positive outcomes from the venture; and (4) provide an insight into the challenges facing future producer-owners of similar ventures.

Case Study Approach

One of the most effective investigative forms used by social scientists is the case-study research method. Yin says this method is appropriate when the investigative team wants to (1) define topics broadly and not narrowly; (2) cover contextual conditions; and (3) rely on multiple and not singular sources of evidence.

Using the case methodology provides an opportunity to learn from an actual business situation. An effective case study provides the most relevant information about a single or series of events that indicate what might have influenced decisions or the results thereof. The use of personal interviews is the standard research tool for case studies. Data collection also includes company documents and relevant market trends at the time.

Methodology

A case study approach was used to collect and analyze firm and industry information on ALPI and VLC about: 1) pre-formation organizational process; 2) pre-formation feasibility analysis; 3) producer commitment; 4) economic and management performance; 5) areas of success; and 6) factors contributing to their closure.

Observations were obtained from investors and management in the businesses and any other individuals that were knowledgeable about the history of these two lamb marketing ventures. These included individuals primarily involved in the conceptual development of the venture, investment and/or management of the operation such as former managers, board members, other producers and/or investors, and retailers. Others knowledgeable of the venture included lenders, Government agency representatives, land-grant research and Extension faculty, association representatives and consultants.

The questions used by the investigating team focused on five main areas (table 1). The first question revealed the individual's involvement with the organization. The second group of questions (2-9) sought insight into how the concept was developed and its feasibility explored. Question 10 asked what positive results were derived from this venture. The fourth set of questions (11-14) asked why the venture failed. The final set of questions (15-17) were used to learn if the failure had discouraged individuals from participating in future producer-owned lamb marketing ventures.

The questions in table 1 were only a guide. The discussions followed their own path based on the knowledge and the involvement of the interviewees. Once completed, the responses were aggregated with those from other individuals to obtain the summary statements. The conclusions presented here draw on consistent themes evident in opinions presented.

The pre-implementation business plans of the two organizations were used as initial sources of information. Some of each organization's internal documentation, such as memorandums, proposals and financial projections, also were reviewed by the investigators in preparation for conducting the in-depth interviews.

Industry Background Information

External Environment

Sheep producers were very frustrated during 1989-90. Their industry was losing market share to

other competing meats. Since 1960, the industry's share of total red meat production had decreased from nearly 3 percent to less than 1 percent (USDA/NASS). The number of sheep in the United States also had declined from 13 million head in 1981 to 11.4 million head in 1990 (figure 1). An AS1 analysis indicated that the number of operations with sheep and lambs decreased from 112,290 in 1988 to 105,640 by 1990-down 6 percent.

The Texas Agricultural Market Research Center (TAMRC) study team attributed several factors to the sheep industry decline: (1) lower returns and higher risks compared with other livestock and crop enterprises; (2) high wages and scarcity of qualified labor; (3) uncertainties in U.S. and foreign trade policies; (4) uncertainty surrounding the U.S. wool incentive payment program and grazing allotment policies for public lands; (5) restrictions on predator control; (6) greater technological development in competing meat processing industries; and (7) shifts in consumer tastes and preferences toward leaner meats without the distinct flavor often associated with lamb.

Both sheep numbers and lamb slaughter capacity declined 30 percent between 1960 and 1990 (TAMRC, 11). The producers were facing an increasingly concentrated market channel. In 1984, the four largest packers in the U.S. accounted for almost 52 percent of the total lamb slaughter and had increased to 74 percent by 1990 (Davis).

Producers saw themselves as vulnerable. With declining market share, some of the lamb packing plants could easily convert to other species such as pork. If the packers did this, it could leave the sheep producers in many regions without an effective market for their raw product. It was also perceived that some of the packers and feeders did not support a recently established lamb yield-grade system because of the projected impact it would have on their operations. Producers believed that the older grading and market structure would not provide the mechanism for producers to be paid a premium for higher quality carcasses.

Producers believed that packers would not pursue higher wholesale and retail returns from lamb and sheep products because of their relatively minor position among competing meats. Under the AS1 umbrella, a lamb industry task force was formed to "jump start" the industry. Producers, feeders, and packers were represented. Producers wanted to gain more control of their product-and thus their industry-by getting more involved in lamb marketing.

1. What was your professional relationship with the venture?
2. How did the idea for the value-added enterprise originate?
3. What pre-formation organizational structures were examined?
4. What pre-formation feasibility analyses were conducted and by whom?
5. What was the expected producer commitment to the project?
6. Who selected the marketing study firm, if one was used?
7. Did you have any input into this study?
6. Did you or anyone else review the marketing study? If yes, did you raise any questions about the study? If yes, how were the issues resolved?
9. What differed from the marketing plan and actual operations?
10. Were there any success stories that can be attributed to the venture in which you were involved?
11. What were the major factors that contributed to its closure?
12. When did these factors first appear?
13. What changes could have been made to correct these problems?
14. If you could start over, what would you have done, or liked to have seen done, differently?
15. Do you feel that producer-owned value-added ventures have a chance for success in the lamb carcass-to-retail marketing chain?
16. Would you invest in a newly restructured venture?
17. Who else would you suggest we visit with about these issues?

Figure 1 U.S. Sheep and Lamb Inventory 1980-97



Value-Added Lamb Products

To compete successfully with other lamb marketing competitors, producer-owned ventures must have a strategy in place to: 1) obtain a consistent lamb supply of the right quality; 2) be technically efficient; and 3) assure product buyer and producer/owner satisfaction. Development of the market and product promotion must be pursued in tandem with an efficient and effective distribution system for the value-added products. Value-added production has the potential for increasing producer returns by making lamb more attractive to consumers, but the retail market for meat is very competitive and the producer-owned venture must be well organized and capitalized to compete.

When considering a new source of lamb carcasses, commercial lamb buyers look at supply consistency as the most important factor (Kirkpatrick, 11). The buyers must be assured of a reliable source that can meet their quantity demands. Three important factors to the commercial buyer are: 1) consistent quality

product; 2) a year-round supply; and 3) prices that are competitive with other sources of supply or can be justified through product characteristics (Kirkpatrick, 13). Consumers also demand a consistent-quality product. U.S. meat consumers prefer products that have similar characteristics every time they are purchased. To be competitive in the U.S. meat trade, lamb value-added ventures may need to process only lambs meeting specific requirements (TAMRC, vii). One good way to ensure standardized quality is to make sure the consumer receives meat that has been graded to specifications. Investment in research to improve lamb's uniformity must be made if the industry is going to prosper (TAMRC, 198).

