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**Appendix E**

# **The Mississippi Initiative**

## **Prototype For A Viable Family Agriculture**

### **Summary:**

Family Farm Foods of Mississippi (FFFM) is a nonprofit corporation embarked on building a more direct food pipeline from the farmer to the consumer. FFFM proposes to put in place a new food system that will produce, process and directly market food products of superior quality and thereby return a higher percentage of the ultimate value to independent producers. FFFM will utilize the most recent advances in food, logistics and information technologies to provide a more workable infrastructure and will differentiate its products from the generic competition in ways that will make consumers perceive them to be more valuable.

### **Operating Principles:**

Family Farm Foods of Mississippi will operate in a manner that stands in sharp contrast to that of the prevailing food production and delivery system. This effort will be characterized by:

- Recompensing farmers from the marketplace rather than through federal income transfer payments;
- Targeting independent family-owned and operated farming operations;
- Providing fair prices, fair wages and a healthy working environment;
- Delivering high quality, wholesome and safe food products to consumers;
- and
- Employing cutting edge technology to reduce costs and increase profitability for farmers.

The first major component of this new food system is to be a demonstration model for an integrated beef production, processing and marketing system. The principal aim of the project is to supply hard data that will demonstrate this concept to be a viable alternative to the concentrated and vertically integrated food system currently emerging. Our cost estimates reveal that the project will break even at half capacity and will return significant money to beef producers at full capacity. We believe this approach has potential application for numerous foods in addition to beef.

**Background:**

The United States food industry is the biggest industry in the world. Yet, as the food processors, manufacturers and retailers grow larger, the American family farm is dwindling due to historically low farm gate prices. Without federal government subsidies, 82% of our domestic farms would not recover their cost of production. While meatpacker profits have grown to record levels at the expense of farmers, the retailer captures the most profit. USDA Chief Economist, Dr. Keith Collins stated before the Senate Agricultural Committee that food retailer margins are a major problem. We believe they have grown beyond bounds of reason and consume far too much of the food dollar. The Mississippi Initiative will connect the farm to the food consumer and capture a large part of the resulting profits.

In terms of dollar value, the beef industry is the largest component of the U. S. food sector. Some level of beef cattle production is conducted on 90% of all U. S. farms. Beef cattle production has been in a state of sharp decline in Mississippi for more than two decades. The reason is a protracted period of extremely depressed prices. The cattle market has recently recovered to levels approaching that of 21 years ago, when a tractor or pickup truck cost 20% of today's prices.

Yet retail beef prices have generally risen over time. Today, retail beef prices are at record highs. However, the producer' share of the beef dollar continues to decline. Last year it stood at 45% of the total retail value versus 64% in 1979. The gross profit margin on beef at chain stores for the month of September 2000 was calculated by USDA to be an astounding \$722 per head equivalent, nearly half the retail value of a steer. In addition, retailers charge slotting fees (shelf space rental), that bring in significant additional revenues.

This state has the potential to rebuild its beef herds if producers can receive profitable prices over the long term. These very large retail margins and profits provide the potential to *slice the pie* more equitably and send significantly more of the consumer beef dollar back to the producer.

We will operate a nonprofit beef processing and retailing infrastructure to sell a high quality end product directly to the consumer. Our financial projections indicate that the Mississippi Initiative can return long-term profitability to Mississippi cattlemen by connecting the farm gate price to the retail beef price. We will demonstrate the feasibility of a new food system that is equitable, and socially and environmentally responsible.

#### **Plant Facilities, Equipment and Capital Requirements:**

FFFM proposes to establish a fabricating, cooking and direct marketing facility in a highly suitable location in Jackson, Mississippi. This initial facility will be relatively small scale and is intended primarily as a demonstration model (see attachment #2). This 10,000 square-foot building will serve as a processing, cooking, freezing, shipping and direct sales outlet. It will also house a small deli. It is expected that the facility and parking lot will cost \$837,685. Required equipment and supplies are listed in attachment #3. Specifications for equipment for the deli and office are currently being determined. Total equipment costs are anticipated to be \$350,000.

It is essential that the best possible site be obtained for this initial facility. A highly desirable site in Jackson is expected to cost \$600,000. In addition, there is a requirement for operating funds and for financing inventory and accounts receivable. These costs are estimated to be \$ 712,315. The estimated capital cost for the demonstration project are projected to be approximately \$2,500,000.

