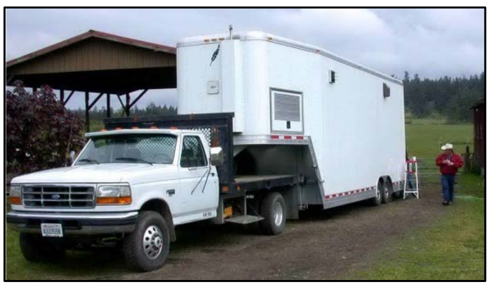
Island Grown Farmer's Cooperative: A Case Study

This case study is excerpted from the report, "From Convenience to Commitment: Securing the Long-Term Viability of Local Meat and Poultry Processing" *by Lauren Gwin and Arion Thiboumery, published June 2013. The central conclusion of the report is that stronger, more regular business commitments between small processors and livestock producers are essential to grow the local meat sector. The report includes twelve case studies: seven successful processors and five public-private collaborations to support local meats processing. The case studies and full report are posted here: www.nichemeatprocessing.org/research*

While it is largely known for operating the first USDA-inspected mobile slaughter unit (MSU) in the U.S., the Island Grown Farmer's Cooperative (IGFC) has been successful for reasons beyond the MSU itself, from overall farmer commitment to the co-op's success to its scheduling system that assures (a) the unit is fully utilized and (b) farmers can get the slots they need. These aspects of their business are not at all limited to mobile units.



IGFC operates a USDA-inspected mobile slaughter unit (MSU) in five NW Washington counties and a small, fixed-location cut and wrap facility in Bow, WA. IGFC is a service co-operative, providing processing on a fee-for-service basis for members. They handle beef, bison, lamb, goat, and hogs. The MSU's two butchers can slaughter 8-10 head of beef, or 40 sheep, or 20 pigs in an eight hour day. The MSU typically operates 4 days per week and returns to the cut and wrap nearly every night; it stays out overnight when servicing the islands, because of the travel time and the cost of the ferry trip. The cut and wrap operates 5 days per week. The co-op processed more than 300,000 lbs of meat in 2007, their maximum capacity, and has held fairly steady since then.

IGFC has 60 members, all located within a 50 mile radius of the plant (1-2 hours drive), the largest area the MSU can serve efficiently. About half of the livestock are on the mainland, and half are on three of the San Juan Islands. Most members raise and sell fewer than 50 head of beef per year and a few do 100-200 per year. Most sell through the standard set of retail and wholesale channels (farmers' markets, restaurants, grocery stores, farm stands).

In 1996, livestock farmers in San Juan County, WA, became interested in local meat marketing but couldn't transport their animals to mainland processing facilities. They considered building a small slaughter and processing plant on one of the islands, but at each site they considered, a neighborhood group immediately formed in opposition.

They learned about the MSU concept from Broken Arrow Ranch (see MSU box) and partnered with the Lopez Community Land Trust, which focuses on affordable housing and sustainable rural development. LCLT hired farmer Bruce Dunlop to design the MSU; it was built by Featherlite, a trailer manufacturer.[1] The farmers formed the Island Grown Farmer's Cooperative to lease the MSU from LCLT and operate it for IGFC members, who market independently.[2] They received their USDA grant of inspection and in 2002 began operating the MSU along with a leased cut and wrap facility.[3]

Central to IGFC's success is that its members have very few other options for inspected slaughter and processing. They all need their system to work and have been willing to support it financially. The broader community also provided start-up financing and support.

LCLT committed significant time and human capital to the project by raising $90,000 of the $150,000 in start-up costs (trailer, truck, equipment, design/testing, outreach) from private donations from member farmers and others in the community, along with an additional $60,000 in grants from USDA.[4] Once the MSU was built, the 30 original IGFC members each made an initial equity investment of $600. After that, the MSU has been financed solely by processing revenues, including a per-head "equity retain," or surcharge, which can be used for capital improvements. Members also made loans to IGFC – for example, to purchase needed equipment – early on when banks, judging the venture quite risky, only offered very high interest rates.[5]

This commitment extends to paying the true cost of services. The fee structure is set to break even or generate a small profit, which can be reinvested in the business. Annual revenues and operational costs are balanced at approximately $500,000. IGFC's original prices, based on what other plants in the region were charging, were too low: after six months, they were losing money and had to raise prices. They have done so several times since: for example, a ten percent increase in 2008 covered rising fuel costs and health insurance/raises for employees. As Bruce Dunlop explains, "If you have enough capital, you can lose money in the first year. We had to break even because we didn't have money to lose."

