



Mountain States Lamb Cooperative: Vertical Integration into Lamb Processing

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March 3, 2005

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Introduction

Brad Boner, Board Chair of Mountain States Lamb Cooperative (MSLC), met with the other directors of MSLC in Douglas, Wyoming, on a bleak, windy December afternoon in 2002. The purpose of the meeting was to discuss the role that MSLC might play in revitalizing the U.S. lamb industry. The industry was suffering from low per capita consumption, low lamb and wool prices, increasingly competitive imports from Australia and New Zealand, and a shrinking consumer base. For some of MSLC's members, sheep production was their primary source of income. For others, it represented their best way to utilize grazing land. However, members shared a common concern about the future of the lamb industry. Brad's challenge was to outline a visionary strategy that would allow MSLC to alter the future of the U.S. lamb industry.

A Rancher's Perspective

Earlier on that same day about 500 miles northwest of Douglas, John Helle pulls off of Interstate 90 near Manhattan, Montana to check on a flock of sheep. Although John's farming/ranching operation is located 100 miles away near Dillon in picturesque southwest Montana, he winter grazes several hundred lambs in a variety of places. John is a third generation sheep rancher who graduated with a double major in Animal Sciences and Agribusiness Management from Montana

State University in 1987. John and his brother are partners in Helle Livestock, and are principals in their extended family operation, Rebish & Helle. The combined operations consists of 20,000 acres of range, four Forest Service grazing permits, 1,200 acres of irrigated farmland, 800 acres of dryland, 4,000 ewes, and 200 beef cows. The irrigated land produces alfalfa hay, malting barley, feed barley, and wheat. The dryland primarily produces winter wheat.

John's ewes are sheared in April prior to May lambing. At one time, ewes were lambed on open range. However, John has switched to confined, shed-lambing in recent years to better use labor resources, reduce predator problems, and increase the survival of twin lambs. After lambing, ewes and lambs are pastured throughout the summer. Typically, lambs are sold in early fall. These lambs are then backgrounded and eventually placed in feedlots. Thus, the majority of U.S. fed lambs is available for slaughter during the last two months of the year causing prices to be seasonally low. John generally sells cull ewes through a local auction barn. Most U.S. cull ewes and rams are eventually exported to Mexico.

John has experimented with retained ownership of lambs through the backgrounding and finishing stages. However, several problems arose throughout these marketing activities. John's Ramboulet sheep flock has been bred over many years to produce high-quality wool and excellent maternal characteristics. Ramboulet lambs, however, can benefit from careful feed management in the production of high quality meat. The commodity marketing system has seldom rewarded more costly feeding strategies. Hence, the incentives were to add weight regardless of end-use quality. John either received average prices for his lambs if sold in early fall or low/discounted prices for lambs that were improperly fed and sold late in the year. He experimented with some success in sharing ownership of his lambs through feeding operations.

Shared ownership improved feeding management, but the commodity marketing system often failed to reward more costly management.

Over the years, John has experimented with investments in cooperative arrangements to improve pricing/quality signals within the lamb industry. He made small investments in two lamb cooperatives that promised increased returns by further processing lamb, marketing higher quality lamb products, and reducing transactions costs in the early 1990s. While such ventures were moderately successful, neither business was able to sustain profitability and ultimately failed.

Overview of the U.S. Sheep and Wool Industry

Sheep and Wool Production

Sheep are produced in all fifty states with the largest inventories located in Texas, California, and Wyoming. The U.S. Department of Agriculture's (USDA) Economic Research Service (ERS) reports that U.S. sheep inventories peaked in 1945 at approximately 56 million head. Current inventories are approximately six million head. Figure 1 shows the number of sheep farms and lamb inventory for the 1970 to 2003 time period.

The United States produces sheep that are valued for their production of both meat and wool. Sheep can also be raised for their milk that is usually used for producing specialty cheese. The western one-half of the United States (California, Colorado, Idaho, Montana, South Dakota, Texas, Utah, and Wyoming) tends to have fewer but larger sheep operations. These states collectively represent 80 percent of all U.S. sheep inventories. The eastern one-half of the United States typically has more operations with smaller flocks. In 1974, 77 percent of all farms owned fewer than 100 head of sheep while in 1997, 85 percent of all farms owned less than 100