Cooperatives and other producer-owned ventures need to promote their product to the potential end-user customers by: 1) in-store demonstrations; 2) point-of-purchase materials; 3) spot sales; 4) giving the product a unique brand name; and 5) developing a niche market. There are different ways to develop niche markets. The most common ways of product differentiation are:

1) lean meat niche; 2) organic lamb niche; 3) gourmet cuts; 4) religious certification processes; and 5) regional identity niches (Kirkpatrick, 9).

A key to profitability is to have a well-developed plan regarding the operation of the venture. Despite the benefits, the cost of developing, packaging, and marketing value-added products is cost-prohibitive to most lamb marketing ventures because needed equipment and facilities are expensive (Kirkpatrick, v). To overcome this problem, partnerships, joint ventures, or strategic alliances can be established with existing packers. The producers then would only be responsible for breaking the carcasses and marketing them. To be profitable, the large fixed costs must be spread across a large volume of lamb. Accurate and complete financial records are necessary if management, the board, and members want to evaluate the performance of the venture (Kirkpatrick, 17).

Lamb is traditionally marketed in whole carcasses and, to a lesser extent, primal cuts. The latter requires use of a pricing formula for the popular cuts and locating alternative markets for the slower-moving cuts. Any meat processing organization must effectively market and price all of the carcass or primal if it is going to increase returns to the owners. This was a serious problem for both ventures studied.

The sheep industry needs to adopt an integrated consumer orientation for lamb marketing, merchandising, and promotion activities. Thorough research of the consumer perceptions towards lamb products must be done so an effective marketing plan can be developed. To be successful, all key players in the lamb industry must come together to reach a consensus on the strategic marketing and promotion goals and to develop the plan to follow (TAMRC, 228-9).

Common Causes of Business Failures

Many factors cause businesses to fail in the early stages of their existence. Haass cites seven most common causes:

- **Poor business plan.** Many businesses start out with a good idea but fail to find a good location, fail to research their market, or fail to ensure that they have enough money to adequately cover startup operations and meet competitive pressure.
- **Overly optimistic management.** Hopes and dreams drive the entrepreneur's spirit, but also can lead to unrealistic goals for market penetration and production costs.
- **Too much manager time on administrative problems.** This problem is more prevalent in small or limited-resource startups due to the inability to

employ enough special-skilled people to focus on key business functions such as marketing, operations management, procurement, and finance. As the company grows, management needs to be able to delegate tasks to others so more time can be spent directing the overall operation.

- **Deteriorating quality of product or service.** Failing to satisfy the customer will cause the business to fail.

- **Over-reliance on a single customer or supplier.** Relying on a major customer, supplier or technology places the business in a high-risk situation.

Contingency planning is a must to manage this risk.

- **Large fixed expenses.** The accumulation of fixed expenses can overwhelm a new business and affect its growth and operational efficiency.

- **Inadequate cash flow.** Start-up cash flow problems is a leading cause of business failures.

In addition to exploring other areas, the case-study research specifically assessed these common causes of failure within the two unsuccessful lamb marketing ventures.

American Lamb Producers, Inc. (ALPI)

Brief Overview

American Lamb Producers, Incorporated (ALPI), shut down operations in February 1993— about a year after it began. ALPI was a producer-owned corporation with the goal of processing, packaging and marketing the highest quality lamb cuts to retail, food service and export segments of the industry. ALPI evolved from a concept discussed at an AS1 meeting for identifying solutions to perceived industry problems.

The concept centered on producers, in a group effort, countering the generic commodity focus in lamb marketing by developing a value-added product with a recognized brand name. When asked about any success stories that could be attributed to the failed venture, producers quickly pointed out the knowledge gained from the marketing experience and the advancement of processing technology to supply case-ready products to the retail market.

Startup debt capital was obtained both from loans extended by commercial banks and guaranteed by a State agribusiness loan authority as well as loans from producers and producer guarantees. Equity capital primarily was provided by ranchers, feedlot owners, and agribusiness firms in sheep-affiliated businesses.

Although the venture failed and significant investment dollars were lost, industry leaders kept their entrepreneurial spirit. The majority of investors interviewed believed that the venture was a known high risk from the start and that they went into it with a “research and development” point of view rather than with a strict “bottom line” business approach.

The case-study analysis suggests several reasons leading to the company’s failure-lack of management expertise in many key areas, overly optimistic market expectations, financial and operational difficulties, and limited tangible support from the industry. These, coupled with a reversing trend in market prices, forced the company to shut down operations. For future lamb marketing ventures to succeed, these problems must be addressed and overcome.