Today, IGFC has six full-time and two part-time staff, but the board continues to provide time and expertise on a volunteer basis. Their highly skilled lead butcher, essential to IGFC's success from the beginning, originally had no managerial experience but has been trained by the board and now manages all day to day operations. The board, which meets monthly, handles overall management, strategic direction, and planning. A board member still serves as HACCP coordinator, though this will soon transfer to an employee. The board's steady, long-term involvement is grounded in the fact that this business is critical to their livelihoods.

Like most processors, IGFC needs steady throughput to make the best use of its facilities and skilled employees. As a local processor that handles a large number of grass-fed livestock, it also

[1] The IGFC is a gooseneck trailer, 34' long including 8' over the hitch, on an aluminum frame, and can be hauled by a pick-up truck. Dunlop has built eight other MSUs for different groups and is working on a ninth; early on he shifted to more durable steel frames and semi-trailers.

[2] LCLT is no longer actively involved; IGFC plans to purchase the MSU in the next few years.

[3] Over time, IGFC has purchased most of the equipment from the owner.

[4] Funds came from three USDA programs: Cooperative State Research, Education, and Extension Service (now Agriculture and Food Research Initiative) and Rural Development/Rural Business Opportunity Grant for design, development, project management, and testing; and the Forest Service Community Development Program for the truck and refrigeration equipment.

[5] IGFC is now more attractive to banks and recently took out a loan to buy a truck.

faces significant seasonal variation in demand for services. IGFC has addressed these problems with a scheduling system that takes advantage of the fact that, as a cooperative, they must hold an annual meeting.[6] At that meeting, they set the entire slaughter schedule for the coming year. Members who attend the meeting get to choose their dates first. Those absent must choose from the remaining dates.

The system necessarily requires guesswork on the part of farmers. "Sometimes, particularly with hogs," Dunlop explains, "you're scheduling slaughter dates for animals that have not yet been born." Beef farmers must estimate when their cattle will be fat enough for slaughter. If necessary, the schedule is adjusted about a month before a set date, working through the scheduler to swap dates with another member. Larger farmers are often able to accommodate shifts needed by smaller farmers; "it's helpful giving [the plant] some flexibility when you have it, so when you don't have the flexibility, they recognize that and they move your stuff to the front of the line."

IGFC also uses financial incentives to spread the work over the year, offering a ten percent discount for any slaughter in the slow period, February through April, and a flat rate discount to process animals that will be ground, typically culls, and can be held past the busy fall period. "We recognize that it costs something to do that, and it's a bit of a hassle, but the discounts work," Dunlop says. IGFC also penalizes farmers who aren't ready when the MSU shows up at their farms. "If we have to turn around and leave, they get billed. We don't like assessing penalties, but as soon as a producer knows that he's going to get charged for not having his animals ready, the problem tends to go away."

The Future

At this point, IGFC intends to stay at its current size, in terms of both the number of members and the number of livestock and pounds of meat processed per year. They have reached a capacity that fits the MSU, the cut and wrap, their staff, and the needs of their members. In the spring of 2012, IGFC purchased the MSU from the Lopez Community Land Trust, marking a very significant transition. IGFC believes they are stable enough, with enough of a long-term future, to hold such an important community asset. The purchase also allows LCLT to recognize a return on its original investment and reinvest the funds into new projects.

Key points:

- An MSU was essential for Island Grown Farmer's Cooperative members to bring meat to market, but mobility is only one reason why the business works;
- Having an integrated cut and wrap facility has been essential, not only for the services provided but for keeping staff busy and sharing costs over the two enterprises;
- Farmer commitment – financial, scheduling, expertise/time – is formalized by the co-op structure but transferrable to non-co-ops.

[6] It is important to note that being a co-op does facilitate this process but is not actually required.