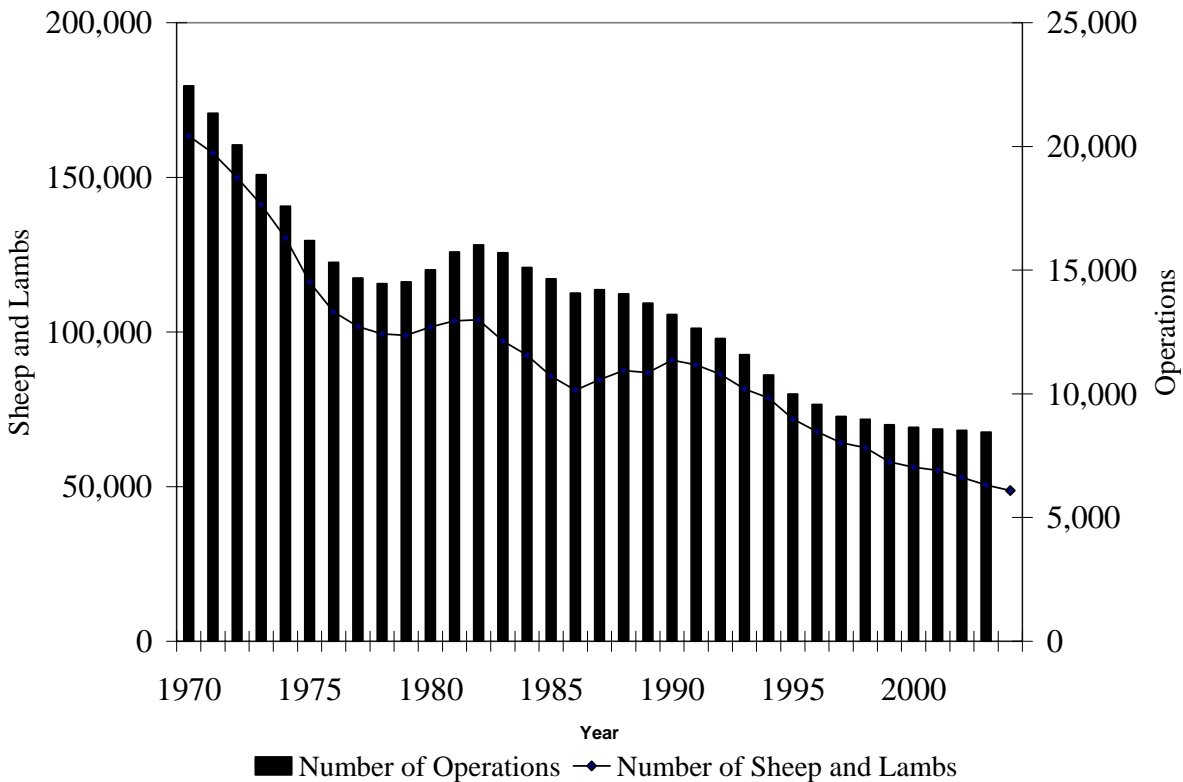


Figure 1. Number of Sheep and Lamb Farms, and Inventory for 1970 to 2003

head of sheep (USDA ERS). Sheep production has relatively low investment costs and sheep are able to utilize forages produced on marginal grazing lands.

Lamb meat production is seasonal for two reasons. First, from a biological perspective, lambs are born in early spring. Second, lamb consumption is highest during March and April because of the Easter and Passover seasons. Therefore, slaughter increases during the spring to meet this demand. Mutton production is usually highest in the fall as mature ewes are typically culled before being bred for the next season.

More than one-half of U.S. wool production occurs during April through June. This wool is used to produce woven apparel as well as insulation, hand-made rugs, tennis balls, bedding

products, and chemical and oil spill mitigation products. Over the past decade, many U.S. textile mills have either closed or moved to other countries. Thus, export markets have become increasingly important to U.S. wool producers.

The Demand for Sheep, Lamb, and Wool Products

The decrease in U.S. lamb inventories has been attributed to declining demand, high lamb prices relative to beef and poultry, and a lack of innovative lamb products. Meat from sheep younger than 14 months of age is referred to as lamb, while meat from more mature sheep is known as mutton. Lamb, wool, and mutton are joint products. The production of wool is heavily dependent upon the prices of lamb, wool, and mutton. When wool prices are high, lamb and mutton supplies decrease as more sheep are retained for shearing. Nominal prices for wool and lamb and per capita consumption are shown in table 1.

Figure 2 illustrates demand problems faced by the lamb industry. The retail demand indices indicate lamb demand after accounting for supply shifts (i.e., after accounting for changes in quantity demanded). Thus, the indices illustrate changes in demand and are constructed by considering differences between observed real retail prices and estimated constant-demand real retail prices. The indices indicate a strong downward trend in U.S. lamb demand over the past 30 years. However, while domestic lamb demand has declined markedly, the demand for imported lamb has increased. The import demand index is constructed assuming a stable exchange rate between the U.S. and Australia/New Zealand between 1970 and 2003.