### **The Product:**

We know how to produce a better beef product, thanks to Mike Callicrate and a group of confederates (Ranch Foods Direct). They have developed a system that produces beef that is significantly higher in eating-quality, lower in cholesterol and maintains freshness longer. This product readily lends itself to a production and marketing system that works to the benefit of producers, without the indenturing aspects of production contracts such as those used in the poultry industry. The only gap remaining is a fabricating and cooking facility and a better direct market outlet. The Mississippi Initiative will address this deficiency. Family Farm Foods of Mississippi and Ranch Foods Direct will work in concert to put in place a new system that will connect the farmer to the consumer and be a model for the future.

### **Mississippi Producers:**

Participating beef cattle producers from Mississippi will be recruited by holding producer meetings throughout the state. Those producers accepted will agree to make necessary adjustments in their herd genetics and agree to comply with an established production protocol. Generally, herd health and management will be straightforward except that hormone implants will not be used and male calves will be left intact until they are in the feedlot. Castration will be delayed to obtain efficient growth without hormone implants.

The vaccination program is similar to the MIMS program established by Mississippi State some years back. No discernable Bos Indicus (Brahman) influence is acceptable in the genetic makeup of the cattle due to their propensity for toughness in the meat. Since the

primary thrust of the program is to return more money to participating producers, producers are obligated to help promote the end product. Participating producers will be required to devote at least one day per month to promoting the product line in consonance with an overall marketing plan.

Cattle will be custom fed at participating feedlots. No sub-therapeutic antibiotic will be fed in the ration due to the concerns over creating resistant strains of disease organisms. Cattle will be managed so as to finish at a young age; approximately 12-13 months. They will be scanned by ultrasound to assure proper degree of finish and sent to slaughter as they are individually ready. Meticulous computerized records will be used to continually improve efficiency and quality of the end product.

Cattle will be custom slaughtered using a patented process that enhances tenderness, freshness, increases shelf-life and lowers cholesterol. The primal cuts of beef will be boxed and shipped to the Family Farm Foods of Mississippi fabrication plant in Jackson. There the beef will be optimally aged, processed and sold. During the early weeks of operation, it is anticipated that major portions of the lower quality cuts will be sold as commodity product to the slaughter, or breaking plant. As product markets are developed, these lower value items will be cooked, smoked and processed in other ways so as to obtain the highest possible value.

Because FFFM is a non-profit organization, it will pass profits back to the producers. We believe these supplemental payments, over and above full market value for the live cattle will be substantial. We also believe this project has the potential to revitalize the declining beef cattle industry in Mississippi and elsewhere in the country. Profitable beef cattle production means viable family farms and sustainable rural communities. (The performance projections for this operation are contained in attachment #1, sheet 3.)

### **The Financial Analysis:**

The various assumptions involved in the attached calculations are considered conservative in that we have calculated mere commodity prices for this high end product. It is expected that the operation will have a volume of 160 head of live cattle equivalent per week within six months of commencing operations. If this level of production is achieved, a very impressive rebate of \$188 per head would accrue to participating producers. As a value-added market for the lower value items of the carcass is developed, various streamlining takes place and efficiencies are instituted, this \$188 supplemental payment would increase, perhaps substantially. As more of the beef is sold as a high-end product, revenue increases substantially as do the returns to Mississippi producers.

This project is a relatively low risk and inexpensive way to explore feasibility of a new food system approach to the beef industry. This will provide a vehicle to debug and refine an overall concept. It is anticipated that after six months to a year of operation, this project will generate data from which to extrapolate and assess feasibility and provide a pattern for replication in numerous other locations.

There is presently considerable interest in this project by groups in several states. Nonprofit Family Farm Foods corporations now exist in Missouri, Nebraska and Kansas. Mississippi will work in loose coordination with its sister entities on a national basis to spread certain costs and share information. If this project is successful, similar operations will spring up like mushrooms all over the state and country. There is an awareness that public funds are more appropriately spent in support of projects such as this as opposed to disaster payments and producer-subsidies which are summarily appropriated by buyers with the market power to buy at less than cost of production.

### **Conclusion:**

The Mississippi Initiative proposed by Family Farm Foods of Mississippi is the most cutting edge idea for connecting the producer to the consumer. A nonprofit food

infrastructure operating at cost has the highest potential to transfer retailer profits to the farmer. The small scale and conservative financial projections of the Mississippi Initiative show that a beef processing and retailing facility in Jackson has a low chance of failure and a high chance of significant success. The project will be replicable and modular allowing more of these facilities to be built around the state and the country using a further refined model. No project has a higher likelihood of returning profitability to Mississippi cattle producers than the Mississippi Initiative.

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