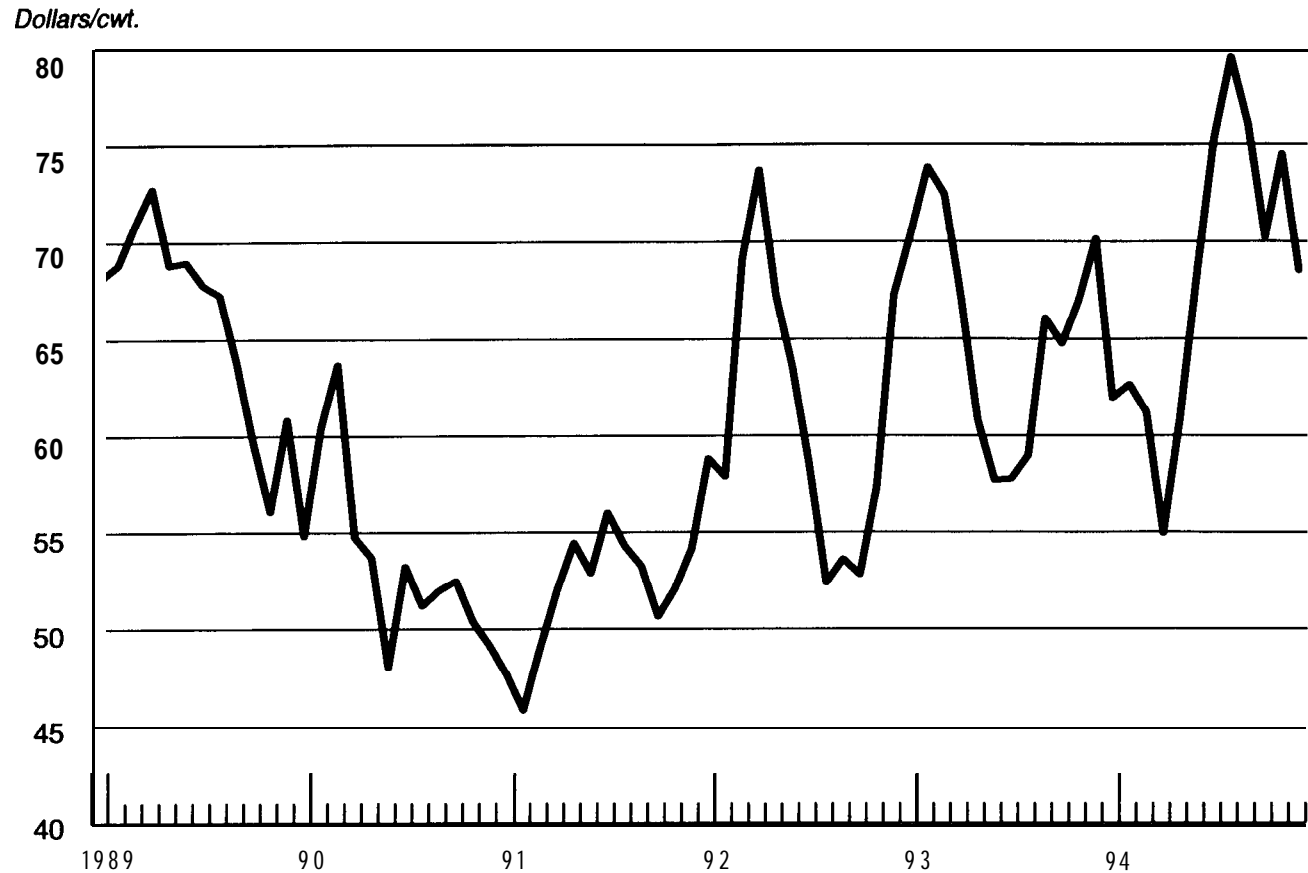
Individuals interviewed for the ALP1 case study included 12 investors (four of which were members of the board of directors), three former employees, three representatives from retailers that purchased ALPI products, two consultants for ALPI, and four individuals who knew how ALP1 was created and operated, even though they were not actively involved.

ALPI: The Beginning

In late 1989 and early 1990, lamb producer leadership held several meetings at ASI headquarters in Denver to discuss alternatives for more aggressive promotion and marketing of their product. The concept of developing a consumer-ready product was introduced as an avenue to add value and maintain competitiveness with other meats. To accomplish the vertical integration needed for processing the value-added products, the purchase of an existing packing plant was considered. This approach would have the added benefit of assuring that adequate slaughtering capacity would remain for the industry. This option was dismissed, however, due to concerns that the new venture might not be able to effectively compete with the traditional packers in the area.

Declining lamb prices at the producer level in the last quarter of 1990 and first quarter of 1991 (figure 2) provided increased incentive and a sense of urgency for the lamb producers to pursue the idea of a value-added product even though the direct purchase of a lamb packing facility was not considered feasible. Other approaches were considered to implement the

Figure 2— San Angelo Choice Slaughter Lambs, 90-115 lbs., January 1989-January 1994



concept. Based on the success several companies have had in the poultry and processed meat industry, lamb producers believed that their product had more market potential than the current market system was likely to develop. Most producers agreed that the alternative chosen should be producer-owned and controlled.

The question then was whether the producer-owned venture should be organized as a cooperative or as an investor-owned firm. Advisors from USDA's Rural Business-Cooperative Service (RBS), the University of California Center for Cooperatives at Davis and the Bank for Cooperatives (CoBank) assisted ASI in considering formation of a marketing cooperative. If formed, the cooperative would be obligated to look to its members for a majority of the lambs to be processed. The producer leadership was concerned about this obligation because a standardized product was so important to the success of a case-ready, branded product.

The new venture, therefore, needed to stay flexible regarding the suppliers of lamb, its quality, and geographic origin. It was decided that a startup cooperative could not provide this flexibility. Also, the expectation was that outside equity capital eventually would be necessary to fully fund the planned activity. The cooperative practice of distributing profits based on volume of use rather than equity then could cause funding problems if producers were not able solely to provide the equity necessary to initially capitalize the venture. Thus, concerns regarding consistency of a quality supply and anticipated problems of raising equity capital contributed to the decision to organize the lamb-marketing venture as an investor-owned corporation, albeit with most of the stock owned by lamb producers.

Justification for organizing the venture as an investor-owned firm versus a cooperative centered on the following: (1) it would not limit the firm to processing primarily member-supplied carcasses; (2) it would permit paying a premium for carcasses that met the required quality specifications; and, (3) the venture could attract a broader investor base of producer and non-producer representation. This latter reason also could foster increased industry support by receiving less criticism for being geographically concentrated in one production region.

ALPI was incorporated June 22, 1991, as a for-profit, producer-owned-and-directed Colorado company. A board of directors composed of producer leaders from each of the seven ASI regions was formed. The owners established the following objectives for the operation: 1) provide producers a mechanism to have

more control of their destiny; 2) supply customers at all levels with high-quality lamb; 3) develop and use technology that would become an example for the red meat industry in the future; and 4) provide investors a return on their investment and increase the economic return for the lamb production enterprise. The management team was planned to include a president/CEO, a vice-president of operations, a director of finance, a director of marketing/sales, and a plant manager (ALPI, 18). By October 1991, a market feasibility study was developed with the aid of ASI.

To make their idea a reality, the leadership obtained startup funds from various sources and in two phases. Money raised in the first phase was used to set up the organization. A selected group of producers were asked to provide the capital necessary to form the company. At a later date, the funds obtained from these producers were converted to stock at a price of \$500 per share. The equity capital collected in the second phase was used to help acquire the building and equipment and for working capital. These equity funds from producer-owners also were converted to stock at a price of \$500 per share.

The finance plan also called for obtaining significant additional equity capital through stock offerings to the general public. Considerable management time and expense were invested in attempting to get Securities and Exchange Commission (SEC) approval for this financing approach, but without success. Thus, most of the equity capital in the venture did come from producer-investors.

Initial debt capital came from a commercial bank loan that was backed by a special loan guarantee program for value-added agribusiness ventures administered by a State department of agriculture. A number of additional loans also were obtained by ALPI during this period. The collateral for these loans included the plant, equipment, a second lien against the land/building, and irrevocable guarantees from lamb producers.

Immediately after the decision was made to develop case-ready lamb cuts for retail and restaurant markets, the search for a processing facility began. Again, there appeared to be a sense of urgency to get the venture moving forward as fast as possible to relieve the economic stress faced by producers in the lamb market. Five to six different plant locations in Georgia, Pennsylvania, and Texas were considered. Selecting the site was primarily the responsibility of management.

