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American Native Beef Cooperative

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The American Native Beef project involved a failed attempt to establish cow and bull slaughter operation in Southeast Oklahoma. The effort was initially organized as a new generation cooperative and raised over US$2.5M from area producers who retained their funds in escrow for over 5 years despite numerous opportunities to withdraw their investment. The business model was restructured several times to attract equity capital from outside investors. The case provides insights into the linkages between business strategy and business structure. It also raises the question as to whether the project could have been successful under the original business model.

Background

Cattle and calves are the most valuable commodity in Oklahoma. Between 1998 and 2008, the statewide annual average was well over five million head. Oklahoma ranks fifth in terms of cattle and calves inventory, trailing only Texas, Nebraska, California, and Kansas (United States Department of Agriculture-National Agricultural Statistics Service [USDA-NASS] 2007). However, unlike these other states, Oklahoma's cattle numbers include considerably fewer feedlot cattle shipped in from other states and fewer large dairies. Most of Oklahoma's cattle and calves are associated with the state's multitude of cow-calf operations or stocker calves placed on winter wheat pastures or summer range pastures.

In search of value-added profits, in the fall of 2000 a group of cattle producers in southeastern Oklahoma began to explore the idea of a culled cow slaughter company. Part of the rationale for the project was the large number of cow-calf operations in the region and a lack of processing facilities. One perceived advantage was reduced transportation costs in cattle procurement. The group estimated that over 150,000 cows and bulls were transported annually out of the Oklahoma region for slaughter. In a *Livestock Weekly* (2001) article, project steering committee member Mason Mungle summarized the project's rationale:

> "As we look at nearly all sectors of the agriculture business—well, really all sectors of the agriculture business—we find that the larger,

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> multinational corporations are the only place we have to market our cattle. What we want to do is provide that extra buyer at the livestock market that'll be able to compete. It looks like, to us at least, we would be better off $3 per hundred weight because of the trucking that they have to margin out" at other plants.

Incorporating the business as a cooperative appeared to have additional advantages. The prospective membership, comprised of cattle producers from the southeastern part of the state, could provide a supply of cattle to the cooperative. Unlike fed cattle, which are supplied from feed yards on a year-round basis, the supply of cull cattle tends to be seasonal, peaking in the fall. It was envisioned that a farmer-owned project could coordinate with producers in scheduling delivery. The group also foresaw opportunities from conditioning cattle (holding cattle on grass) to smooth out seasonal supplies. The availability of funding from grants, tax credits, and the success of similar ventures were also factors in pursuing the cooperative form. The successful equity drive of the Value Added Products (VAP) Cooperative in northwestern Oklahoma and the success of the U.S. Premium Beef (USPB) Cooperative in Kansas City Missouri fueled interest in a cooperative effort. A 30 percent tax credit offered by the state of Oklahoma to producers investing in value added businesses was another positive factor. The tax credit did not place restrictions on the business form, but was initially limited to agricultural producers investing in new value-added ventures in the state.

In early 2000, a steering committee that included a core group of producers applied for a United States Department of Agriculture (USDA) Value-Added Agriculture Market Development Grant, now referred to as the Value-Added Producer Grant program. The group called their potential business American Native Beef. The rationale for the name was to suggest a linkage between farmers and ranchers and to differentiate themselves from imported beef (e.g., Australian or New Zealand). The organizational effort formally began with a meeting of southeastern Oklahoma cattle producers in February 2001, where project organizers discussed the concept of a cull cow and bull slaughter cooperative. Based on a preliminary review of projects proposed in other states, the group estimated project costs at US$10 million. The meeting concluded with a strong consensus that the feasibility of such a project should be explored.

Industry Background

According to USDA data, in 1997 there were 636 federally inspected plants operating in the U.S. for processing slaughtered steers and heifers (fed cattle) and cow and bull (cull cattle) (USDA-NASS 2008). In that year, the plants processed a total of 33.1 million head of cattle. There were 18 plants processing more than

one million head on an annual basis, accounting for 58 percent of all beef slaughter (USDA-NASS 2008). The fed cattle segment of the beef processing industry is the most concentrated, with the top four firms accounting for 80 percent of steers and heifers slaughtered in the U.S. (Barkema, Draberstott, & Novak 2008). Cow and bull slaughter represented 18 percent of total beef slaughter (USDA-NASS 2008). The cow and bull slaughter industry is less concentrated than fed cattle slaughter, and regional or family-owned firms are more prevalent (Mathews et al. 1999).

The American Native Beef (ANB) business plan reported six major regional or family-owned competitors, including Northern States Packing (ConAgra) in Omaha, NE, with a capacity of 1,800 head/day; Caviness Pack in Hereford, TX; Lone Star Corp. in San Angelo, TX; San Angelo Packing Co. in San Angelo, TX; and Booker Packing Company in Booker, TX, each with a capacity of 600–700 head/day. Western Missouri Packing Co. in Rockville, MO, with a daily capacity of 175 head, was also listed.