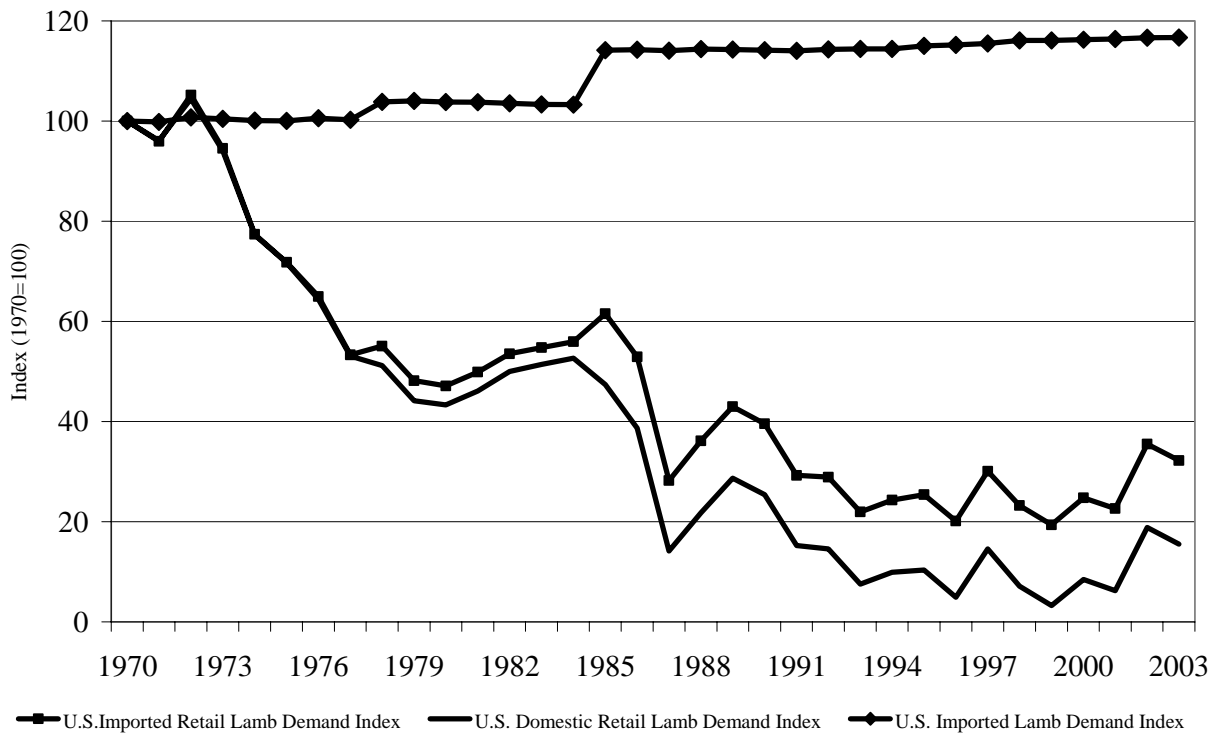
Although wool receipts account for only one-fourth of a typical sheep producer's revenue, lamb and mutton production has historically been viewed as byproducts of wool

Table 1. San Angelo Slaughter Lamb, Feeder Lamb, and Ewe Prices; Wool Prices; and Per Capita Lamb Consumption, 1970 to 2003^a

Year	Slaughter Lamb	Feeder Lamb	Ewe Price	Wool Price	Per Capita Consumption
1970	27.45	26.97	9.55	#N/A	2.9
1971	27.16	25.86	8.42	#N/A	2.8
1972	30.70	30.24	10.07	#N/A	2.9
1973	38.14	37.17	16.76	#N/A	2.4
1974	40.51	36.52	15.74	#N/A	2
1975	44.45	41.40	15.35	#N/A	1.8
1976	49.87	51.28	17.59	#N/A	1.6
1977	54.17	55.13	19.19	#N/A	1.5
1978	65.48	75.70	29.08	74.5	1.4
1979	68.63	77.68	32.98	86.3	1.3
1980	67.00	69.05	24.17	88.1	1.4
1981	59.18	57.30	26.15	94.4	1.4
1982	56.95	53.90	21.80	68.6	1.5
1983	57.94	55.47	16.85	61.3	1.5
1984	62.82	61.92	20.16	79.5	1.5
1985	68.80	77.20	34.02	63.3	1.5
1986	69.71	81.24	35.10	66.8	1.4
1987	78.09	102.26	38.62	91.7	1.2
1988	68.84	90.89	38.88	138.0	1.3
1989	67.30	79.85	38.58	124.0	1.4
1990	55.42	63.58	35.21	80.0	1.4
1991	53.21	53.29	31.98	55.0	1.3
1992	61.00	62.21	35.24	74.0	1.3
1993	65.85	69.32	37.46	51.0	1.2
1994	#N/A	69.70	40.47	78.0	1.2
1995	75.86	81.08	33.91	104.0	1.2
1996	85.27	94.88	39.05	70.0	1.1
1997	87.95	104.43	49.33	84.0	1.1
1998	74.20	79.86	40.86	60.0	1.2
1999	75.96	80.74	42.45	38.0	1.2
2000	79.40	95.86	#N/A	33.0	1.1
2001	72.04	89.38	45.66	36.0	1.1
2002	72.31	82.10	38.43	53.0	1.2
2003	91.71	108.21	41.94	72.0	1.1

Source: Economic Research Service, USDA

^aN.A. denotes that data was not available for that year.



Source: Montana State Agricultural Trade Marketing Center.

Figure 2. Total U.S. Lamb Demand Index , 1970 to 2003

production. U.S. farm policy has generally supported the sheep industry by subsidizing wool production.

