Values-based food supply chains: **Country Natural Beef**

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This series of case studies examines values-based food supply chains—strategic business alliances formed between primarily midsized farms/ranches and their supply chain partners—to distribute significant volumes of high-quality, differentiated food products and share the rewards equitably. Farmers and ranchers function as strategic partners rather than easily replaced input suppliers. All participants in these business alliances recognize that creating maximum value for the product depends on significant interdependence, collaboration and mutual support. These supply chains attach importance to both the values embedded in the production of the food products AND the values that characterize the business relationships.²

Historical development through 2008

Introduction. Country Natural Beef <www.countrynaturalbeef. $com>^3$ is a rancher cooperative that started in the mid-1980s. At that time, commodity beef prices were down (65 cents/lb. for yearling calves), interest rates were high and land values were falling, resulting in a dire economic picture for commodity beef ranchers. The idea of marketing a differentiated beef product began with a conversation between Connie Hatfield and a health and fitness club owner in Oregon. He was looking for local or regional sources of beef for his clients that contained no antibiotics or growth hormones and was "short fed," or fed for less time in the feedlot than conventional beef, resulting in leaner meat.

Country Natural Beef started with 14 ranching families marketing 200 head of natural beef cattle in 1987. Their first customer to order significant volumes of their product was the Japanese restaurant company, Kyotaru, which began buying 60 beef animals per week in 1990. Country Natural Beef's education in values-based food supply chain business relationships began through this business partnership. The Japanese company operated on the basis of "Shin Rai," which roughly translates as mutual support and reward. This case study follows Country Natural Beef from the founding of the enterprise through 2011. Operations through 2007-08 are described on pages 1-18, followed by a case update describing operations in 2009-2011.

¹This is an updated version of this case study. The original version was published June 2009. ²Values-Based Food Supply Chains: Strategies for Agri-Food Enterprises-of-the-Middle explains the terminology and general characteristics of values-based food supply chains: <www.agofthemiddle.org>.

³All websites referenced in this document were accessed on 8/29/12.

COUNTRY NATURAL

Country Natural Beef is a rancher cooperative that started in the mid-1980s.

Country Natural Beef is consumer driven, producer controlled, and helps ranching families retain "every possible bit of independence ..."

A good history of Country Natural Beef can be found in an article entitled "The Natural" in the online publication *Rural Cooperatives*, July/August, 2006 <www.rurdev.usda.gov/rbs/pub/julo6/julo6.pdf>.

Founding principles and organizational goals. Country Natural Beef is consumer driven, producer controlled, helps ranching families retain "every possible bit of independence," keeps administrative costs to a bare minimum, pays operating costs from a percentage of producers' revenue instead of borrowing operating funds and sets stable prices based on production costs, a return on investment and a reasonable profit (*Rural Cooperatives*, <www.rurdev.usda.gov/rbs/pub/julo6/julo6.pdf>; Country Natural Beef's mission and goals, <www.countrynaturalbeef.com/mission.php>).

Philosophical expressions. "Country Natural Beef is an idea that needs to be constantly examined, not an entity that can be bought and sold" (*Rural Cooperatives* <www.rurdev.usda.gov/rbs/pub/julo6/julo6.pdf>). Other philosophical expressions of Country Natural Beef include a poem by Doc Hatfield and his daughter Becky Hatfield Hyde <countrynaturalbeef.com>.

Historical growth indicators. From 1990 to 2000, Country Natural Beef increased the number of cattle it sold from 3,000 to 14,000 head. Country Natural Beef experienced rapid growth from 2000-2001 to 2004-2005, riding growing markets for natural food products. During this period, sales of cattle rose from 14,000 to 40,000 head. Sales increased from \$12 million to \$38 million, and the number of ranching families participating in Country Natural Beef increased from 37 to 78 (Doc and Connie Hatfield, Internal Partners for Marketing, interviews, 1/9/07 and 8/14/08; Norm Birch, Logistics Manager, interview, 10/7/08).

Country Natural Beef's rate of growth slowed to around 15 percent in 2006, with 47,000 cattle sold from 93 participating ranches (Norm Birch, interview, 1/17/07). In 2007, cattle and rancher numbers remained similar to 2006, though Country Natural Beef's gross sales increased due to better utilization of carcasses and moderate price increases. Country Natural Beef's sales in the 2006-2007 fiscal year amounted to just under \$49 million (Doc and Connie Hatfield, interview, 8/14/08; Norm Birch, interview, 10/7/08).

Other scale indicators. In 2007, Country Natural Beef ranches had 101,660 cows and managed 6,355,817 acres under its Graze Well principles (see page 4), which describe how its members manage both private and public lands sustainably (Dan Probert, Internal Partner for Production, email, 1/13/08).



Dynamics as of 2008

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

Product differentiation and branding. Key dimensions of differentiation include Country Natural Beef's story and the quality of its products, ranches and cooperative. Country Natural Beef's story is presented on its website <countrynaturalbeef.com/ story.php>. In their words, their products are unique in the marketplace because:

"We are respectful stewards of the land. We are focused on the sustainability of our families and communities. And our goal is to produce a product that allows us to remain on the land, that protects the open, natural spaces of the West, and that embraces the values and aspirations of people who purchase our product. We never use antibiotics or hormones in cattle produced for Country Natural Beef. We produce our product by grazing the natural forages of the West's native grasslands, pastures and forests. And, we ensure all of our practices reflect our commit*ment to humane animal-handling practices.*" < countrynaturalbeef.com/faq.php>.

- I) *Quality of Country Natural Beef cattle and meat*. Cattle are raised from birth on Country Natural Beef ranches.⁴ Some competitors buy weaned calves via video auctions. As stated above, cattle are raised without growth hormones, antibiotics or animal byproducts. All Country Natural Beef ranchers sign affidavits promising to not use these inputs. Cattle spend less time in the feedlot (90 to 95 days versus 120 to 150 days for conventional beef), resulting in leaner meat. While in the feedlot, Country Natural Beef cattle are fed cooler rations including potatoes, alfalfa, barley and some corn. As a result, Country Natural Beef's meat is leaner than that of its competitors, reaching USDA grades of "high select" and "low choice" versus the fattier "high choice" and "prime" grades produced and sold by competitors.
- 2) *Quality of Country Natural Beef ranching operations.* The co-op emphasizes family-owned ranches as well as land stewardship and humane animal treatment. Their commitment to these differentiating qualities is described in their Graze Well <countrynaturalbeef.com/



Connie and Doc Hatfield initiated Country Natural Beef, which started with 14 ranching families and 200 head of cattle in 1987.

⁴To address supply issues, this requirement has been temporarily dropped through 2013. See page 20.



Country Natural Beef's Graze Well principles focus on stewarding land and water resources and maintaining biological diversity on grazed lands.

graze_well.php> and Raise Well <countrynaturalbeef. com/raise_well.php> statements.

