

MIDWEST ELDERBERRY COOPERATIVE

How to Sell a Growing Elderberry Harvest

*Developing Elderberry & Elderflower Ingredients
Grower Options in Production & Harvest Sales*

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22,500 ACRES

- My best guesstimate for how many acres of commercially planted elderberry the early stage US market can support
- Sustainably grown perennial - permaculture, documented quality (destemmed, sanitized, ripeness, frozen promptly), profitable at RHH's premium pricing
- Certified Organic opens up multiple opportunities for ingredient sales into the national / global market



WHY ELDERBERRY?

A marketing perspective answer to a few basic questions:

- If I grow elderberry, will I be able to sell my crop?
- Should it be a primary focus or a “Third Crop” for me?
- How can elderberry grower cooperatives help?
- How does it work? What do you sell?
- What can elderberries and elderflowers be used to make?
- How are farmers paid?

POTENTIAL HIGH VALUE

Makes commercially grown elderberry sustainable environmentally, ethically and economically from Farm to Consumer including:

- Local to National Food & Drink Producers
- Wholesale Distributors
- Farmers
- Retailers
- Consumers



EU - USA ELDERBERRY

European Union - established large market

- Population of about 505.7 million
- 2013 GDP of about \$16.5 trillion

United States of America - undeveloped

- Population of about 315 million
- 2013 GDP of about \$17 trillion

EU MARKET PROFILE

- Est. at over 30,000 acres of cultivated elderberry
- Est. annual yield of 107,000 tons, 95% of production from Austria, Italy, Czech Republic, Poland, Hungary
- Price equivalent of \$0.20 to \$0.35/pound for fresh, unwashed, on-the-cyme *S. nigra* berries
- Frozen in bulk for later de-stemming & processing
- Dried *S. nigra* berries sell for \$4/lb. bulk quantities
- Elder flowers a huge business in Europe

PROXY FOR PLANNING

- How do we plan growth to establish a national market?
- How can we estimate potential demand and needed supply?
- Used River Hills Harvest premium pure elderberry juice, an existing product with known parameters.
- Projected consumer use of this one product substitutes for all domestic elderberry product and ingredient categories.
- Provides a reasonable estimate of potential market size for strategic goal setting and organizational development.

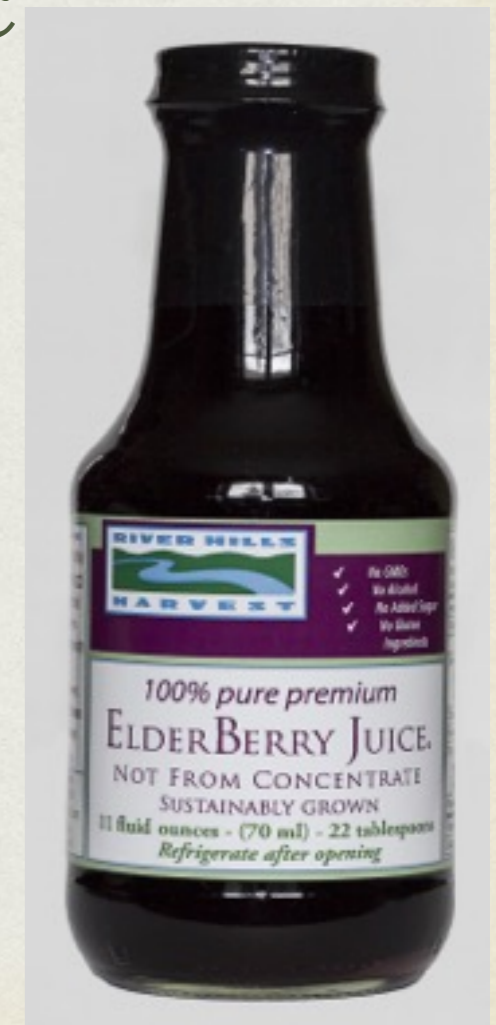
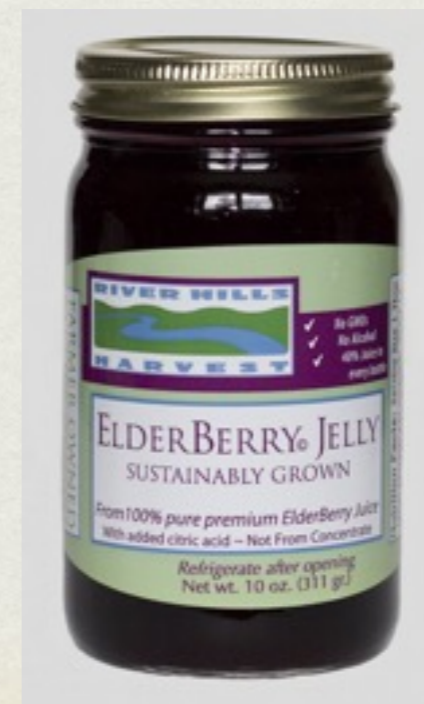
PROXY FOR US MARKET