The facility eventually chosen was located in Manor (near Austin), TX, and previously was a beef

processing plant for Taco Bell franchises. The plant was selected because: (1) it had access to a large consumer base within a 200-mile radius (15 million people mainly in the Dallas/Fort Worth, Houston, San Antonio and Austin areas, figure 3); (2) it was relatively close to the Texas lamb producing region; and (3) it was a modern facility that was already in place.

The president and the vice-president of operations were responsible for bringing the facility up to Federal standards and ensuring that all the necessary equipment was obtained. Cryovac's 2132 retail-gas-flush system was selected because it could ensure the quality of the case-ready product and the equipment could handle a large volume of lamb carcasses. After the plant site was chosen and the key equipment was purchased, operations began on Feb. 14, 1992. *Mint Valley Lamb* was chosen as the brand label for the product line.

Positive Results

Although the venture was not economically successful, some positive results were cited by the respondents. The learning experience for the producers gave them a much clearer vision of the lamb market complexity. ALPI also provided the experience of pursuing

a niche market. Most of the original investors said they would again invest in a future lamb marketing opportunity if ALPI's problems were appropriately addressed.

Most producers said one positive result of the venture was the technology used to develop the case-ready product. Food retailers are aware that lamb represents a small share of their total meat sales. But, after working with ALPI, they were willing to attempt the market concept of providing the consumer with high-value, pre-packaged lamb cuts. Using the gas-flush package system extends the meat product shelf life-an added incentive for retailers to market lamb.

Many mentioned that meat cutters dislike handling lamb and that the merchandising function suffers as a result. Although retailers said it was not necessary to provide the cuts in gas-flush packaging, they did say it was important to pursue the concept of a case-ready lamb product. An important result of this venture is that a number of packers now offer consumer-ready lamb as part of their product line.

When ALPI received correctly certified carcasses in the right quantity, it could provide a high-quality product to retailers. Even though sales never reached the desired level, the limited results suggest that the

Figure 3— The Primary Texas Lamb Marketing Area



consumer may be willing to pay a premium for a high-quality product like *Mint Valley* offered. Managers were satisfied with the certification program recently implemented by USDA.

ALP1 was an innovator in at least two areas. First, it introduced a branded case-ready lamb product. The industry use of some of their technology now indicates the process was truly innovative at the time. Secondly, ALP1's strategy was to set up overall operations close to the consumer market instead of close to the source of supply. The time lag from slaughter to packaging that resulted from the necessary transportation from production regions to the processing facility, however, tended to offset some of the advantages of the gas-flush system. Processing the product near the packing plant would have reduced the time between kill and gas-flush packaging and increased shelf life.

Although significant dollars were lost in this failed venture, most of the original investors said they would be interested in pursuing another value-added venture if given the opportunity. They said they knew up front that ALP1 was a high-risk venture, but it was a way to move the industry forward and establish a producer commitment in the product market rather than remaining just a commodity pricetaker.

Something had to be done, producers said, due to the adverse trends in the sheep industry and the expectation that lamb marketing innovation was not going to come from the existing participants in the marketing chain. The principals in ALP1 felt that if declining lamb consumption was going to be turned around, the producers would have to become the catalyst for change—even at a high risk to the producer-investor. Therefore, many of the investors made the investment decision more from a long-run “research, development, and market promotion” perspective rather than from a stand-alone “bottom-line” business decision.

Internal Environment

Many factors have been suggested as the cause for ALP1's failure. While no one factor can be pinpointed as the sole reason, all of them acting collectively contributed to the ultimate shutdown. The factors mentioned by the individuals interviewed can be categorized into five main areas : 1) lack of management expertise in some areas; 2) deficient marketing and distribution; 3) operational problems; 4) lack of adequate financing; and 5) being overly eager to begin operations without proper planning and evaluation of the alternatives.

Management—One problem leading to ALP1's decline was the lack of management experience and expertise in key areas. While experience in sales and promotion likely was adequate, it was lacking in operations management. Factors cited were the lack of control in the production process, conflict among employees, poor coordination, poor data and information management, and lack of employee motivation.

Marketing and Distribution—ALP1's business plan had these goals: 1) becoming a reliable supplier of high-quality branded-lamb products; 2) becoming the leader of processed-lamb products; 3) doubling its sales in the first year and establishing new facilities to expand; and 4) establishing itself as a good member of the Texas business community and a fair employer. In their sales effort, they set these optimistic goals: 1) gain 33 percent of the Texas retail lamb market; 2) have sales in the States surrounding Texas; 3) develop markets in Mexico and the Caribbean; 4) develop specific branded-food service products; and 5) develop preseasoned and precooked lamb products (ALP1, 16-17).

ALP1 appeared to focus its marketing efforts primarily on merchandising the primal cuts and did not have a strategy concerning the disposition of the off-cuts (the remainder of the carcass that was not a part of their targeted sales effort). Competitive forces in the marketplace, however, make it necessary to merchandise all parts of the carcass instead of just focusing on the primals. By December 1992, ALP1 was losing \$29 per carcass because the non-primal parts were not being sold. The only means of compensating for the lack of non-primal sales was to charge a higher price for the primal parts. That made ALP1 less competitive with other suppliers.

The management team appeared to believe a quality product would sell itself. They failed to look for specific markets in which their product could succeed. They concentrated their effort in the Austin area and surrounding cities within a 200-mile radius—Houston, San Antonio, and Dallas/Fort Worth (figure 3).

The management team did not appear to focus on establishing key business relationships with brokers and/or retailers in Texas. Without that, ALP1 did not appear to develop consistently loyal customers. A major chain store in Texas used ALP1 for a trial period. ALP1, however, was unable to cash in on this opportunity because they could not get enough carcasses, with the required specifications, to consistently meet the store's orders.

In other instances, they had to use carcasses that were not slaughtered within the appropriate time window. The product they provided their customers,

therefore, lacked the expected shelf life. To some buyers, **ALPI** had the image of being unable to supply product in the right quantities or with the right quality that was promoted.

The expectations and goals established initially by **ALPI** appeared unrealistic. Its marketing study showed that the consumption level of lamb in Texas was below the national average, but the **ALPI** product was expected to significantly raise that level (**ALPI**, 41). The business plan indicated lamb consumption was going to grow so much in the first year of operations that **ALPI** would reach full capacity within the first 11 months of operation. Very little margin for error or stress-testing of the projections to adverse outcomes appeared in the company's plans. In addition, the business plan was developed by current management and not subjected to independent review by industry analysts outside of those very close to the project.