3) *Quality of the Country Natural Beef cooperative.* Money earned from the sale of cattle flows directly to individual ranching families, with few middlemen and administrative costs. All Country Natural Beef families are involved with the cooperative's decisions and are knowledgeable of the cooperative's products. Country Natural Beef's business partnerships are based on the Japanese values-based business model known as "Shin Rai" (mutual support and mutual reward).

Standards and certification. Country Natural Beef operates within the following standards and certification protocols:

- I) Graze Well principles <countrynaturalbeef.com/graze_ well.php>: Developed internally by the Country Natural Beef cooperative in 1992, these principles focus on stewarding land and water resources and maintaining biological diversity on grazed lands operated under holistic ranch management. Led by one of Country Natural Beef's ranchers serving as an internal partner for the cooperative, a working group of the Country Natural Beef cooperative is devoted to educating its ranch members about pasture management practices that maintain grass and plant diversity, water resources and healthy streams. More information about these principles is found in the *Rural Cooperatives* article <www.rurdev. usda.gov/rbs/pub/julo6/julo6.pdf>.
- 2) *Food Alliance standards:* All Country Natural Beef ranches are certified under the Food Alliance's environmental and social standards.⁵ On-ranch certification inspections are performed every three years by the International Certification Service <www.ics-intl.com>. For the Food Alliance standards, see foodalliance.org/livestock.
- 3) *Age and source verification protocol:* Country Natural Beef has joined with AB Foods, a strategic partner that slaughters and processes the co-op's cattle, to qualify animals for a USDA "Age and Identity Preserved" certification program that ensures buyers of the age and ranch source of beef products. This certification is expected to provide important differentiation in the near future for both international and domestic markets (Attendees at the Country Natural Beef semi-annual meeting, interviews, I/I0/07).

⁵After 18 years, the Food Alliance ceased operations in 2013. Country Natural Beef remains interested in third party certification and is considering next steps.



4) Decision not to seek USDA organic certification: Country Natural Beef's members steward very large acreages of privately and federally owned rangeland. It would be extremely difficult to guarantee that all of this land was managed under organic standards. Therefore, the cooperative has made a considered choice not to seek organic certification for its meat products. For more information, see the Rural Cooperatives article <www.rurdev.usda.gov/ rbs/pub/julo6/julo6.pdf>.

Identity preservation through the supply chain.

- 1) Country Natural Beef's products are identified differently in different retail settings. In smaller supermarkets such as New Seasons Market in Portland and Puget Consumer Co-ops in Seattle, products are identified as Country Natural Beef directly on their packaging. In fast food restaurants such as Burgerville in Portland, the products are identified on a large menu board. In older Whole Foods stores, products are identified on a large display board next to the meat counter (Doc and Connie Hatfield, interview, 1/9/07).
- 2) Country Natural Beef members have, at times, expressed frustration with its largest customer's inconsistent identification of the co-op on product displays in Whole Foods, the natural foods chain that is the co-op's largest customer. Display and promotional approaches have varied over time and in different regions of the U.S. Currently, Country Natural Beef is identified in signs alongside their products, with some Whole Foods stores also featuring photos and information about individual ranches. The Country Natural Beef products in the meat case, however, are not labeled as coming from specific ranches. (Country Natural Beef meetings, observations, 11/30/05 to 12/2/05 and 1/9/07 to 1/11/07).

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

Advertising strategies. Country Natural Beef has chosen not to invest in conventional advertising. The co-op has determined that the funds required for expensive, conventional advertising are better returned to its ranchers (Doc and Connie Hatfield, interview, 8/14/08). Instead, Country Natural Beef's marketing efforts focus on:

• Point of sale materials developed by the Country Natural Beef marketing team;

Country Natural Beef's target customers are health conscious and willing to pay a premium for high-quality, lean, natural beef products.



The co-op has no bricks, mortar, trucks or debt.

- Country Natural Beef's website <www.countrynaturalbeef.com>, which is updated regularly by the co-op's marketing team. Website queries are answered directly by members of the cooperative or supply chain business partners who can provide prompt and comprehensive answers. Responses to the most-asked consumer questions are on the "FAQ" page of the Country Natural Beef website <www.countrynaturalbeef.com/faq.php>;
- Educational seminars for meat cutters and chefs from affiliated retail stores and food service companies carried out by the co-op's marketing team every three to four months (Norm Birch, interview, 1/17/07);
- Customer outreach events. Each year, Country Natural Beef ranches are required to participate in three of these outreach events, where ranchers interact directly with meat cutters, chefs and consumers. These events include in-store demonstrations, campus visits, speaking engagements and hosting chefs or reporters on ranches. Country Natural Beef's marketing team has begun experimenting with an "adopt-a-store" program in which two Country Natural Beef ranches establish a close relationship with a particular retail store in their region (Country Natural Beef annual meeting, 1/9/07-1/11/07);
- Three or four annual visits to all of the co-op's retail stores by professional members of the cooperative's marketing team (Norm Birch, interview, 1/17/07).

Creating effective internal organizational forms.

A special kind of cooperative. "Country Natural Beef is an idea that needs to be constantly examined, not an entity that can be bought and sold." (Rural Cooperatives <www.rurdev.usda.gov/ rbs/pub/julo6/julo6.pdf>).

- I) *Comparative context.* For an analysis of how the Country Natural Beef cooperative differs from many other agricultural co-ops, see the article in *Rural Cooperatives* <www. rurdev.usda.gov/rbs/pub/julo6/julo6.pdf>.
- 2) Key characteristics of the Country Natural Beef cooperative. The Country Natural Beef co-op has: a) no equity positions for its members. Members assume no financial ownership of the co-op, and all financing is done from the proceeds of annual cattle sales; and b) no capital assets or financial liabilities. The co-op has no bricks, mortar, trucks or debt. Country Natural Beef hires members as internal partners who work from their homes as independent consultants to the Country Natural Beef cooperative.



- 3) *Country Natural Beef operates like a post-capitalist business enterprise.* Country Natural Beef functions like an "otherthan-for-profit" organization with *dual responsibilities* to provide both affiliated ranchers with sustainable prices and affiliated store and company customers with quality meat and high order fill rates (Norm Birch, interview, I/I7/07). In its key roles of facilitating, coordinating and stewarding supply chain relationships—or protecting the values chain commons, Country Natural Beef is a good example of the business models described in Capitalism 3.0.⁶
- 4) Country Natural Beef membership requirements. Membership requirements include Food Alliance certification, placement in the feedlot of a minimum of 160 head of cattle annually (two 80-head lots), attendance at two semi-annual member/director meetings and three days of Country Natural Beef customer outreach. When demand for Country Natural Beef products indicates the need for additional co-op members, these new members must be nominated and sponsored by an existing member, go through a two-year trial membership and meet the above membership requirements. Conscious efforts are made to encourage and support the entrance of young and/or beginning ranchers into the Country Natural Beef co-op, including second generation Country Natural Beef families. "My definition of sustainability is when over 25 kids below the age of five require daycare at our semi-annual meetings." (Connie Hatfield, interview, 8/15/08).
- 5) Sociological reasons complement economic reasons for participating in Country Natural Beef. All Country Natural Beef members are defined as "directors" of the cooperative. Business meetings employ a sophisticated circle meeting format that facilitates egalitarian participation, active listening and the honoring of others whose work has supported the cooperative's goals. Over the years, the co-op's understanding of the unique contributions of ranch women has grown, and it is strongly committed to the full participation of women in its business. Child care is provided at the semi-annual meetings, and female candidates for organizational positions are common (Country Natural Beef semi-annual meetings, author's observations, 11/30/05-12/2/05 and 1/9/07-1/11/07).

