

# MEC's Commercial Growth Plan



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# The Big Questions

- **Should I grow (more) elderberries?**
  - ~ Proven viability for farm direct marketing: value added
- **Commercial: When will big money want our little berries?**
  - ~ European IQF elderberries for \$3.00 lb. (FOB east coast)
  - ~ Annual contracts, pourable totes instead of frozen blocks
  - ~ Low temperature powders from frozen juice
- **Commercial volumes need big buyers = low price required**
- **How do we compete and make money?**

# Market Forces

## Both Friend & Foe

- **Strong demand for elderberry remains**
  - ~ Consumer trend for local and healthy foods
  - ~ River Hills Harvest & others' presence in the marketplace developed American Elderberry awareness and demonstrated potential growth
  - ~ Established companies jumped in using cheaper, certified organic European elderberry ingredients: IQF berries, concentrate, powders
- **Global competition affects local prices**
  - ~ Imports set volume buyer price expectations
  - ~ Buyer production lines designed for specific ingredient formats
  - ~ Dependable supply, year after year



# Market Forces

## Both Friend & Foe - 2

- **Competitive retail distribution not for everyone**
  - ~ Using traditional retail distribution > high marketing costs
  - ~ Amazon > online, will price advantage last? 1-day delivery?
  - ~ Trader Joes & Aldi > private label organic challenge
- **Better strategy: supply American elderberry ingredients to established producer-distributors**
  - ~ Requires dependable, high volume, low margin berry ingredients
  - ~ Greatly reduces market risks, labor and development costs
  - ~ Can be structured for repeat annual contracts for harvest

# Farmer Owned

- Terry Durham / River Hills Harvest can only buy so much
- Who will buy your elderberries @ fair price?
- Would you rather negotiate with a big urban-based business or with your fellow growers?
- Midwest Elderberry Cooperative: coast-to-coast
- Cooperatives balance the freedoms of individual ownership with the opportunities of larger size.
- Mortality is reality: Accidental & Eventual Death



# Challenge of Capitalization

- Coop ownership joins capital & labor to equalize distribution of wealth & opportunity
- Farmers share in production assets & operations > profits/losses
- Goal: lower costs of production to compete against imports
- Specialized equipment/technology required to lower production costs > labor hours, fixed costs/lb. in desired ingredient format
- High volume processing required to make existing co-packing services cost effective

# A Coop Answer

## (General Principles)

- Cooperate to attract & proportionately share capital while increasing scale/size to compete effectively
- Elderberry can benefit from traditional economies of scale: special machinery, aggregation of crop, etc.
- Should lead to more efficient field and crop handling, thus to lower costs of production:
  - ~ Can compete more effectively against global prices
  - ~ While generating higher returns on invested \$ and time
  - ~ Spreading the risks geographically and by market segment



# MEC's Coop Answer

## (Some Specifics)

- Increase support for small farmers selling direct
  - ~ Website redesign to include Farm Profile pages
  - ~ Farm stories, role of elderberry, link to online farm store
- Coop operations to use others' resources, as possible
  - ~ Make and sell ingredients: IQF berries, juice powders
  - ~ Elderberry flavors of branded products makes use of the existing investments & staff in marketing / distribution
  - ~ Scale benefits from large orders for bulk berries, puree, etc.
  - ~ Similar strategy for private label sales



# Cooperation = Capital

- Present crop challenges make it easier for a Big C to buy from MEC than do it themselves.
- We will reduce grower costs to profitably lower price, secure & retain multi-year sales contracts
- Consolidate harvest destemming, processing in hubs with continuous flow capabilities, IQF American Elderberries
- By combining our existing production and efforts we can attract good agricultural financing, grants

# MEC Membership

\$500 Single Class A Share - required

- Small grower: Local Direct & priority in MEC sales fulfillment
- Share value at risk but refundable if possible
- Priority access to available MEC-owned inventory/ingredients at board-established wholesale prices and toll fees for services
- Free access to MEC educational events and resource materials
- Option to grow/purchase of Class C Delivery Rights Stock
- Class A shareholders do NOT share in the coop's profits and losses, NO direct tax reporting, NO guaranteed commitments



# MEC Structure

- Voting Members - own 1 share Class A stock - \$500
  - ~ Board of Directors elected by Class A shareholders
  - ~ Board selected officers & teams run operations
  - ~ Class A shareholders do not share in MEC profits/losses
- Option of Class C shares - Grower Delivery Rights
  - ~ Issued against contracts for harvest in advance
  - ~ Commercial participation in MEC valued added activities
  - ~ Board sets prices & policies with commercial grower input
- Class D (preferred) shares provide investor option
  - ~ Potential dividends but no voting rights or direct control of the coop
  - ~ Passive / principle-based investor, “slow money”



# Class C Shares

Commercial Producer - \$2/each optional

- 1 Class C share = 1 lb. delivery/purchase commitment by both sides
- Cost of \$2/share or 3 lb. packed berries/share
- Per Unit Retained Earnings: not fully paid at the time of sale to coop fall ops
  - ~ Payment set by MEC Board with C share input - currently \$1/lb.
  - ~ Bank financing of inventory requires equity coverage for their loan balance
  - ~ Accounts set up to track Retained Earnings, paid later before June 30 year end
- Coop has the option to offer non-members the same prices as members in commercial transactions, but no profit sharing.
- Growers share proportionately in risk: MEC losses & profits from all sources @ variable price and payment contracts.
- Members must report their share of profits and losses regardless of the amount of cash received - tax reporting.