The demand for wool declined after World War II as U.S. military needs waned. In the mid-1960s, synthetic fibers were developed that were both less expensive than wool, and allowed for the production of lighter-weight apparel. In 1975, U.S. wool production totaled 55.1 million clean pounds (USDA ERS). By 2002, it had declined to less than 22 million clean pounds. Sheep breeds that are predisposed to wool production still dominate the U.S. breeding stock inventory. However, producers are increasingly changing genetics towards sheep breeds tailored for meat production.

Industry efforts to expand lamb consumption and differentiate lamb meat from other meats have generally met with little success. U.S. per capita lamb and mutton consumption declined from 4.5 pounds in the 1960s to approximately 1.1 pounds in 2002 (see Table 1). However, more than two-thirds of the population does not consume lamb at all. According to the USDA ERS, the “typical lamb consumer is an older, relatively well-established ethnic individual who lives in a metropolitan area like New York, Boston, or Philadelphia in the Northeast or San Francisco or Los Angeles on the West Coast, who prefers to eat only certain lamb cuts.” These cuts are generally higher-valued cuts, such as legs and loins. Remaining carcass cuts are difficult to market and are often sold at deep discounts. A typical carcass represents 50% of a lamb’s live weight. Saleable cuts are usually 70% of carcass weight with fat and bones making up the other 30%. Of the saleable cuts, 75% are from the sirloin, loin chops, rack chops, and leg.

Lamb consumption represents 93% to 96% of total lamb and mutton consumption. Per capita consumption of other meats has grown since the 1980s. Beef, pork, and poultry have a broader consumer base of less ethnically-oriented people who consume a wider variety of cuts.

Industry Structure

The top four lamb slaughtering companies slaughter approximately 76 percent of all U.S. lambs (Table 2). Between 18,000 and 20,000 lambs are slaughtered daily. Eight lamb slaughtering plants slaughtered 100,000 lambs or more in 2000. Iowa Lamb Corporation and Rancher’s Lamb of Texas are owned, in part, by lamb producers. The remaining plants are independently owned. Table 3 shows the location of six lamb feedlots which represent a large proportion of lamb feeding capacities.

Table 2. Major Lamb Processing Plants in the United States, 2004

Plant Name	Location	Capacity
Swift & Company	Greeley, CO	4,000/day
Superior Packing	Denver, CO	2,000-2,500/day
Superior Packing	Dixon, CA	4,000-5,000/day
Iowa Lamb Corporation	Hawarden, Iowa	1,500-2,000/day
Ranchers Lamb of Texas	San Angelo, TX	4,000/week
Wolverine Packing	Detroit, MI	1,500-2,000/day
Den-Franco Corporation	Chicago, IL	1,500-2,000/day

Table 3. Major Lamb Feedlots in the United States, 2004

Plant Name	Location	One Time Capacity, lambs
Harper Livestock	Eaton, CO	80,000 to 100,000
Cactus Hill Feeders	Windsor, CO	60,000
Double J Feedlot	Ault, CO	45,000
Rule Feedlots, Inc.	Brighton, CO	40,000 to 50,000
Mountain View Lamb Feeders	Eaton, CO	40,000
Richard Drake	Eaton, CO	25,000

Issues Facing the Lamb and Wool Industry

Competition from New Zealand and Australia

Australia and New Zealand have strong competitive advantages over the U.S. sheep industry including lower production costs, large export market shares, beneficial exchange rates, loyal domestic consumers, and aggressive and effective advertising campaigns. Advertising efforts appeal to international consumers by promoting fresh, wholesome, grass-fed, “free-range” lamb products. New Zealand has the highest per capita lamb and mutton consumption in the world at 50 pounds per year. Australia has the second highest at 37 pounds per year. Australian and New

Zealand consumers are also willing to consume a variety of cuts, while U.S. consumers tend to only consume high-valued cuts such as loins and legs.

In the 1990s, New Zealand and Australia virtually eliminated domestic agricultural subsidies. This pressured their agricultural industries to become more competitive in global markets. Chilled lamb exports to the United States increased in the 1990s, which put pressure on U.S. lamb producers. Although imports accounted for only 20% of U.S. consumption in 1970, they accounted for almost 50% in 2002 (Table 4). Approximately 59% of these imports are from Australia, and 39% are from New Zealand. These two countries account for almost 70% of world lamb exports. The demand for domestically-produced lamb has declined while the demand for imported lamb has increased (see figure 2). In 2002, over 75% of U.S. lamb and mutton exports went to Mexico. Japan is the other major buyer of U.S. lamb.

Australian and New Zealand lamb is grass fattened. Hence, lamb imports tend to be leaner (and loin cuts tend to be smaller) than U.S. lamb. In general, imported lamb is valued as “rack of lamb roasts” and “leg of lamb” portion cuts. U.S. lambs tend to have larger loins because of grain finishing and are often valued as lamb chops. Imported lamb tends to be more consistent than U.S. lamb because of grass fattening. U.S. lambs are occasionally over-fed resulting in higher amounts of intramuscular and extramuscular fat. In addition, Australia and New Zealand have significant domestic markets for lamb. Hence, lamb processors are able to sort higher-quality carcasses for export consumers while marketing remaining lamb domestically.