In 2006, approximately one million head of cows and bulls were slaughtered in a five-state region of Arkansas, Louisiana, New Mexico, Oklahoma, and Texas. Total cattle inventory for the same period was slightly over 23 million (USDA-NASS 2007). Based on a 10 percent cull rate, the region would generate over two million head of cows and bulls for slaughter, indicating that a majority of cows and bulls are shipped out of the region for slaughter. Together, these data indicate that incumbent firms would not challenge entry by a producer-owned cooperative.

Conceptual Framework

Hansmann (1988, 1996, 1999) uses a property rights approach to examine the rationale for the structure of ownership in a firm. He notes the cost of ownership, which includes monitoring, collective decision-making, risk bearing, and contracting. Firms with diverse ownership face issues such as asymmetric information, conflicts of interest, and higher costs of oversight. The transaction costs associated with trying to keep highly diversified investor groups satisfied is a major reason why most enterprises have relatively homogeneous investors. In the case of a cooperative corporation, where residual returns flow to the supplier of the commodity, patron investors have a uniform goal for patronage returns. In investor-owned corporations, investor-owners have a uniform goal for investment returns and claim residual profits. Combining ownership groups creates conflict of interests that must be controlled through monitoring and contractual arrangements.

Despite these challenges, a recent evolution of the cooperative business model has involved the development of cooperatives with non-patron equity. This structure provides two classes of ownership: outside equity investors and patron stockholders. The entity returns are split between the two classes, with the outside investors re-

ceiving investment-based returns and the patron stockholders receiving patronage-based distributions. This structure is part of a broader classification termed "investor-share cooperatives," which access outside equity through preferred stock, non-voting common stock, and participation certificates (Chaddad & Cook 2003). Baarda (2008) identifies the obligations and tradeoffs of outside cooperative equity from a legal perspective.

A number of states, including Wyoming, Minnesota, Wisconsin, and Tennessee, have enacted legislation enabling cooperative/limited liability company (LLC) hybrids. While there are differences in individual state statutes, this structure mandates control by patron members, but also allows the investor class to receive up to 85 percent of profits (Hensley & Swanson 2003).

The major rationale for hybrid cooperative/investor-owned business models is the firm's ability to access a greater pool of investment capital. For this reason, a hybrid business model may target an institutional investor or venture capitalist. However, there are inherent difficulties in matching venture capital with agricultural projects in rural communities (Freshwater et al. 2008). Venture capital firms prefer to concentrate on projects with high growth rates, that operate in large markets, and that provide ready exit strategies. Because of the hands-on nature of project evaluation, venture capitalists are disinclined to invest in projects that are physically remote from their other activities. Organizers of rural businesses are often unwilling to accept the management and control conditions set by the venture capital suppliers.

In a similar light, Alexander and Alcala (2006) conclude that private and institutional investors typically limit investments to projects with high short-run returns (over 20 percent), proven operating models, and expectations to exit the project within five to seven years. They also discuss the complex structures required, such as multiple classes of stock, differential voting rights, equity cure rights, and mandatory sweeps of excess cash flow.

Collectively, this literature suggests that there are fundamental challenges to meeting the divergent demands of patron and investor owners. The American Native Beef effort illustrates these challenges.

Analysis of the Venture

Key Individuals

Mason Mungle, a southeastern Oklahoma cow-calf producer, was a driving force behind the effort and helped organize the 11-member steering committee of area producers. Faculty from Oklahoma State University's Department of Agricultural Economics and Food and Agricultural Products Center also worked closely

with the project. The Samuel Roberts Noble Foundation, a not-for-profit foundation that provides education and assistance to agricultural producers, also assisted with the effort. Dan Childs, an agricultural economist at the Noble Foundation, served as one of the incorporating directors listed in the cooperative's offering document.

The Oklahoma Department of Agriculture, Food and Forestry (ODAFF) also helped coordinate the organizational meeting and strongly supported the project. Department officials had a long-standing goal of attracting a cattle-processing operation to the state. Past efforts had convinced them that industry concentration and scale economies made the processing of fed cattle infeasible for Oklahoma. The ODAFF saw the proposed cow slaughter cooperative as a more realistic chance to create a beef-related value-added business within the state. Gary Bledsoe, an ODAFF business development specialist, described his agency's goals in an August 2001 press release related to the ANB effort:

> "We're somewhat tired of sending all of our raw products out of state to process somewhere else and then haul it back. Out-of-state processors take advantage of all the jobs and rural economic development brought about by processing activities. We'd like to bring those things here."

Formation

In the spring of 2001, the ANB project received a USDA Value-Added Agricultural Product Market Development Grant for US$195,000 and a US$100,000 loan from ODAFF. In order to have a legal entity to receive the funds, the group formed a limited liability company, American Native Beef LLC, on 11 April 2001. The funds were used to contract with a nationally recognized firm for a feasibility study and business plan.