Potential market demand for elderberry in the US using RHH ElderBerry Juice as a proxy model for all varieties of elderberry products / ingredients sold.

- Market participation: <1% US pop. = 3 million people @ **1 tbs./day**
(Assumes a very modest growth in public knowledge about elderberry)
- About 20 servings / bottle yields a demand for 12,500 cases/day
- Round to 4.5 million cases / year @ 20 lb./case = 90 million lb.
- **Est. proxy market of 45,000 tons produced on c. 22,500 acres**
- **Estimated initial phase of commercial demand in US for elderberry and elderflower harvest - all options/channels.**

RIVER HILLS HARVEST KEY CHALLENGES

- Increase Consumer Demand
- Consumer education - general public
- Marketing/ Social Media
- Expand retail presence
- Retailer specific programs
- Product sampling



INCREASE SCALE & INCREASE MARGINS

- **Regional-Specialty Distributors - Relationships**
- **Grow National Distribution: KeHE Distributors**
 - Natural & Grocery channels
 - Chains & Independents
- **Cost of Distribution**
 - Distributor & Retailer 20-50% mark-ups
 - Brokers & marketing promotions add 20-50% to cost
 - Freight



TARGET PRICES?

- Est. 2017 yield of **500 tons**, concentrated in the Midwest
- Target MEC purchase price of \$.75-1.00 pound for fresh, unwashed, on-the-cyme *S. nigra canadensis* berries
- Target MEC purchase price of \$2.00 pound for washed, quality graded, de-stemmed and frozen elderberries
- Target MEC wholesale price of \$3.00 pound for washed, de-stemmed and frozen elderberries packed in 4 gal./25 lb. pails
- Minimal Certified Organic premium due to added costs of retail distribution and commercial production
- Few retail / wholesale elderflowers to date: **<\$20/lb. fresh**

NET CROP VALUES

Actual elderberry value/acre will aggregate from selling a collage of elder berry & flower products/ingredients

- Influences of global ingredient bias & low prices
- Elder berry & flower harvest & processing challenges: ripeness, pests, storage, % allocation to processors
- Buyers of quality wholesale ingredients need to profit, to contract for needed quantities, on time, and to specification
- Need accepted ingredient specs / govt. reg. processing
- Risks of unknown US market acceptance - awareness of potential health benefits, value to environment

IF A PRIMARY CROP...