In July of 1999, the United States imposed a 3-year tariff-rate quota on lamb meat. Tariff-rate quotas place relatively low tariffs on import quantities that are below specific quota levels. Import quantities in excess of the quota are allowed, but are charged higher tariff rates. The tariff-rate quota had minimal impacts on imports because the U.S. dollar was strong relative

Table 4. Domestic Production, Lamb Imports, and Total Supply 1970 to 2003^a

Year	Domestic Production	Imports	Total Supply ^b
1970	475	107	583
1971	480	91	570
1972	469	130	599
1973	442	47	488
1974	399	23	422
1975	352	24	376
1976	318	32	349
1977	299	20	319
1978	265	34	299
1979	248	39	287
1980	273	29	302
1981	289	27	316
1982	313	18	332
1983	323	16	339
1984	326	18	344
1985	310	32	341
1986	291	36	327
1987	272	39	311
1988	290	45	334
1989	300	40	341
1990	315	36	351
1991	315	36	351
1992	302	44	346
1993	290	47	336
1994	268	43	311
1995	247	56	304
1996	224	63	287
1997	226	73	299
1998	218	99	317
1999	215	99	313
2000	202	114	316
2001	196	128	325
2002	192	141	333
2003	176	148	324

^amillion pounds

^bThis column is equal to the sum of Domestic Production and Lamb Imports. Numbers may not add up due to rounding.

to the Australian and New Zealand currency during 1999. In October of 1999, Australia and New Zealand filed complaints with the World Trade Organization (WTO) who ruled in favor of their complaint. The United States appealed their ruling, but the Appellate Body also ruled against the United States. The U.S. ended its tariff-rate quota on November 15, 2001.

In January of 2000, the USDA instituted a 4-year, \$100 million Lamb Industry Assistance Package to strengthen the domestic sheep industry's competitive position relative to global competitors. The package included direct payments to producers, emphasis on animal health, government lamb meat purchases, and marketing and promotion efforts. Under the wool marketing program, non-recourse marketing assistance loans help producers to store wool for sale at later dates when prices are seasonally higher.

U.S. Sheep Industry Adjustments

The sheep industry faced intense pressure over the past 15 years. While producer prices had declined, retail prices did not fall accordingly. In an effort to improve farm and ranch profits, lamb producers formed eleven lamb producer groups throughout the United States. Their goal was to integrate forward into value-added processing. A few of the groups had limited success, but the majority failed. Smith et al. described the most common mistakes made by the failed businesses including: (1) poor business plans, (2) unrealistic market projections, (3) too much focus on administrative issues, (4) poor product and service quality, (5) reliance on single-source buyers and sellers, (6) large fixed expenses, (7) an inability to market lower-value cuts, (8) lack of consistent volumes, and (9) inadequate equity financing. Recently, two other cooperatives have been formed, Dakota Lamb Growers Cooperative, and Mountain States Lamb Cooperative.

Mountain States Lamb Cooperative/Mountain States Rosen LLC

Mountain States Lamb Cooperative (MSLC) was formed in 2001. The members of the cooperative are located in the Western part of the United States with the majority located in Wyoming (Table 5).

Table 5. Location of Mountain States Lamb Cooperative Members

State	Members	Shares
Arizona	1	10,000
California	10	47,495
Colorado	5	1,950
Idaho	7	21,600
Montana	4	1,600
Oregon	26	17,083
South Dakota	4	8,350
Utah	4	4,650
Wyoming	60	211,198
Total	121	323,926

The motivation for the cooperative's formation was to ensure markets for lambs. The cooperative issued 450,000 Class A shares which were priced at \$22 per share. Of these, 324,471 shares were sold with each requiring the delivery of one market-ready lamb each year. Class B shares were also issued. These shares have a guaranteed return of eight percent but do not carry voting privileges nor lamb delivery obligations. Thus, Class B shares are similar to preferred stock. Class B shares may be converted to Class A shares. Approximately 75% of Class B shareholders are also Class A shareholders. Approximately 80 percent of the equity in MSLC is owned by Class A members and 20 percent by Class B members.

The average MSLC member has a sheep flock of about 2,000 head. Most produce lambs in excess of their Class A share delivery obligations. Thus, members generally sort lambs and

deliver those that are best suited for MSLC’s quality grid. The MSLC Board is made up of five producers. At the present time, three directors are lamb producers and two are feedlot operators. Currently, one Board member is from each of three regional districts and two Board members are at-large representatives. No more than two board members are allowed from any one district. Brad and others visited various lamb distributors and brokers in 2001. The membership sought to either buy an existing business or vertically integrate. After meeting with eight different businesses, the cooperative chose to partner with B. Rosen & Sons, Inc. Together, they formed Mountain States Rosen LLC. B. Rosen & Sons, Inc. is a major lamb and veal distributor headquartered in New York. They have fabricating, distribution, and marketing facilities in New York City and in Greeley, Colorado. Rosen has over 50 years of experience in the lamb industry. They market approximately 750,000 lambs per year, or almost 25% of U.S. domestic lamb production. Figure 3 illustrates the corporate relationships between MSLC, B. Rosen & Sons, and Mountain States Rosen LLC.