As it turned out, the product did not sell itself, and **ALPI** attempted to buy its way into some markets. **ALPI** guaranteed sales to some retailers, even though its cash-flow position was vulnerable to such an aggressive market penetration strategy. **ALPI** would deliver product to each individual store. If it were not sold in a particular amount of time, **ALPI** personnel would pick up the product and issue a credit to the store. And, if the retailers encountered any quality problems, **ALPI** would replace the product free of charge.

Since lamb represents such a small percentage of the meat sales of a supermarket and the fact that the sales guarantee was in place, there was little economic incentive for the retailer to promote the product or to price it competitively. Having a large number of returns disrupted the firm's ability to meet their cash-flow financial obligations. Picking up unsold product in each store also increased **ALPI's** transportation and refrigeration costs and contributed to further quality deterioration. Cash-flow problems emerged quickly. **ALPI's** expenses had to be paid immediately; its revenue was sporadic because it had no contractual agreements with the retailers. The only real short-term incentive for retailers to move the product was to open valuable shelf space.

ALPI also encountered immediate competition in the market niche they were trying to develop. Other packing plants adopted similar technology and were offering their own case-ready lamb products shortly after **ALPI** started. These packers could provide a comparable product at a lower cost because they had nei-

ther the extra freight charges to receive the lambs nor extra product shrinkage. They likely had outlets for the non-primals also.

Operations-Retailers had varied acceptability of the **ALPI** product concept due to quality consistency problems and limited product shelf life. **ALPI** marketed fresh product, but it did not appear equally as fresh as the store-cut product. In some instances, **ALPI's** product had discoloration problems apparently due to the use of improper gas mixtures. In theory, the gas-flush technology should extend the products's shelf life up to 10 days, but the product often lost its marketability in only 4 days.

ALPI was using carcasses that had been slaughtered more than 36 hours before further processing. Much time was lost from when the animal was slaughtered in San Angelo until it arrived at the plant in Manor. This delay may have been adding to quality loss problems attributed to the gas-flush technology.

Also, once in the plant, the carcasses would not always be refrigerated properly. Because of cash-flow problems and subsequent attempts to reduce the electricity bill, the coolers would be turned off until a new shipment arrived. Further product deterioration occurred during the time required for the coolers to reach the optimum temperature.

There also was inconsistency in maintaining optimal temperatures for best finished product storage. A spot check of the inventory discovered that some of the lamb had been in inventory for 120 days but was spoiled because it had not been kept properly frozen. The cost of lost inventory approached \$41,000 in this instance-without including the cost of labor and overhead to produce it or the cost of disposing of the spoiled meat.

ALPI had difficulties in the timing of shipments. Even in the first 6 weeks of operations, **ALPI** failed to meet delivery commitments. Some brokers refused to do business with them because they were unreliable suppliers.

Several interview respondents attributed these problems to the companies from which **ALPI** relied on for its supply of carcasses. The main supplier was also a competitor, so **ALPI** had to wait sometimes until other customer orders had been filled. The perception was that **ALPI's** main supplier would neither provide them with the specified quality nor the correct quantities. When **ALPI** management approached the supplier about the inconsistency, the supplier refused to provide additional carcasses. This problem was temporarily resolved when individuals on **ALPI's** board of directors used their personal influence to persuade the

major slaughter facility to continue supplying ALPI. Although the supply source was reinstated, getting the number of carcasses with the desired quality still was a major problem.

ALPI had no contractual agreement with the major supplier because it was planning on receiving most of the needed carcasses from other affiliated, producer-owned ventures soon after startup. As the concept of ALPI was being developed, three lamb cooperatives were looking for their own slaughter facility to supply ALPI with the carcasses necessary to meet market needs.

Only one of the cooperative ventures was able to provide ALPI with carcasses in the specified weight range and on credit-which helped alleviate some of the cash-flow problems. Later on, however, this firm had problems delivering all the carcasses ALPI needed. So once again, ALPI had to rely on a competitor for its supply of carcasses. The lack of a written agreement partially led to quality and quantity supply problems.

Although ALPI paid a premium price for a specified quality product as its input, it did not receive a premium price on its product output. ALPI focused on marketing primals that came from Yield Grade 1 and 2 carcasses. ALPI management believed that the carcass grading at the slaughter facility was inconsistent with the established certification program.

ALPI, on some occasions, would receive carcasses grade stamped as US 1 and US 2 that it contended were actually US 3 and US 4 quality. At other times, ALPI would receive carcasses actually grade stamped as US 3 and US 4 because the supplier had run out of US 1 and US 2 graded carcasses while filling other customer orders. The supplier appeared to ignore the need to not ship the lower-graded carcasses because of the insignificant amount ALPI would purchase compared with other customers. The slaughter facility handled a large number of carcasses per week, but ALPI's volume did not economically justify the additional sorting cost.

Finance-The decision to purchase the fixed assets for the processing facility (land, building, and equipment) resulted in inadequate working capital being available for business startup needs. Purchasing the plant in Manor was cited as a major drain on available cash and quickly led to cash-flow problems. Some questioned whether a lease would have been more appropriate for the early stages of operation, but management concluded that the State-backed guaranteed loan might not have been available without purchasing facilities.

The inability to achieve adequate financing prior to launching the venture cost ALPI several opportunities. One retailer mentioned that his company decided not to establish a long-term relationship because it knew ALPI was having severe financial trouble. The retailer preferred to do business with somebody that would be there "the next day." These perceptions of ALPI as a short-term venture were widespread and became self-fulfilling prophecies for the new business.

To take advantage of the upcoming holiday season and expecting a 20-percent increase in sales volume, ALPI launched a promotional campaign in the fall of 1992 offering lower product prices to retailers. This proved to be a costly mistake. After committing to this promotional campaign, the supply decreased and the price of slaughter lamb rose. Figure 2 shows that prices rose rapidly from October 1992 through March 1993. There were no price contracts in place with the carcass supplier, so therefore ALPI was forced to pay much higher prices than expected for its carcasses. The resulting cost-price squeeze exacerbated an already cash-deficit position.

Bank overdrafts often occurred. When other finance sources were not available, some lamb producers added to their personal investment in the firm by covering bank overdrafts out of their personal accounts. In the latter stages of operation, because the slaughter facility would not load carcasses for ALPI without payment in advance, some producers personally paid for the carcasses in order to keep ALPI in operation. This was indicative of the producer commitment to make the venture a success.