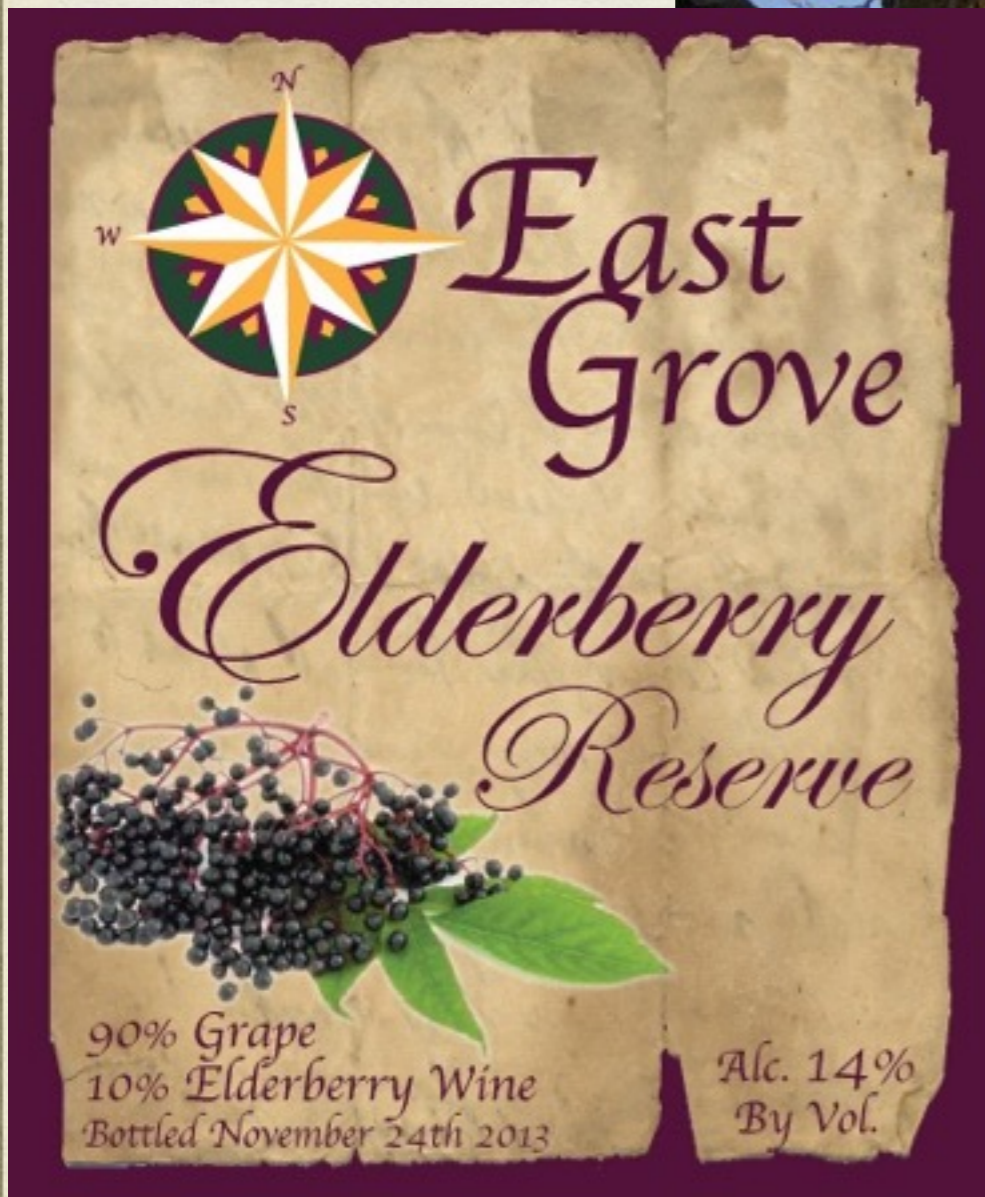
- Value Added participation necessary to net profits
- Farm Direct - Value Added strategy is essential
 - Choose what you love: product or CR approach
 - Manageable scale - in both farming & marketing
- Coop Value Added: Shared capital & business options
- Long term relationships: River Hills Harvest, MEC, local food and beverage processors, including other farmers

DIRECT SALES OPTIONS

- **Sell** fresh, dried or frozen **berries directly** to consumers:
 - Fresh/frozen: \$5-8/lb., glycoside risks
 - Dried \$20/lb. organic retail direct or online direct
- **Sell** fresh, dried or frozen **flowers directly** to local wineries, breweries, distilleries, supplement - ingredient, food stores, consumers:
 - Fresh/frozen \$15-35/lb.
 - Dried \$35-50/lb.
- **Develop farm-based value added products**
 - Sell locally, online, regional distribution
 - Products: jam, juice, syrup, tea, vinegar, wine, etc.
- **Sell** fresh picked, de-stemmed & frozen pails, and/or dried elderberries **wholesale** into the supply chain: \$0.50 - 3.00/lb.