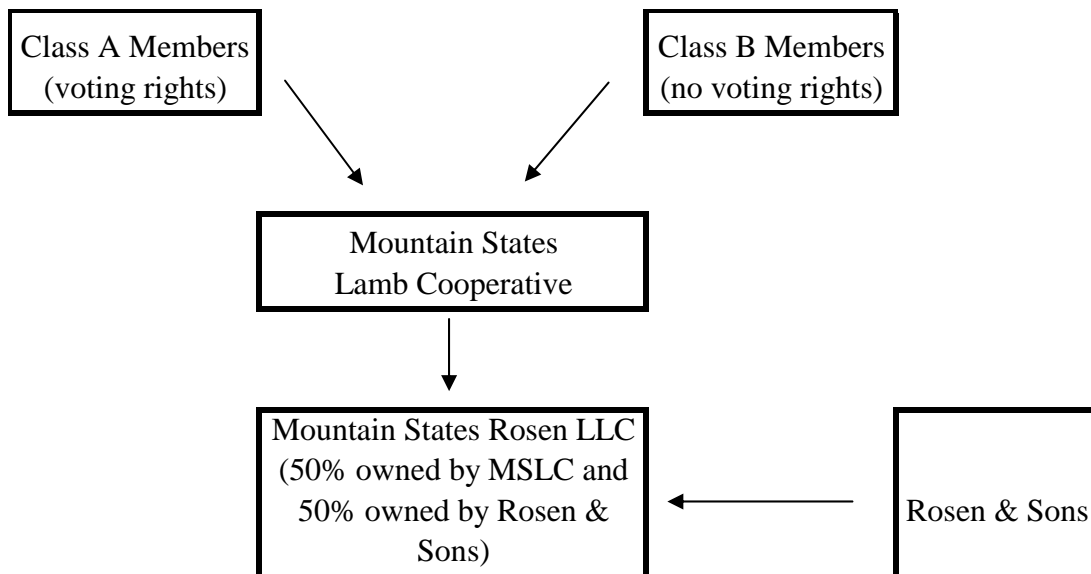


Figure 3. Overview of Ownership of Mountain States Rosen LLC

Rosen & Sons sought to remain competitive by providing high quality, domestic lamb products. Because the commodity marketing system appears to be unable to consistently provide high quality lamb throughout the year, Rosen & Sons sought to establish an alliance with lamb producers. Part of this alliance involved the use of a quality grid pricing system that rewards high quality production (Table 6).

Table 6. Quality Grid for Mountain States Lamb Cooperative^a

Premium/Discount	Yield grade
\$0.00 par	1
\$0.08 premium	2
\$0.05 premium	3
\$0.08 discount	4
\$0.30 discount	5

^a The ideal carcass weighs 60 to 75 pounds. A discount of \$0.05 is put on all carcasses that weigh 85 pounds or more. Producers are responsible for transportation to Greeley.

MSLC Challenges

MSLC faced several initial challenges. One major problem involved legal constraints to forming a cooperative. New generation cooperatives often find it difficult to raise sufficient capital from agricultural producers. MSLC was no exception. However, MSLC had received considerable interest from non-lamb producers regarding their proposed business plan. Such investments were not allowed by Wyoming cooperative laws. MSLC worked to change Wyoming cooperative laws so that non-sheep producers could invest in MSLC. A new “Wyoming Processing Cooperative Law” was created in 2001 which enabled a cooperative to have outside

equity holders (e.g., Class B stock) as long as producers (e.g., Class A stockholders) maintained the majority of voting rights (Hanson).

The LLC Venture

MSLC members retain ownership of their lambs in various feedlots. About 70 percent are marketed through Double J Feedlot which has a natural lamb program (see table 3). Initially, all MSLC's lambs that were sold to Mountain States Rosen LLC were toll-processed in Swift & Company's Greeley kill plant. Toll-processing refers to the slaughtering of lambs for a set per animal fee. These carcasses were then fabricated in Mountain States Rosen LLC's Greeley fabrication plant which adjoins the Swift and Company slaughter plant. Chilled carcasses were shipped to Mountain States Rosen's LLC's New York City facility which is part of the Five Points Cooperative for further processing. However, it soon became apparent that it was more efficient to distribute MSLC lamb carcasses and processed products on the west coast. Thus, MSLC shares in the profits of Mountain States Rosen LLC's eastern operations even though MSLC lambs are marketed on the west coast by Mountain States Rosen LLC. Figure 4 shows the value chain for MSLC lambs.