Accounting and Controls-All businesses need to monitor and control their operations to make informed decisions. This was especially true for ALPI due to its vulnerable financial status. Management was expected to meet this responsibility by keeping timely and accurate financial and inventory records. An ineffective cost accounting system was used so management did not know exact costs. This impacted product pricing decisions and did not provide timely information for cost control measures. Expenses, therefore, were much higher than anticipated and margins were much lower.

Inventory management and control was a serious problem. Records of inventory changes by product type and value were not available in a routine management information system.

Sense of Urgency

Some people expressed concern over the speed or 'sense of urgency' in which the operation was set up.

The organization itself was initiated and began operations just 10 months after the idea was seriously considered. Producer/investors were urgently looking for some viable alternatives to the existing low lamb prices and were supportive of management’s quick actions, hoping the new operation would increase the demand and improve the returns to lamb production. Management acted quickly to purchase the facility at Manor because the State-backed guaranteed loan commitment and the purchase option on the processing plant were approaching the expiration date.

Operations began without having all the necessary capital in place. Although verbal commitments were received, the sheep industry could not support this producer-owned venture with the large amount of equity capital it needed. Constituents from Texas and Utah were the largest investors while equity capital from California, Wyoming, and Idaho was less than initially projected.

Conclusion

Lamb producers were hurting economically, and that was a key reason for the venture in the first place. The producer/investors were experiencing low prices for their lambs and felt much of their price problems were due to the market structure of the industry. The producers involved in ALP1 believed if they integrated into the value-added processing sector, they could not only capture some of the retail-to-farm level price spread, but also could force a mature industry to become more innovative in the way it merchandised lamb.

The ‘sense of urgency’ to do something to support the industry may have discouraged critical evaluation of the proposed operational plan. Had the contingency planning and effective evaluation been conducted more as a proactive strategic process rather than as a reactive response to the existing economic environment, some of the perceived problems with financing, operations, marketing, and management expertise would have been better addressed. The venture still might not have been successful, but the economic losses could have been less severe.

Virginia Lamb Cooperative

Brief Overview

Virginia Lamb Cooperative (VLC) liquidated its assets in May 1993-about 15 months after beginning operations. VLC was a producer-owned cooperative with the primary goal of developing a niche market for

high-quality lamb in Washington, UC, and surrounding consumer-market areas (figure 4). The Certified Fresh American Lamb (CFAL) grading criteria were used to evaluate member lamb deliveries. Representatives of the Virginia Department of Agriculture and Consumer Affairs provided grading services.

VLC was initiated on a relatively small scale. Its business and marketing approach was similar to a Vermont lamb marketing cooperative. A lo-county area in Northern Virginia was the main geographic production region for the cooperative. This was not the primary production region in the State. Most members had fewer than 100 ewes. Even if the venture had reached its planned volume, only about 5,000 lambs would have been marketed per year (about 100 lambs per week).

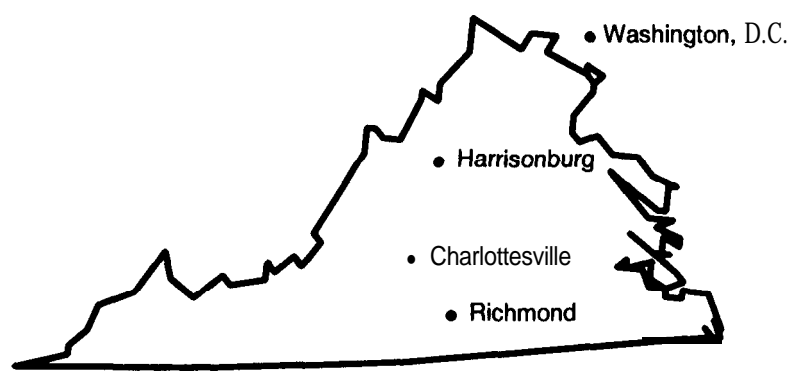
Even though the venture failed, the producers felt they learned how to better manage their flocks to meet the higher quality standards of CFAL. When the venture failed, many of the lambs delivered to the cooperative were meeting CFAL grade specifications. Eventually, the producers recognized the need to find a market for some of the lower-value lamb cuts. The cooperative developed a niche-market sausage product that appeared to be accepted by consumers.

Initial financing for the cooperative was limited. Equity capital was collected from members at \$200 each. A local businessman loaned the cooperative funds to purchase a delivery truck. Although some of the members ultimately donated a lot of their time and out-of-pocket expenses, actual business losses were limited to essentially the initial equity capital obtained from memberships.

The case study analysis suggests reasons for the cooperative’s failure-financing, lack of consistent volume of lambs necessary to penetrate retail markets, inadequate plan to handle less- desired carcass parts, and limited understanding of problems related to competing in the lamb marketing arena. These causes must be adequately addressed if future ventures of this type are to succeed.

Individuals interviewed for the VLC case study included producer-members (four of whom were members of the board of directors), a former manager, and other individuals that knew of how VLC was created and how it operated, even though they were not specifically involved in its management. This latter group included individuals with the Virginia Department of Agriculture and Consumer Affairs and Virginia Polytechnical and State University (Virginia Tech), the State’s land-grant university.

Figure 4— The Primary Virginia Lamb Marketing Area



VLC: The Pre-formation Organizational Process

The initiative leading to formation of VLC was conceived in the fall of 1990 at local sheep producer meetings in Virginia. A representative of a Vermont lamb marketing cooperative, which appeared successful at that time, made a presentation to the Virginia Sheep Federation board in October. About a month later, producers from the Northern Virginia area attended the Piedmont Sheep Producers Association meeting. The main topic of concern was the apparent large farm-to-retail price spread for high-value lamb cuts and what could be done about it. It was decided to explore the possibility of initiating a marketing organization with the goal of enhancing the marketing of lamb and increasing producer profits.

At that time, most producers in the lo-county Northern Virginia area were either marketing their lambs through local auction markets or through custom slaughtering and direct-marketing activities. Generally, the lamb producers in this area are smaller, with the lamb business contributing a relatively smaller amount to total family income. Of course, that does not mean that the producers were any less interested in achieving a positive cash return for their enterprise.

Although the headquarters of the Eastern Lamb Producers, a teleauction cooperative, was located in Southwestern Virginia, the producers involved in VLC did not consider that a viable marketing alternative due to the small volume of lambs they would have ready for market at any one time.