EAST GROVE FARM

SALEM, IA



Joel, Kurt and Justin Garretson

THE COOP OPTION

- Growers aggregate harvest and processing to share resources/expenses to serve identified markets.
- MEC buys at lower price, pays later, maybe less
- Access to MEC inventory to keep your customers happy despite a poor harvest
- Risk & Reward (net profit/loss) proportionately shared based on member's harvest sales to MEC
- Coop revenues/expenses from ingredient product market mix - different profit margins/purposes

GROWER COOPERATIVES

- Provide access to markets and major distribution channels for wholesale ingredients and retail products
- Commercial buyers require volume commitments and documented quality for long term sales contracts
- Multiple Value Added opportunities, economies of scale, variable pricing from multiple sources, ingredients, market options, grower participation
- Encourages integrated university research and interfaces with buyers and government on behalf of growers

SUMMARY OF STRUCTURE

Midwest Elderberry Cooperative a MN 308B cooperative:

- Voting Grower Members - own 1 share Class A stock
- Elected Board of Directors by members
- Board selected officers & teams run operations
- Board sets prices & policies in consultation with members
- Non-voting Associate Members, try us out, no crops yet
- Grower Delivery Rights - set by # shares of Class C stock
- Investors own non-voting Class D preferred shares, var %
 - Preferred shares provide capital formation options
 - Passive / principle-based investor, “slow money”
 - Active as a co-processor, key wholesale buyer

GROWERS AS PATRONS

- Contribute capital and share of harvest to the cooperative
- Class C shares - harvest commitment in lb. by both sides
- Per Unit Retained Earnings - not fully paid at the time of sale to coop as set by the directors to manage cashflow
- Accounts set up to track Retained Earnings, paid later
- Members must report their share of profits and losses regardless of the amount of cash received - tax law.
- Coop has the option to treat non-members as members in commercial transactions.
- Growers share proportionately in risk: losses & profits from all sources @ variable price and payment contracts.

INGREDIENT OPTIONS

- Ingredient or lightly processed elderberry end product: fresh, frozen berries and flowers for bulk and retail direct: tinctures, jams, juice, syrups, ice cream, sodas, smoothies, ciders, brews and wines.
- More processed: bulk juices, berry puree, elderflower syrup, dried elder berries / flowers, antioxidant/anti-inflammatory flavors
- Highly processed elderberry products: IQF berries, freeze dried berries, extracts, concentrates, powders as nutraceutical inputs
- Natural dyes: for use in food and textile industries
- **Each option has its own price structure, set of partners, distribution channel, market & capital requirements.**

NETWORKED REDUNDANCY

- Farmed supply: network of state/regional grower cooperatives to set quality standards, support research and promote best practices
- Multiple MEC options - partner with growers and/or buyers in processing
- Multiple distribution channels: local to national, wholesale & retail market penetration with a shared advertising/promotional campaign
- Encourages growth of local relationships between growers, local food and beverage producers, retailers and consumers
- Accommodates multiple quality grades of fruit, incl. Certified Organic, and engages both large and small wholesale/retail buyers
- Promotes grower initiative and provides multiple opportunities for grower participation to fit his farm plan and market production preferences.

DRIED EXAMPLE

- Stainless steel drier holds 500 lb. yields 100 lb.
- EU sourced bulk dried berries sold by US wholesaler:
\$3.50/lb. conv. & \$4/lb. organic + freight =
\$.70/lb. conv. & \$.80/lb. fresh/frozen + drying prices
- Retail of EU: \$12.50-18.00/lb. / \$16-23.50/lb. org.
- MEC Bulk: \$13-15 sustainable; 15-17/lb. organic =
US fresh/frozen \$1.25-1.50/lb. sust. and \$2/lb. org. less cost
of handling, drying, packaging
- MEC Retail: \$18/lb. sust. \$21/lb. org.; \$7/\$8 org. 4 oz. pack

22,500 ACRES

- Attained by selling multiple ingredients/products > redundant wholesale & retail distribution channels
- Sustainably grown, documented, profitable, buyer interest is genuine, new markets/products take time
- Certified Organic opens huge volume potential at a small premium into the national / global market
- Uncertain time line in realizing this projected local, regional, national - international sales potential