Country Natural Beef members list a number of sociological reasons for participating in the cooperative, including: a) being around other progressive, successful

⁶Barnes, Peter. 2006. *Capitalism 3.0: A Guide to Reclaiming the Commons*. Berrett-Koehler Publishers.



One of the requirements for Country Natural Beef members is to do three days of customer outreach each year.

As the Country Natural Beef organization matures, efforts are underway to clarify and realign leadership and management functions. ranchers; b) enjoying the direct connection with consumers during store visits; c) watching young families enter ranching and seeing opportunities for one's own children; d) the integrity of the people involved and the cooperative's standards; e) the emphasis on environmental stewardship and high-quality cattle; and f) the satisfaction of business relationships based on fairness, trust and handshake agreements (Country Natural Beef semi-annual meetings, author's observations and interviews, 11/30/05-12/2/05 and 1/9/07-1/11/07).

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

I) Internal partners: Three internal partners carry out key business management functions for the co-op. These internal partners are skilled Country Natural Beef ranchers operating as independent consultants to the cooperative. The Production Internal Partner is responsible for rancher coordination and sequencing the placement of cattle in the feedlot. The Marketing Internal Partner is responsible for selling Country Natural Beef products and managing supply chain logistics from the placement of cattle to the delivery of boxed beef cuts to customers. The Finance Internal Partner is responsible for invoicing customers, paying ranchers and maintaining the books.

The Marketing Internal Partner has hired two experienced meat industry professionals with responsibilities for taking orders, meat manager relations and overall supply chain logistics. Management costs are relatively low at \$35 per head of cattle that grades well enough to "make the program," or less than four percent of Country Natural Beef's gross revenue (Norm Birch, interview, I/I7/07; Mary Forman, Internal Partner for Finance, interview, I/I8/07).

2) *Organizational committees:* Other organizational functions are carried out by committees of Country Natural Beef members. Some are standing committees (membership and environmental education are two examples), and others are specially appointed by the Country Natural Beef chairperson.



3) 2007 restructuring⁷: Over the past several years, Country Natural Beef's leaders have recognized the need for restructuring the leadership and authority relationships within the cooperative. A committee was appointed to study this issue. At the January 2007 semi-annual membership meeting, the committee offered recommendations on two key issues for Country Natural Beef: 1) the cooperative's efficiency as a larger organization and 2) clarification of boundaries and relationships between the cooperative's membership and management.

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

4) Leadership succession planning: Country Natural Beef's founders and leaders recognize the importance of developing and implementing leadership succession strategies (Doc and Connie Hatfield, interview, 1/9/07). See "Leadership succession," page 16.

Selecting markets and values-based food supply chain partners.

Complementarities and challenges. The business models and goals of all Country Natural Beef partners complement the cooperative's goal of producing and marketing high-quality, natural beef products to health-conscious consumers who are willing to pay a premium for such products. Country Natural Beef is currently involved in working out some dissonance in its

⁷See "Addressing organizational maturation" in the Case update, page 25.

relationship with a major retail partner (See "Issues with supply chain partners," page 16).

Rancher partners. Country Natural Beef's rancher membership requirements are described on page 7. The amount of a given ranch's income secured through Country Natural Beef ranges from 50 to 100 percent, the average being 70 percent (Doc and Connie Hatfield, interview, 8/14/08). The co-op recognizes that the Country Natural Beef model does not fit all ranchers (See "Achieving economic sustainability," page 13).

Primary retail partner: Whole Foods <www.wholefoods.com>. There is a high degree of fit between Country Natural Beef's business model and Whole Foods' customer base. Originally developed for business with the Sodexo food service company, Country Natural Beef's current purchasing agreement with Whole Foods is the co-op's first attempt to translate the key dimensions of a values-based food supply chain relationship into a legal contract rather than a handshake agreement.

"The main value of the contract is that it forces regular, documented communication. We don't refer to it at all between meetings, but it forces everyone to continually forecast ahead ... a critical part of matching supply with demand." (Doc Hatfield, email, 10/7/08).

Whole Foods accounted for 60 percent of Country Natural Beef's business and 86 percent of its tenderloin steaks and prime rib sales in 2006. However, "Whole Foods is a monoculture" that demands primarily the top meats (tenderloins and prime rib) rather than cuts such as chuck roasts, round or sirloin steaks, and hamburger that represent two-thirds of the carcass (Norm Birch, interview, 1/17/07). As profitability requires selling all cuts, Country Natural Beef has established business partnerships that create profitable markets for the cuts remaining after sales to Whole Foods. For a description of changes in Whole Foods' purchasing patterns in the current economic recession, see "Future dynamics," page 16.

Other key retail/food service partners. New Seasons Market <www.newseasonsmarket.com>, Burgerville <www.burgerville. com> and Bon Appétit <www.bamco.com> are important retail customers whose demand for hamburger and other lower-value cuts help balance that of Whole Foods.

Production partners. Beef Northwest Feeders <www.beefnorthwest.com> is Country Natural Beef's only feedlot. It is located in Boardman, Oregon. Owner John Wilson is also a Country Natural Beef rancher and key strategic partner. He segregates and provides space for 12,000 to 15,000 head of Country Natural Beef cattle at any one time, and provides special feed trucks and care including humane animal handling and non-antibiotic first

There is a high degree of fit between Country Natural Beef's business model and Whole Foods' customer base.



treatment of ill cattle ("Country Natural Beef's Humane Treatment Statement" <countrynaturalbeef.com/raise_well.php>).

> "We constantly collaborate with the ranchers on animal handling, health and nutrition ... Beef Northwest Feeders essentially acts as a partner in a vertically integrated extension of Country Natural Beef." (John Wilson, in Rural Cooperatives <www.rurdev.usda.gov/rbs/pub/julo6/ julo6.pdf>).

Country Natural Beef ranchers pay Beef Northwest directly for feeding 80-head lots of cattle.

AB Foods <www.abfoodsusa.com> serves as both Country Natural Beef's abattoir and financial/logistical partner. The co-op's rancher members individually sell live cattle to AB Foods and Country Natural Beef buys back boxed beef cuts that it seeks to sell. Any cuts that Country Natural Beef does not buy back are retained by AB Foods at commodity prices. Like Beef Northwest Feeders, AB Foods is a strong strategic partner.

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

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

Developing effective supply chain logistics.