Many of the producers wanted to emulate the Vermont lamb marketing cooperative so there was little evaluation of alternative types of business structures. The producers were from a relatively small geographic area and many knew each other from other

sheep producer meetings. This fostered a level of trust and feeling of commonality among the primary leaders of the venture. Advisors from USDA's Rural Business-Cooperative Service (RBS) were asked to assist the producers in looking at the marketing cooperative organization structure. The proximity of the venture to Washington, DC, provided easy access to cooperative expertise from USDA in the feasibility analysis process. Faculty from Virginia Tech also were involved in the early formation stages, along with representatives from the Virginia Department of Agriculture and Consumer Affairs.

VLC: Pm-formation Feasibility Analysis

VLC was studied in 1991 as a possible marketing venture to improve the lamb enterprise for Northern Virginia producers. A producer committee was formed and surveys were planned to determine producer interest and potential volume for the cooperative. With the help of a specialist from USDA's RBS, a detailed financial feasibility analysis was developed (Schwartz). In retrospect, the business plan was too optimistic when the marketing factors were considered. Nevertheless, the cooperative used the feasibility analysis to guide early decisions by the steering committee and the board of directors, once the cooperative was officially established in late 1991.

In particular, it was decided to contract for lamb slaughter and processing from existing facilities rather than have the cooperative purchase and operate a slaughter plant. This would have required significantly more investment from the producers. Also, the first manager was hired on a part-time basis as proposed in the financial feasibility analysis.

Although principals in the VLC venture reviewed and challenged some of the projections included in the financial feasibility study, the issues of adequate supplies of appropriate quality, what to do with **lower-value** cuts that did not have a ready market, and the needed startup capital still were overlooked. When asked why more time and scrutiny was not given to the marketing plan of the new venture, producers said they thought a national lamb organization had committed marketing assistance to the cooperative once operations began, but the assistance never materialized.

The membership appeared to have some **non-monetary** objectives for supporting the cooperative marketing venture, so it was easy to rationalize away some of the feasibility study assumptions. Given the scale of operation for most of the members, even if the cooperative had been successful and fully met startup projections in the anticipated timeframe, the realized patronage refunds to the average member likely would have been less than \$1,000 per year, compared with the traditional auction market alternative. Although it was never brought up in interview discussions, an incentive for maintaining an agricultural enterprise in this region was the apparent property tax valuation benefits compared with the cost of non-agricultural related property taxes.

Another factor contributing to the ultimate launching of this venture was the apparent encouragement the producers were getting from governmental agencies and producer organizations. Late in the preformation feasibility analysis stage, State department of agriculture personnel, analysts with a USDA agency, and regional officers of a national lamb association appeared to be supportive of the VLC concept. Caution flags raised by individuals not associated with one of those groups were apparently rationalized away.

In retrospect, a tradeoff seems to exist between the entrepreneurial zeal that is required to carry a new venture forward and the realistic consideration and evaluation of views that question the concept or approach. Groups or agencies that serve as advisors to producer-owned marketing ventures need to carefully provide producers with more information on the potential outcomes and risks associated with launching a new business—both positive and negative—to encourage a more balanced evaluation.

Producer Commitment

The initial investment required of cooperative members was quite low (\$2001, yet a number of target-

ed producer members never made the payment. Instead, they took a “wait and see” attitude. A core group of the cooperative leadership, however, was very committed to the concept and the organization. This commitment was exhibited by the “sweat equity” they invested. They volunteered their time and **out-of-pocket** expenses to merchandise the lamb sausage products at area fairs and festivals to reduce product inventory and reduce cooperative losses. These members, however, just did not control enough supply to maintain a consistent volume of lambs to be marketed throughout the year.

Early in the operation, due to the “Virginia Finest” promotion campaign with the State department of agriculture and the CFAL quality standards, some cooperative members’ lambs were rejected by the grader as unacceptable to meet the higher quality standards. This, however, did not appear to cause membership problems, which might have been expected with less commitment to the concept.

Positive Results

Even though VLC went out of business in less than a year and a half, lamb producers involved in the venture were able to point to some positive results of the effort. Producers interviewed for the case study appeared to believe that a successful outcome was the educational value of learning how their flocks and management practices could be improved to meet the higher quality standards of the CFAL. At the conclusion of the venture, a very high percentage of the lambs delivered to the cooperative were meeting the CFAL specifications. They now understand that niche retail and restaurant markets will require a premium product of consistent quality. The producers also mentioned the VLC experience gave them a better knowledge of the complex marketing system for lamb—from producer to consumer.

Not all parts of the lamb carcass enjoy the same demand as the loins, racks, and legs. Given the necessity to market the lower-value lamb cuts at a price as high as possible, the cooperative developed a processed lamb sausage product that appeared to be accepted by consumers. It took so long, however, to obtain Government labeling approval so the product could be marketed in retail outlets, the cooperative already was in the process of closing. Nevertheless, the respondents believe the sausage product could be successfully distributed in some niche markets.

Several ideas were explored for networking opportunities and alliances that would facilitate the penetration and distribution into niche markets for

both the high-valued cuts as well as the processed products. Several examples could be used by future lamb marketing ventures. A specific idea mentioned was the teaming up with the wine marketing association to jointly promote wine and lamb at specific events, with the assumption that the target market segment would view them as complementary products.

Internal Environment

Many factors likely led to the eventual closing of VLC. The factors mentioned by the individuals interviewed can be categorized into these main areas: 1) inadequate financing; 2) limited management expertise and time in some key areas; 3) misguided marketing efforts and plans; 4) lack of a consistent supply of quality lambs; and 5) the business failure of the low-cost slaughter facility and processor.

Finance—Startup financing for VLC was inadequate to accomplish the goals of the organization. The initial member equity capital contribution of \$200 each was not enough to sustain a viable operation, even if more lamb producers had joined early in the cooperative's existence. One local businessperson loaned the cooperative money to purchase the vehicle to transport the lambs to and from the slaughter facility. No other outside capital was available, although attempts were made to obtain some funding through the Small Business Administration. There were only enough funds available to hire a manager half-time; however, that was the approach used in the financial feasibility plan from the outset. This required cooperative members to volunteer their time to assist with key management and marketing activities.

Management—The feasibility plan included a salary for a half-time manager at the rate of \$12,000 per year, but the expectations of what could be accomplished for the amount of effort that implies was likely too optimistic. The initial manager had experience in cooperatives and in producing lambs but had to develop expertise in the lamb marketing and processing areas. The time that it would take to begin developing expertise in the other areas appeared to be frustrating both to the cooperative members and the new manager. It was soon mutually agreed that the first manager would step down so the cooperative could hire a manager with some experience in developing markets for agricultural products. However, the salary that could be paid did not give much incentive to aggressively pursue a marketing program, and friction developed between the management and the board of directors. At the time the cooperative was dissolved, the chairman of the board also was functioning as the manager.