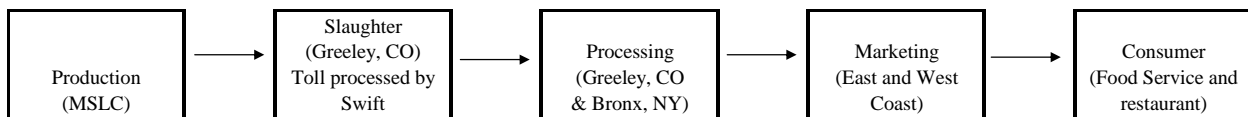


Figure 4. Overview of Mountain States Rosen LLC Value Chain

Trade Issues

Throughout the 1990s, the U.S. International Trade Commission (USITC) conducted several studies that considered the impacts of imported lamb meat on the U.S. lamb industry. For example, USITC Investigation 332-264 considered the impact of countervailing duties on imported lamb (USITC 1990). In 1995, USITC Investigation 332-344 examined the impacts of specific antidumping and countervailing duties on the U.S. economy including the wholesale lamb sector (USITC 1995a). USITC Investigation 332-357 evaluated the general competitive conditions of the U.S. and foreign lamb industries (USTIC 1995b). Results of Investigation 332-344 suggests that antidumping and countervailing duties increased domestic lamb prices by 10%, reduced the quantity demanded of domestic lamb by 3.5%, reduced imports from New Zealand by 11%, and increased imports from Australia by 92% (Babula). Table 7 presents U.S. lamb import quantities in recent years. Figure 5 shows the exchange rate of one U.S dollar to one Australian dollar over this same time period.

Table 7. Lamb Imports from Australia and New Zealand, 1995 to 2003^a

Year	US Imports	Imports from Australia	Imports from New Zealand
1995	28,228	17,749	9,015
1996	30,710	19,498	10,596
1997	34,635	22,964	10,962
1998	47,219	31,581	14,067
1999	47,222	30,774	13,610
2000	54,767	40,290	14,065
2001	61,046	44,607	15,210
2002	67,113	47,293	19,605
2003	69,046	44,859	24,057

^aMeasured in metric tons.

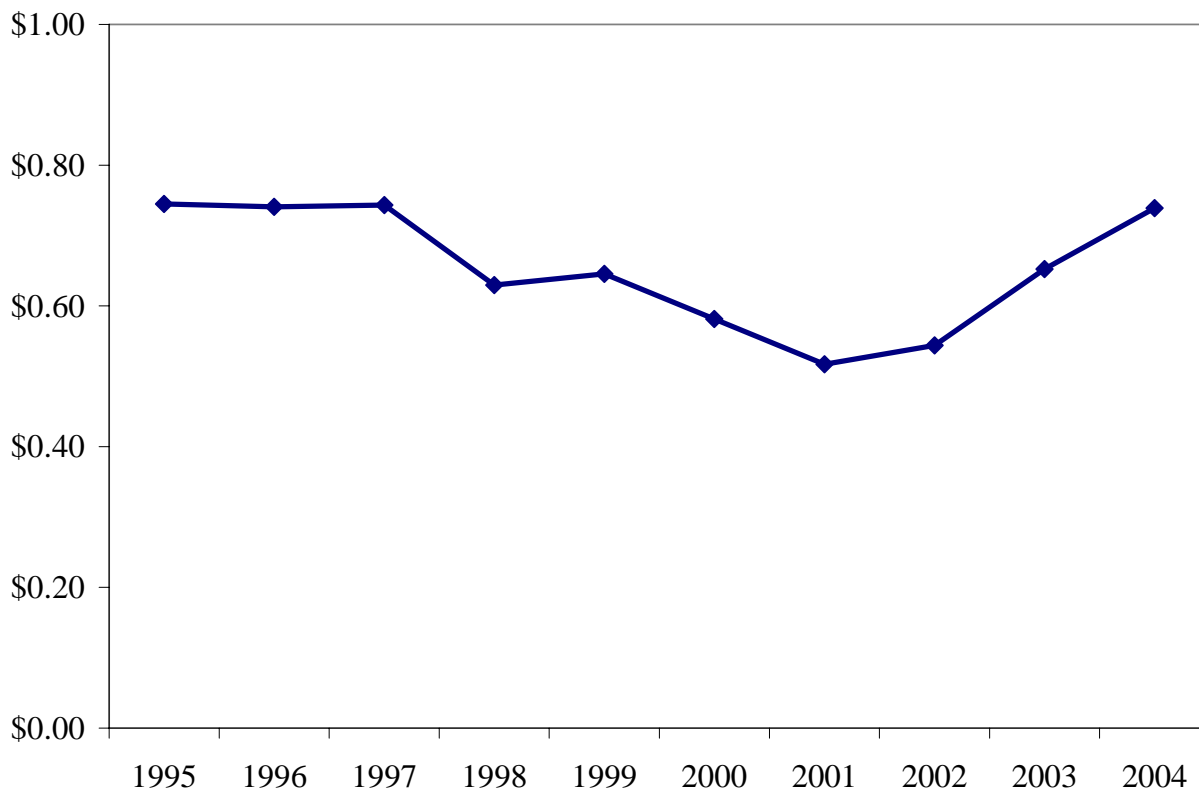


Figure 5. The Relationship between One U.S. Dollar and Australian Dollar, 1995 to 2004

Geographic Indications

Recently, the concept of geographic indications or a trademark built around a country-of-origin label has become widespread in some parts of the world. These trademarks are often built around high quality products that are linked to geographical conditions such as feed ingredients or soil conditions. In some cases, these products command premium market prices because of quality differentiation. The European Union has applied for trademark protection for over 40 products that are labeled based on geography. One example is cheese produced in Parma, Italy. If the European Union has its trademarks approved by the World Trade Organization, cheese

currently labeled in the United States as “Parmesan Cheese” could not be labeled as such unless it originated in Parma, Italy.