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

 Supply control. Given the growth cycle of cattle, Country Natural Beef's Production Internal Partner works with ranchers 18 months before their cattle are placed at Beef Northwest Feeders. The cooperative recruited larger ranches during the rapid growth years of 2000-2005. When growth slowed in 2005, recruitment of new co-op members eased off and selected ranchers pulled cattle out of the pipeline. These ranchers were honored at the co-op's 2005 winter membership meeting (Country Natural Beef's semi-annual meeting, author's observations, II/30/05-I2/2/05). As commodity beef prices were high at that time, these ranchers were not penalized economically. Had they been, they would have been compensated, as was the case when Country Natural Beef lost markets in three New Orleans Whole Foods stores



Country Natural Beef has a number of retail partners, and must coordinate which cuts are handled by which partners.

during hurricane Katrina (Doc and Connie Hatfield, interview, 8/15/08). For parallel supply control dynamics at Organic Valley, see the "Economic sustainability" section of the Organic Valley case study.

- 2) *Sequencing control.* The Production Internal Partner coordinates a sophisticated schedule that assigns member ranches to feedlot placement dates and cattle numbers throughout the year. Ranchers who are willing to breed for difficult calving windows are paid an extra \$3 to \$4 per hundredweight. Country Natural Beef's Hawaiian ranchers also breed during difficult windows. The Marketing Internal Partner places additional cattle in the feedlot to serve as insurance, ranging from 1,000 head in the summer to 3,000 during the winter holiday season (Norm Birch, interview, 1/17/07).
- 3) *Quality control.* At its 2005 winter membership meeting, Country Natural Beef members discussed violations of its standards. The use of growth hormones and the purchasing of cattle from off-ranch are serious violations that would significantly hurt the Country Natural Beef cooperative, and therefore require immediate notification and suspension. Lax environmental stewardship on BLM land and submitting poor-quality cattle to the feedlot are also violations that require notification, discussion and rancher education (Country Natural Beef semi-annual meeting, 11/30/05-12/2/05).

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

Six warehouses associated with, and owned by, Country Natural Beef's major customers and supply chain partners provide storage space. The cooperative neither owns nor rents warehouses. CNB beef products are sold to its customers' warehouses at prices negotiated by the Marketing Internal Partner. Country Natural Beef controls its inventory but doesn't take possession of it. Its products are transported on AB Foods trucks. Sysco provides trucking for Country Natural Beef's accounts served by Fulton Meats.

Accounting. Invoicing, payments and accounting are done by the Finance Internal Partner. Country Natural Beef, along with Beef Northwest and AB Foods, is exploring the coordinated adoption of an animal and meat identification system that uses





electronic tags (Country Natural Beef semi-annual meeting, 1/9/07-1/11/07). The system will not only provide a secure platform for Country Natural Beef's "Age and Identity Preserved" initiative, but will also create a more accurate database for invoicing, accounting and payment. The electronic system can also provide useful information for feedlot performance and ranch management decisions. This might include feedback on ranchers' animal genetics and pasture management strategies. Finally, Country Natural Beef sees the adoption of an internal electronic identification system as "... a way to stay ahead of a national animal ID system" (Mary Forman, interview, 1/18/07).

Logistical coordination. An experienced meat industry professional associated with the Marketing Internal Partner coordinates the co-op's logistics. He works with all sectors of Country Natural Beef's supply chain including the internal partners for production, marketing and finance; external production partners including Beef Northwest Feeders, AB Foods and Fulton Meats; and retail customers. This coordination is highly complex and involves the projection of inventory requirements 18 months before cattle are placed at Beef Northwest Feeders, matching sales and production, and accounting for special events such as store openings and holiday seasons. Large kills are scheduled in November and December to meet increased demand for tenderloin and New York steaks during the Christmas season, followed by smaller than normal kills in January and February. Logistical coordination also involves placing extra cattle in the feedlot as insurance, balancing different cuts to unique retail partners and adjusting prices to move unwanted inventory (Norm Birch, interview, 1/17/07).

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

Administrative efficiencies. The total cost of Country Natural Beef's administrative services run by the internal partners is four percent of gross sales, which is a very impressive number by industry standards (Doc and Connie Hatfield, interview, 8/14/08).

Achieving economic sustainability.

Pricing philosophy. "We're in the beef business, not the cattle business." (Norm Birch, interview, 1/17/07). Seeking to escape

... Country Natural Beef prices its products to cover members' costs of production, a return on investment and a reaonable profit.

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the roller coaster cycles of the commodity beef market and achieve economic sustainability for its member ranches, Country Natural Beef prices its products to cover members' costs of production, a return on investment and a reasonable profit. Price stability and predictability are advantageous to all supply chain members.

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

Production costs are calculated on an annual basis using a sample of Country Natural Beef ranches. Costs in 2006, based on figures from nine representative ranches, averaged \$1.04/ lb. liveweight for an 800-pound yearling. With a three percent profit margin added, the target return came to \$1.12/lb. for an 800-pound yearling (Harry Smith, rancher, report presented to Country Natural Beef ranchers, 1/9/07-1/11/07).

As described above, Country Natural Beef ranchers sell live cattle to AB Foods. The cooperative then buys back boxed beef cuts according to a formula based on the price of live cattle. The final prices received by Country Natural Beef depend on multiple factors, including how much of the carcass the co-op must sell back to AB Foods, and how many price cuts must be made to reduce unwanted inventory (Norm Birch, interview, I/17/07).

Higher rancher costs lead to seasonal price increases for 2007. Prices for 2006 averaged \$1.04/lb. liveweight for an 800-pound yearling. This average price covered production and family living costs for Country Natural Beef ranches but provided no profit or return on investment. A decision was made by the Marketing Team to strategically raise prices on a seasonal basis, with emphasis on price increases on more expensive cuts during the fall holiday season dating from September 15 to December 31. This seasonal strategy sought to increase average prices paid to ranchers in 2007 to \$1.05/lb. liveweight for an 800-pound yearling (Norm Birch, interview, I/I7/07).

2007-2008 price points and returns to ranchers. Country Natural Beef's pricing structure during the 2007-2008 accounting year yielded ranchers an average price of \$1.06/lb. liveweight for an 800-pound yearling. As in 2006, this price covered costs of production and family living but offered no additional return on investment. Due to higher input and energy costs in 2008, Country Natural Beef would have needed \$1.13/lb. liveweight for an 800-pound yearling in order to cover production and trans-



action costs plus a three percent profit margin. "This is clearly not economically sustainable over a long period, but we're waiting to see where the economy goes in the next few months before formulating our new price points." (Doc and Connie Hatfield, interview, 8/23/08). The average price paid to ranchers during the 2008-2009 accounting year is projected at \$1.10-\$1.12/lb. liveweight for an 800-pound yearling. This price would cover production and family living costs but offer no return on equity.