Marketing and Distribution—Along with inadequate financing, marketing appeared to be a particular weakness for this cooperative. First, there was the inability to develop a volume market outside the production area. Some of this may have been a result of an inconsistent supply, but there appeared to be a poor understanding of what market outlets demanded and what it took to develop a market and to compete with established entities. The cooperative soon had to limit its vision and focus on local, labor-intensive, niche markets and a few retail stores in Harrisonburg and Richmond. Producer volunteers supplied most of the labor to reach the niche markets. The effort the cooperative members put into finding upscale markets in the Washington, DC, area never proved successful.

Second, the inability to find viable markets for the less-desirable carcass parts plagued the cooperative. It had to rent additional freezer space elsewhere to handle the growing inventory of off-cuts. This became more of a problem when the Pennsylvania slaughter facility ceased its operations. Up until then, the Pennsylvania company was buying some of the lamb shoulders from the cooperative during certain periods to meet its commitments to specialty markets. To the cooperative's credit, when members recognized the problem of mounting inventories of less marketable portions of the lamb carcass, efforts were made to find economically viable alternatives to merchandise these off-cuts. However, it was too little and too late. Even though an acceptable recipe apparently was developed for lamb sausage, inadequate financing was available to effectively market this product in sufficient volume to match the complementary volume of loins, ribs, and legs. Government approval for the product labeling was received, but only after the cooperative was about to fold.

Product Supply Issues—The cooperative was probably too small to become a reliable supplier of quality lambs to retail markets—an important part of their marketing plan. For retailers to devote valuable shelf space to products, they want assurance that the right amount of the product of the right quality will be delivered to their stores each week. VLC's producers lacked sufficient weekly volume of lambs to likely meet the needs of major retail outlets.

The cooperative venture focused on a small geographic production area of one State. Some of those interviewed indicated that attempts should have been made to include at least the entire Commonwealth of Virginia in determining interest in the concept of VLC. This might have increased the available supply of

quality lambs to the cooperative, but the area expansion also may have opened up other issues the cooperative leadership preferred not to address.

Loss of Key Processing Facility-Although transportation costs were higher, the cooperative used a slaughter facility in Pennsylvania because it was large enough to maintain a carcass grader on site to handle VLC's extra supply. This made the overall processing cost, including transportation, lower than using a local slaughter facility. When the Pennsylvania facility shut down in November of 1992, VLC had to use other slaughter facilities and absorb the extra carcass grading costs. Marketing and distribution costs jumped sharply, making VLC lamb less competitive in price.

As mentioned earlier, the Pennsylvania firm not only was providing the slaughtering function, but it was serving as a periodic market outlet for some of the shoulders. When this opportunity was lost in conjunction with moving to a local processor, the inventory of less desirable cuts began to mount in the cooperative's freezers. VLC already was incurring numerous problems in maintaining a viable business, but this factor appeared significant.

Conclusions

Lamb producers and their advisors did a lot of things right in studying and preparing for the launching of VLC, but in hindsight some would argue that the focus was not on the right things to establish a successful lamb marketing cooperative. The producers appeared to take their time in evaluating the concept and preparing a financial feasibility study prior to launching the venture. Portions of the plan were followed closely, which helped keep the investment in fixed assets to a minimum. This helped limit the losses. Members lost their original \$200 equity contribution for membership, but the cooperative had less than \$2,000 in accounts payable when it closed in May of 1993.

Contributing to the failure, however, were incorrect assumptions about available quality and supply of lambs from producers and the ease of reaching the projected volume necessary for the cooperative to reach its financial objectives. The issue of the less desirable cuts was not adequately addressed in a marketing plan. Also, the financial plan provided neither slack for missed startup targets nor funds to support extra efforts in the marketing management area.

Prospects for future producer-owned lamb marketing ventures among the principals in VLC appear very limited. This reluctance likely resulted from sig-

nificant time spent by a few cooperative members (primarily directors) without benefiting from that opportunity cost. Their sense of pride in making the concept work went far beyond what they could have expected in a financial reward. But, since the profitability of the lamb enterprise does not make a major impact on most of the part-time producer's livelihood, it is not likely that future efforts requiring such a time commitment by these members will be easily attempted.

Comparisons and Contrasts

Although producer-owners in ALP1 and VLC differed substantially in terms of size, scope, and dependence on the lamb industry for their economic livelihood, there were some common characteristics:

- Both ventures evolved when farm-level lamb prices were depressed so producers may have felt an urgency to begin the ventures and placed unrealistic constraints on the strategic planning process so critical to successful ventures.

- Both ventures tended to be buoyed by perceived positive signals from respected institutions. ALP1 investors received financial support from AS1 and State-backed lending programs designed to support value-added ventures. VLC believed that the strong support, interest, and time spent by USDA, the State department of agriculture, and by representative of a national commodity marketing organization indicated the venture could succeed.

- Participants in both ventures believed that the existing marketing structure for lambs could be changed if the producers would just make the commitment. Producers in both ventures believed that if lamb products were presented in a more positive package they would meet immediate consumer acceptance. Both found out the hard way that market development, penetration, and distribution is a very complex process that requires considerable planning, capital, commitment, expertise, and perseverance.

- Both ventures had positive outcomes although the businesses ultimately failed. Both groups learned important lessons about the complexity associated with marketing their products. Both gained from technology and product development.

The only significant difference other than the size, scope, and dependency on lamb production as an economic influence on their livelihood appeared in their willingness to try again to accomplish a producer-owned lamb processing venture. ALP1 respondents almost unanimously said they would try to learn from

ALPI's shortcomings, and appeared undeterred in their vision to establish more producer influence in marketing their products. VLC participants, however, were just the opposite. They were almost equally unanimous in not wanting to get involved in such a future venture. The major drawback for Virginia was more in human capital costs than financial cost or need for the cooperative.

Regardless of the size or background, the authors were impressed with the capital, both human and monetary, that producer-investors were willing to commit. The failure rate of startup value-added ventures in a commodity-oriented marketplace is high. Nevertheless, it is not easy to discuss candidly why something that you so strongly believed in failed. The fact that all respondents freely discussed the issues so others might learn from these examples is a tribute to the integrity of those involved.

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