Research by economists at Iowa State University suggests that chilled lamb labeled as originating in New Zealand may have a strong quality reputation (Babcock and Clemens, Clemens and Babcock). The authors suggest that branded New Zealand lamb sold in the European Union commands at least a 20 percent premium relative to other lamb. Although no research has indicated that U.S. consumers would pay premiums for New Zealand lamb, imported lamb appears to be popular in the United States.

New Zealand lamb has a strong marketing program that emphasizes attributes such as “free range”, good animal welfare practices, no growth hormones, good processing quality, lean, and standard and customized cuts. The New Zealand lamb industry speaks as a single voice in its production and marketing efforts with a great deal of collaboration among its slaughter and processing plants. However, Clemens and Babcock point out that New Zealand lamb is sold on a commodity basis in the U.S. (i.e., manufacturing cuts which are then cut and packaged by the retailer) whereas in the EU, it has created a highly differentiated product (i.e., chilled lamb cuts which may be prepackaged for retailers). The authors note that the demand for New Zealand lamb is driven more by its lower cost structure than by its ability to capture premiums based on its country of origin brand image.

A Rancher’s Outlook

John Helle was approached earlier this year with an opportunity to invest in the Mountain States Lamb Cooperative. He was intrigued by the opportunity because MSLC’s business plan was not centered on the purchase of slaughter assets. Rather, the primary focus was the partial purchase

of an existing market for lamb – B. Rosen & Sons, Inc. John has always been frustrated with two aspects of his lamb operation. First, he has sought ways to increase the profitability of his smaller fall lambs. Second, his attempts at retained ownership were often hindered by the lack of an outlet for finished lambs that coincided with the optimal feeding activities. MSLC's business plan provides an avenue to alleviate both frustrations. MSLC is willing to pay for high quality lambs and provide a guaranteed outlet that coincides with feeding practices necessary to produce high quality lamb meat from his sheep flock.

If John invests \$22 for the right and obligation to deliver each market-ready lamb, he could then continue to forward contract his (often single) larger lambs for fall delivery. But, he could background his smaller lambs through the latter part of the year. By properly backgrounding his lambs, he can increase animal size without adding unwanted fat. He could then shear lambs after the first of the year and take advantage of high-quality wool production. After shearing, lambs can then be placed in a MSLC-member custom feedlot and optimally fed for a given harvest date. The goal is to slaughter these lambs in March to obtain seasonally high prices. MSLC would manage slaughter and processing dates. After examining the proposed grid marketing scheme, John is confident that he can produce the type of animal for which premiums can be obtained if he has some control over feeding strategies. Thus, he anticipates receiving both price premiums and patronage refunds from his investment in MSLC. Patronage refunds occur if MSLC is profitable.

Although John believes MSLC's business plan is workable for his operation, he has experienced some regret with previous investments. He has struggled with a decision regarding this particular investment opportunity. As he scans his grazing lambs, he wonders if MSLC's business plan is any different from previously unsuccessful ventures. As John returns to

Interstate 90 for his drive back to Dillon, he wonders if MSLC will be able to compete in the global lamb industry.

Conclusion

Brad Boner and the other Directors discussed the lamb industry and a new study they had recently commissioned regarding consumer attitudes towards New Zealand and U.S. lamb products. Consumers perceived that chilled New Zealand lamb was superior to U.S. lamb. Brad and the directors wanted to discuss ways to change this perception. MSLC had developed a value-based marketing program for purchasing member's lambs. It has a good business partner in B. Rosen & Sons. Now, MSLC needs to develop the products desired by consumers and fashion a strategic direction.

Brad and the Board started the portion of the meeting by considering the following questions:

1. Is New Zealand and Australian lamb truly preferred to U.S. lamb? Or are there other considerations that make New Zealand and Australian lamb more competitive with US lamb?
2. Should Mountain States Rosen LLC focus on producing high quality lamb cuts or remain a low cost marketer of lamb cuts?
3. Do opportunities exist for MSLC to market member's wool?
4. Should U.S. lamb producers lobby for additional trade restrictions on imported lamb?
5. Is there an opportunity for MSLC to develop a geographic brand label similar to that developed by New Zealand and Australia?

As Brad finishes writing these questions on an easel, he looks out a nearby window and sees snowdrifts beginning to form. He realizes that it is going to be a long afternoon trying to assess the shifting desires of U.S. lamb consumers.

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