Payment practices. Country Natural Beef is in the wholesale beef business and ranchers are paid in six installments. The first installment comes at feedlot placement, and the price per head differs depending on the time of year animals are placed. The second payment comes at slaughter, when commodity beef prices are paid by AB Foods. The next two payments are made according to carcass quality. After a designated lot of cattle is closed and graded, payments are made for three levels of quality. If carcasses do not make Country Natural Beef's minimum grade, they earn the commodity price and the meat is left with AB Foods. The fifth payment is through the age and source verified program for cattle under 20 months old. AB Foods pays a \$10/head premium for what the company is able to market. Finally, any funds left after Country Natural Beef's administrative costs are divided among member ranchers each year. This fits Country Natural Beef's founding principle of self-financing operating costs rather than borrowing operating funds (See "Founding principles and organizational goals," page 2).

It can take 12 to 18 months for these payments to come in, so bankers need to be on board (Mary Forman, interview, 1/18/07).

"Not all ranchers are willing to maintain ownership of their cattle, pay for trucking to the feedlot and feedlot costs, and wait for full payment ... that's the downside of being in the beef business versus the cattle business." (Norm Birch, interview, 1/17/07).

Few ranchers left the co-op between 2003 and 2006, when commodity beef prices were higher than Country Natural Beef's average price (report from Country Natural Beef chairperson at semi-annual meeting, 1/9/07-1/11/07). A long-time rancher member who sold cattle through Country Natural Beef and commodity channels calculated that, over fifteen years, he averaged \$75 per head more with the co-op (Country Natural Beef semi-annual meeting, rancher interview, 1/9/07-1/11/09).

Securing technical support. Country Natural Beef secures technical support through: 1) hiring expertise (logistics managers employed by the Marketing Internal Partner); 2) paying external consultants (early coaching on meeting facilitation); 3) part-



Production costs are calculated on an annual basis using a sample of Country Natural Beef ranches.



nerships with experts (AB Foods on age and source verified beef); 4) trading (swapping hunting rights for website design); and 5) developing internal expertise (environmental education and internal partner succession planning). The co-op provides technical support to other ranchers and alternative food system organizations.

Future dynamics, as envisioned in 2008

Internal organizational issues

The new organizational structure. Country Natural Beef's organizational restructuring, begun in 2007, has been modified to change the proposed strict separation between elected team leaders and internal partners. The management team now consists of team leaders who represent ranchers and maintain the co-op's goals and visions, and internal partners responsible for the technical work of production, marketing and finance. An executive committee composed of a management team coordinator and two elected team leaders has the authority to make decisions between management team meetings.

Leadership succession. What happens when Country Natural Beef's founders and leaders decide to step down? A succession strategy is being honed for the Marketing Internal Partner position, where two younger ranchers have been brought onto the marketing team for a three- to four-year mentorship and transition period prior to leadership. Along with members of the management team's executive committee, the senior of these two emerging leaders is responsible for current negotiations with Country Natural Beef's largest supply chain retail partner, Whole Foods Markets. The junior leader, who hails from a second-generation Country Natural Beef ranch, is responsible for coordinating the rancher outreach events, including the "adopt-a-store" program. Lessons learned from the Marketing Internal Partner leadership transition will inform subsequent leadership transitions across the organization. Country Natural Beef's succession strategies are grounded in a commitment to activate leadership and management skills within the rancher base, with particular attention to recruiting younger ranchers who will carry on the cooperative's culture.

Other internal organizational issues. Sociological dynamics that need ongoing attention include active attention to issues of gender and power, and consciously facilitating the full participation of ranch women.

Issues with supply chain partners.

Dissonance with new leadership at Whole Foods. Though the written contract between Country Natural Beef and Whole



Foods continues to be honored, new leadership in Whole Foods' meat division has affected the historically close relationship between the co-op and its largest retail partner. This dissonance seems to be grounded in the rapid growth of Whole Foods, which led to the creation of a national meat procurement division. While this shift to national purchasing initially moved Country Natural Beef from partner status to more of a vendor status, that relationship is moving back toward partnership (Doc Hatfield, interview, 9/24/08).

Other issues. Country Natural Beef has been caught in a labor unionization flap between the United Farm Workers and one of its strategic partners, Beef Northwest. For a description of the issues, see www.oregonlive.com/environment/index. ssf/2008/06/dispute_threatens_family_ranch.html.

Economics and efficiencies.

Gaining efficiencies. Country Natural Beef is consciously seeking to gain efficiencies at all levels of the supply chain through improved cattle genetics and grazing management at the ranch level, multi-rancher sharing of backgrounding opportunities at the co-op level, and shared use of electronic animal identification tags with Beef Northeast and AB Foods at the supply chain level. The cooperative is in conversation with a beef industry consultant regarding ways to better compete through efficiency gains (Doc and Connie Hatfield, interview, 8/25/08).

Strategies for a maturing market.

Commodification of "natural foods" and the need for ongoing differentiation strategies. For a description of how Country Natural Beef has historically differentiated its products, practices and story based on consumer feedback, see "Matching Consumer to Rancher" in *Beef Magazine*: <beefmagazine.com/markets/marketing/0801-matching-consumer-rancher>. "It's not as easy as finding a niche market and sticking with it … the niche is always changing. Consumers demand change. If you want to satisfy consumer demand, you have to stay ahead of the curve." (Mary Forman, quoted in *Beef Magazine*). Country Natural Beef's current thinking about differentiation focuses on environmental sustainability and social justice.

"Where food service and the institutional trade are heading today is sustainability and social justice. Consumers want to know that the people raising the products are making a decent living. They also want to know if the carbon footprint caused by the food they're eating makes environmental sense." (Doc Hatfield, quoted in Beef Magazine).

A graduate student from Yale University is gathering data from three Country Natural Beef ranches to evaluate the carbon "It's not as easy as finding a niche market and sticking with it ... the niche is always changing. Consumers demand change." —Mary Forman, quoted in Beef Magazine





Country Natural Beef, which celebrated its 25th anniversary in 2011, continues to evolve and change in response to markets and internal developments.

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footprint of Graze Well production systems (Doc and Connie Hatfield, interview, 8/25/08).

Diversification beyond Whole Foods. Country Natural Beef recognizes that broadening its retail partner base is important. However, a strategic tension exists between this diversification goal and the goal of maintaining highly efficient logistical and administrative systems that result from doing business at a large scale. Whole Foods orders Country Natural Beef products at a scale that other potential customers currently cannot provide. Many individual Whole Foods stores regularly order more than 65 boxes of Country Natural Beef products weekly, while individual food service locations such as university or corporate cafeterias might use two to five boxes per week (Doc and Connie Hatfield, interview, 8/25/08).

A mature Country Natural Beef: has it grown up?

Expansion through replicating associated cooperatives. Country Natural Beef's effort to develop a sister organization east of the Rockies is an example of the model advocated by logistics manager Norm Birch. This model focuses on the creation of regionally specified rancher cooperatives that could associate with Country Natural Beef through the use of existing logistical infrastructure.

Positioning values-based supply chains in a troubled (and contracting) economy. Country Natural Beef sales were up three to four percent in 2007-2008, with "consumers ordering less expensive meat cuts" (Doc Hatfield, interview, 9/24/08).

To achieve a three percent profit margin in 2008-2009, Country Natural Beef will have to pay its ranchers \$1.19/lb. for an 800-pound yearling. This price exceeds the choke point for consumers. So, Country Natural Beef will seek to cover costs of production:

"... and wait out the next several months. ... We've lived off our equity before and can do it again. But we all must keep figuring out ways to better communicate to customers and consumers the values behind our products." (Doc Hatfield, interview, 9/24/08).

"Because of the economy over the past four months, Whole Foods and all of our retail customers have shifted away from their heavy usage of steaks and other middle meats, and now are balanced to the point that we are taking on some steak restaurants for the first time in 22 years." (Doc Hatfield, email, 10/7/08).

Case update

This update reports on Country Natural Beef's progress and activities during 2009-2012.

Key developments. Country Natural Beef, which celebrated its 25th anniversary in 2011, continues to evolve and change in response to markets and internal developments.

- Beginning in 2008 in a difficult economic climate, the cooperative lost member ranches and total beef production declined. Membership and production are now stable.
- Country Natural Beef recruited ranches in new geographic regions, took a leadership role in developing new animal welfare standards and experimented with additional market niches, such as grass-fed beef.
- In order to ensure adequate supply, the cooperative temporarily modified (through 2013) its birth-to-plate ownership model that provided a key point of differentiation with competitors in the marketplace. (See <www.cias.wisc.edu/ wp-content/uploads/2011/06/CNB-Case-31011final.pdf> for discussion of the birth-to-plate strategy.)
- The cooperative completed a leadership transition and modified management roles and authority structures.

The overall natural beef market niche continued to grow during these years. The National Cattlemen's Beef Association reports that the natural and organic share of all fresh beef sales increased from 1.1 percent in 2003 to a high of 4.2 percent in the first quarter 2011 before settling at 3.8 percent in the final quarter of 2011 (See <www. beefretail.org/naturalorganiccategory.aspx> and <www.agmrc.org/ commodities__products/livestock/beef/natural_beef.cfm>). Within this niche, Country Natural Beef is one of the few producer groups to remain independent and true to its original vision (Doc and Connie Hatfield, interview, 10/28/11). As a result of purchases and consolidations, many other recognized natural beef brands have become what industry observer Mike Callicrate refers to as "zombie firms"-the names live on but the new owners follow different production and business practices. (See Mike's commentary on this subject at <nobull.mikecallicrate.com/2009/09/24/%E2%80%9Cloca 1%E2%80%9D-%E2%80%93-a-word-worth-saving/>.)

Major challenges. Over these four years, Country Natural Beef confronted three main challenges:

• Maintaining sales of high quality products during the recession;



Retaining cooperative members when commodity beef prices are high is a challenge.

- Holding on to their major retail accounts (especially Whole Foods); and
- Retaining cooperative members when commodity prices were high and when new production practices were required.

While Country Natural Beef fairly easily overcame the first two, the third challenge proved the most difficult.

As the recession deepened in 2008 and 2009, producers of differentiated meat products felt its impact on their revenues. For example, a lamb producer who sold primarily to white tablecloth restaurants reported dramatic decreases in his sales as restaurants either removed lamb dishes from the menu or switched to less expensive cuts (John Neumeister, Cattail Creek Lamb, interview, 2/I/I0). Postrecession data analysis revealed that high-end food product categories and certain market channels did suffer significant sales declines (see <www.ers.usda.gov/AmberWaves/SeptemberII/Features/Food-Spending.htm>).

Throughout this recession, however, Country Natural Beef sales held up well. The cooperative sells most of its higher value cuts through supermarkets and much of its ground beef through casual and quick-serve restaurants. Although consumers did cut back on high-end restaurant meals, they maintained spending on retail meat purchases and lower cost restaurant meals, such as hamburgers. Although not the result of a conscious strategy, the cooperative's sales mix proved well-suited for this difficult period.

Country Natural Beef developed new initiatives to retain Whole Foods and other major customers. For example, they made sure that the most important customers were adequately supplied (even if that meant producing in new geographic regions⁸), modified production practices and certifications and continued successful consumer marketing efforts.

The key challenge confronted by Country Natural Beef during this period was retaining their ranchers (supply).⁹ Annual Country Natural Beef production declined from 48,000 to 40,000 head, including 6,000 (15 percent) purchased in as young animals. Although the purchased animals must meet certain standards, this still represents a major departure from the transparency and simplicity inherent in a system where animals are born and reared on single ranches. Country Natural Beef had to buy animals from outside of the co-op to satisfy core supply commitments, and they only sought to break even on purchased cattle.

⁹Shepherd's Grain, which operates a similar values-based food supply chain in the Pacific Northwest, faced similar problems during this period.



⁸The recruitment of ranches in the Southwest was driven by a need to satisfy requests from Whole Foods to supply beef in that region.

In addition to declining production, the number of member ranches also declined from a high of 120 to 86 in 2011.10 Rancher defections during this period were driven by two factors: I) high commodity beef prices that often exceeded the stable, long-term producer prices negotiated with customers and 2) additional animal welfare requirements adopted by the cooperative during this period (discussed in the next section).

In July 2011, a Country Natural Beef member summarized the challenge this way, "We need to be able to provide members with a value proposition that holds up all the time. As it is now, we have to hope that commodity prices are lousy so that what we offer looks good." In 2011 and 2012, wholesale commodity market beef prices reached record levels as a result of strong demand and tight supplies. (See this market analysis: <www.agmrc.org/commodities__products/ livestock/beef/commodity-beef-profile/>.) The Country Natural Beef strategy of pricing based on production costs rather than adding a premium to the commodity market results in a narrowing or disappearance of the cooperative's price advantage during periods of strong commodity prices. The ranchers who left Country Natural Beef concluded that the cooperative's long-run price stability providing protection from roller coaster commodity prices is not attractive enough, given the prevailing market conditions.

Country Natural Beef President Dan Probert reframed this membership issue by noting:

"We recognize that Country Natural Beef will always lose some member ranches, so the key requirement is to continually recruit new ranches. As we have expanded geographically, we no longer have the critical mass and reputation to do that as effectively as we could in the past." (Dan Probert, interview, 10/7/11).

Country Natural Beef continues to work on both short- and long-run approaches to this crucial membership/supply issue.

Supply chain issues. Country Natural Beef was created to achieve rancher independence. The cooperative's success has always been measured by the level of freedom retained by individual rancher members. From the beginning, Country Natural Beef recognized that rancher independence relies on close ties with supply chain partners and the success of those partners. Key partners have worked with Country Natural Beef for decades, and they continue to jointly solve problems.

The transparency of values-based supply chains leaves them susceptible to disruptions when the practices of any partners are questioned. In 2008, a farm labor union supported by a diverse coalition

¹⁰Country Natural Beef includes 12 Hawaiian ranches defined internally as representing just two memberships (a rule put in to reduce their meeting attendance burden). The numbers presented here are calculated using the higher figure of 12 Hawaiian ranches.

The Country **Natural Beef** strategy of pricing based on production costs ... results in a narrowing or disappearance of the cooperative's price advantage during periods of strong commodity prices.



Whole Foods has become increasingly important and now purchases 70 percent (by value) of Country Natural Beef's Production.

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of consumer groups launched a campaign to unionize Beef Northwest, the feedlot used by Country Natural Beef. While it would have been difficult for consumer groups to directly pressure Beef Northwest, the branded retail beef products sold through well-known outlets provided practical targets. Country Natural Beef chose to rally both consumer and customer support behind Beef Northwest and ultimately proved instrumental in achieving a compromise solution.¹¹

In a similar fashion, Country Natural Beef and other supply chain participants convinced distributor Fulton Provisions (owned by Sysco) to make the changes required to obtain Food Alliance certification. An article published by Oregon State University states, "The result: Fulton now runs its trucks on biodiesel, recycles packaging materials, salvages wood pallets, re-circulates water and uses more energy-efficient machines." (See this article at <oregonstate.edu/ terra/2010/02/trading-on-trust/>.)

In a 2011 interview, Country Natural Beef founder Doc Hatfield observed, "Connie (Hatfield) was head of marketing for 22 years and over that period we really only had six customers. She was deeply engaged with each." Over time, one of those major customers, Whole Foods, has become increasingly important and now purchases 70 percent (by value) of Country Natural Beef's production. This has raised concerns about the risk of overdependence on a single buyer. The cooperative's leaders recognize this issue but caution that the global figure can be pulled apart to show that, outside of the Texas/Colorado production region (in which almost 100 percent of the sales are to Whole Foods), Whole Foods represents a less dominant 57 percent of sales.

While the tone and responsiveness of the Country Natural Beef/ Whole Foods relationship has varied, it has improved in recent years. Doc Hatfield recounts a visit by a Whole Foods executive to the ranch while Doc was artificially inseminating the cows. In mid-process, Doc turned to the visitor and remarked, "In 27 months this will result in two tenderloins," highlighting both the length of the production process and the end result of a whole animal, not just the most sought after cuts (Doc Hatfield, interview, 10/28/11). Subsequently, Whole Foods proved more responsive to longer range planning, purchased more whole animals and figured out ways to sell the lower-value end meats.¹² These changes have increased the cooperative's per-animal returns and made it simpler to find a market for the less desirable parts of the animal. Country Natural Beef, for its part, understands that their brand works differently in the Pacific Northwest versus other Whole Foods regions. In the

¹²This guide lists beef cuts by location on the animal: <www.gourmetsleuth.com/Articles/ Cooking-Tips--Techniques-642/beef-cuts.aspx>.



¹¹This situation is more fully explained at <www.cias.wisc.edu/wp-content/uploads/2011/06/ CNB-Case-31011final.pdf>.

Northwest, consumers recognize and purchase the Country Natural Beef brand. In other regions, however, the trust and recognition rest with Whole Foods.

In the Pacific Northwest, Country Natural Beef and Whole Foods are exploring ways to build on their partnership and develop a broad-based regional food system. Country Natural Beef, which has long been an inspiration and mentor for like-minded agricultural and food producers in the Northwest, has forged new business relations with several of them. Shepherd's Grain (<www.shepherds grain.com>) supplies Country Natural Beef with regionally produced barley as a response to consumer demands to remove corn from the cattle rations. So far this is being done on a small-scale, experimental basis. In a similarly small fashion, the cooperative provides the beef for a packaged chili produced and marketed by Truitt Brothers <www.truittbros.com>. Peter Truitt appreciates the synergies achieved when working with a respected regional partner and indicated a desire to produce additional processed products with Country Natural Beef meats. Peter has learned, however, that the decision process is slower for the cooperative than it is for a privately held firm such as his own (Peter Truitt, interview, 12/22/11).

While growth would be the optimal strategy for maintaining the health of the cooperative, "...because of supply constraints we are not looking for many new partners." (Stacy Davies, Country Natural Beef Marketing Director, interview, 11/9/11). Inadequate supply has hampered Country Natural Beef. In 2010 the cooperative completed initial sales of shredded beef to Chipotle Mexican Grill <www. chipotle.com/en-US/Default.aspx?type=default>. Country Natural Beef President Dan Probert said:

"The bottom line is they like the production system, they like Country Natural Beef. We fit with their values and they fit with ours ... They are an interesting company in that they don't have a consumer that is ultra-green or very green. It's a person who wants to come in and buy a really good burrito." (quoted in Sustainable Business Oregon <www.sustainablebusinessoregon.com/ articles/2010/06/country_natural_beef_goes_mainstream_ with_chipotle_partnership.html>.)

The Chipotle relationship was characterized in the media as evidence that the market for Country Natural Beef-type products was merging into the mainstream. But due to inadequate supply, Country Natural Beef abandoned the Chipotle relationship, as well as other potentially important new partnerships.

Marketplace issues. Country Natural Beef has long pursued two marketing strategies: requiring ranchers to participate in meet-the-consumer in-store visits and building strong relationships with retail store meat staff. These approaches, which are practiced by few other natural beef competitors, provide the cooperative with valu-



While Country Natural Beef is close to providing traceability with its Texas and Colorado production, traceability for other regions will be more costly and complicated.

able insights on remaining successful in the marketplace. The strategies also highlight common values between producers, retailers and consumers. Doc Hatfield observed:

"Our Country Natural Beef ranchers mostly are rural, conservative, religious Republicans, and most of our customers are urban, secular, liberal Democrats. But those things don't have anything to do with healthy food, healthy families, healthy land and healthy, happy animals." (See <beefmagazine.com/beef-quality/IIOI-hatfieldbeef-trailblazers>.)

While many Country Natural Beef ranchers are more passionate about environmental themes that differentiate their production system from the mainstream, their contact with consumers supports Whole Foods' focus on animal quality-of-life issues <www. wholefoodsmarket.com/meat/welfare.php>. Stacy Davies summarizes the bottom-line reasoning behind this approach: "This animal welfare thing appears to sell meat." (Stacy Davies, interview, II/9/II).

Whole Foods spearheaded the development of the Global Animal Partnership (GAP)¹³ <www.globalanimalpartnership.org/>, and Country Natural Beef President Dan Probert soon joined the GAP board. "When I was first made aware of the Global Animal Partnership and the 5-step Animal Welfare Rating Standards program, I honestly dreaded it." (Dan quoted at <www.globalanimalpartnership.org/the-5-step-program/meet-5-step-farmers/meet-danprobert/>.) Probert argues that although staying isolated on his farm would have been easier, working with others (the recurring theme of interdependence) is actually the best course toward achieving true, long-lasting independence.

"The 5-step program has given Country Natural Beef a unique opportunity to tell how our animals are raised in a quantified, objective way. In a nutshell the Global Animal Partnership creates a market for good stewardship. We recognize that Country Natural Beef needs to deal with animal welfare and want to be a part of it." (Dan quoted at <www.globalanimalpartnership.org/the-5-stepprogram/meet-5-step-farmers/meet-dan-probert/>.)

Country Natural Beef ranchers are proud that they have reached step 4 of the animal welfare scale and still produce beef that has the grain-fed qualities that the cooperative believes most consumers want (Dan Probert, interview, 10/7/11).

Adopting these new animal welfare standards has not been costfree. The need to meet retailer and consumer certification comes with new compliance and record-keeping costs, absorbed by the

¹³There are two unrelated GAP third party certifications for agricultural practices. The Global Animal Partnership is the GAP referenced in this publication. The Good Agricultural Practices certification is offered by many U.S. states, the USDA, and the Food and Agriculture Organization (FAO) and is not related to the Global Animal Partnership.



ranchers. Producers are annoyed with the lack of coordination between Food Alliance and GAP certifications. (Different certifications are required or preferred by different customers.) The increase in certification requirements, combined with the previously discussed possibility of high commodity market beef prices outside of the cooperative, has contributed to loss of members.

Country Natural Beef has addressed many member concerns by proactively lobbying for changes to the GAP standards. The cooperative's leaders believe that, over time, these standards will be modified and improved. GAP auditors recognize that while some of the current standards may work for chickens and pigs, they are not appropriate for cattle production.¹⁴ At present, the auditors have been marking some standards as 'Not Applicable' to Country Natural Beef, but the co-op would like to better clarify this issue.

Among other marketplace developments, Country Natural Beef developed a new grass-fed beef product line specifically for the New Seasons supermarket chain. This still represents a small initiative, as another natural beef supplier, Panorama <www.panoramameats. com>, sells grass-fed beef to Whole Foods.

On the horizon, Country Natural Beef leaders recognize that traceability looms as a major consumer issue. At the national level, traceability has emerged as a component of the broader discussion of food safety in mainstream food supply chains. (See <www.ers.usda. gov/publications/aer-agricultural-economic-report/aer830.aspx>.) Within natural food channels, traceability provides the added benefit of reducing the psychological distance between producer and consumer-providing what Shepherd's Grain founder Karl Kupers calls "farming with a face." While Country Natural Beef is close to providing traceability with its Texas and Colorado production, traceability for other regions will be more costly and complicated. The belief in 2012 is that Country Natural Beef will eventually achieve this goal.

Addressing organizational maturation. Country Natural Beef has changed and developed in many ways since it was founded in 1986. Hawaiian ranches were added to meet customer needs for a year-round supply of beef. Southwestern ranches were added to supply Whole Foods stores in that region. Through all the changes, the Country Natural Beef management style and approach have remained consistent.

Over the last several years, however, the co-op's founding members stepped down from leadership positions, and new leaders were selected. As is often the case, the transition from the first generation of leaders has been accompanied by other changes. The cooperative

¹⁴Prohibitions on mice in barns and haystacks and shelter requirements in pastures are two specific examples of Country Natural Beef concerns (Doc and Connie Hatfield, interview, 10/11).



was formulated so that each member was also a director. On paper, the organizational hierarchy was flat when it came to decisionmaking and the co-op functioned as a participatory democracy. But the reality was quite different. Several founding members exerted more behind-the-scenes power. The changes debated and then put in place in late 2011 redefined roles of officers and team leaders and moved the cooperative toward something that more closely resembles a representative democracy. At the end of the transition process, founding member Connie Hatfield remarked, "We demonstrated again that when we get all of our minds working together something brilliant pops out." (Connie Hatfield, interview, 10/28/11).

Under these new rules, Country Natural Beef leaders will take on more authority to make day-to-day and short-run decisions. Quoting founding member Jack Southworth, Stacy Davies noted that before these modifications the cooperative's leaders operated as if they were steering a bus by looking backwards for guidance from the members. Major strategic decisions will still be made by the membership as a whole. Starting in 2012, however, there will be only one all-membership meeting per year rather than two. While this is in response to the wider geographic dispersion on the ranches, the long-run impacts on the Country Natural Beef culture are uncertain.

Policy note

Country Natural Beef producers do not widely use government or private programs (Doc and Connie Hatfield, interview, 1/28/11). Two or three ranchers grow wheat and participate in the commodity subsidy plan. Many years ago NRCS approached the founding ranchers, the Hatfields, to offer assistance with removing invasive bushes. The integrated farmers in the cooperative have used crop insurance.

Country Natural Beef products carry various federally approved labels, applied for by the packing house. Many of the co-op's ranchers graze cattle on federal land (BLM or Forest Service) or state land. (As of 2004, 53 percent of Oregon land was federally owned,¹⁵ and there is a high level of federal land ownership in many other states where Country Natural Beef ranches operate.)

Although they are not official members, Country Natural Beef has participated in discussions and complied with decisions made by the Trout Creek Mountain Working Group, created to provide for both the ecological health of the primarily public lands and the

¹⁵The Open West, Owned by the Federal Government." *The New York Times*, March 23, 2012. <www.nytimes.com/interactive/2012/03/23/us/western-land-owned-by-the-federal-gov ernment.html>, accessed 11/6/12.



economic well-being of people around the Trout Creek Mountain in southeastern Oregon.¹⁶

Country Natural Beef received a state rural development grant to work with a school in Portland. They also applied state tax credits to install solar water pumps. Oregon has strong circuit breaker and land protection laws, which are useful to Country Natural Beef ranchers in making their land costs manageable. They have not engaged with local or private sector programs.

Some of the ranches and the packing house have been negatively affected by EPA Concentrated Animal Feeding Operation (CAFO) rules. The Oregon Cattlemen's Association has engaged in policy change efforts, but Country Natural Beef has not been active in this arena.

The new Grain Inspectors, Packers and Stockyards Administration (GIPSA) policies pose potential problems. As a specialty producer, Country Natural Beef sells cattle to the packing house and buys back their cuts for distribution, which looks like captive supply. Proposed GIPSA rules limit captive supply and would make the agreement with AB Foods more hassle than it's worth. Country Natural Beef leaders feel that the proposed rules would drive everything back to a basic commodity system, to which they are strongly opposed. In fact, they believe that an aggregated system like the Agriculture of the Middle model is the most preferred for specialty beef producers.

Credits

Doc and Connie Hatfield and Dan Probert provided the primary interviews upon which the original case study, the update and policy note are based. Additionally, Norm Birch and Mary Forman provided interviews for the original case study and Stacy Davies and Peter Truitt provided interviews for the case update. The policy note was authored by Kate Clancy, University of Minnesota Institute for Sustainable Agriculture.

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¹⁶Several co-op ranches are official members of this working group.

Organizations involved with this report:

The National Initiative on Agriculture of the Middle is concerned with a disappearing sector of midscale farms/ranches and related agrifood enterprises that are unable to successfully market bulk commodities or sell food directly to consumers. See www. agofthemiddle.org. The initiative has three areas of emphasis: new business and marketing strategies; public policy changes; and research and education support.

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

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