The preliminary report from the feasibility study was delivered in January 2002. The study estimated the annual capital costs for a 100,000 head/year slaughter and fabrication operation at US$13.3 million. The results also indicated that a slaughter and fabricating operation that produced fresh beef would be unlikely to be profitable. Cow and bull prices would either have to decrease by 12–14 percent or meat values would have to increase by 10–12 percent in order for the project to be profitable. The study also examined a combined slaughter and further processing operation. The further processing activities included ground beef products (e.g., beef patties, meatballs, and Salisbury steak), sausage products (hot dogs, summer sausage, and bratwurst), and whole muscle products (marinated pre-cooked beef roasts and beef jerky). The further processing activities were projected to add US$6.3 million to the project, bringing the total project cost to around US$20 million. The returns for the integrated slaughter and further processing operation were more favorable with a projected return on equity (ROE) of 23 percent.

During the spring of 2002, the project steering committee met on a weekly basis to discuss the proposed company's structure. The coordination of cattle supplies was perceived as a major strategic advantage. However, some committee members were concerned that delivery commitments would deter potential patron investors. The issue of how deliveries would be allocated throughout the year was discussed in depth.

Another structural consideration was the minimum level of investment. Outside advisors recommended a high minimum investment (US$10,000–$25,000) to help the project reach its equity goal. However, some steering committee members were convinced that a high investment level would prevent smaller producers from joining. In the end, the committee set the minimum investment at US$5,000.

The issue of cattle pricing was also contentious. Instead of concentrating on processing returns, some steering committee members focused on cattle sourcing. Alternatives for purchasing based on live or carcass weight were discussed, along with issues relating to condemned carcasses. Like most producer groups, the ANB steering committee had much more interest in issues relating to cattle sources compared to details of plant design and processing. They also had difficulty adjusting from their traditional producer perspective to that of an owner of the processing stage.

In late May 2002, the steering committee requested and received a business plan for an integrated cow and bull slaughter and further processing operation. The capital cost estimate for plant, property, and equipment (PPE) for a 400 head/day (100,000 head/year) operation had increased to US$25 million. The business was described as a Section 521 cooperative. Equity investment was set at US$250/share and each share was associated with a delivery right/obligation of one animal. The minimum investment was 20 shares or US$5,000. The business plan stated that the cooperative would sell 50,000 to 100,000 shares of common stock, which implied equity investment of US$12.5 million–$25 million. This structure would require 2,500 investors at a minimum. The plan showed an ROE of 34 percent.

The Equity Drive for the Project Under a Cooperative Business Model

The equity drive for the cooperative was formally initiated on 31 October 2002. The offering was conducted using the Section 521 cooperative association exemption from registration under the Securities Exchange Act. The offering was scheduled to end on 14 February 2003 unless extended. The document stated a minimum offering of US$12.5 million (100,000 shares at US$250 per share, with each share carrying the delivery obligation of one head of cattle). The members' investment would be held in escrow until the US$12.5 million threshold was reached. The offering further specified that up to US$5 million of preferred stock could also be

sold. The preferred stock was offered with a dividend rate set at 1 percent above prime interest rate, not to exceed 8 percent. The preferred stock was also specified to be convertible into common stock at "the Board's calculation of the fair value of the common stock."

The offering document also described an "expanded" cattle delivery system. In addition to scheduled physical delivery and participation in the conditioning pool, the document indicated that cattle could be delivered through sales at an auction barn at which an ANB buyer was present, using a purchasing agent to buy cattle in the member's name, or assigning delivery rights to an associate member who would undertake delivery. Later, in a 6 March 2003 press release, steering committee chair Mungle stressed these delivery options:

> "But some misunderstanding exists regarding the various methods by which members may satisfy their delivery obligation. A member may deliver his own cattle to the plant; he may deliver purchased cattle; he may instruct the plant to purchase cattle and deliver on his behalf. Annual dividends are earned equally with any method."

While promoting the supply system as a strategic advantage, the group was clearly concerned that delivery commitments might be an obstacle to attracting producer investment. Because of these concerns, the original offering document indicated that the board had not finalized the delivery system and was continuing to study options, including alternatives that would jeopardize the cooperative's Section 521 tax status. The possible loss of Section 521 tax status and the possible conversion of the cooperative to an alternative business form were discussed in the "risk factors" section of the offering document:

> "It is possible that our Members will not be able to deliver sufficient cattle to meet our delivery demands or that the delivery arrangements we have proposed for our Members may not satisfy the Federal tax and other legal requirements for maintaining a cooperative. If this occurs, we may convert from a cooperative to a business corporation or limited liability company."

The offering's discussion of the implications of the possible conversion included a change from patronage to investment-based earning distribution and changes in voting rights from one member-one vote to investment based voting.

Despite the mention of possible conversion to a non-cooperative business form and concerns over members' ability to provide sufficient cattle numbers, ANB's public relations efforts strongly enforced the notion that the group was focused on a cooperative business model. The offering document described the operation

as a new generation cooperative and included a uniform marketing agreement that specified delivery commitments. In the section describing "Our Business Strategy," the offering stated, "with Member ownership and sourcing, we will have marketing opportunities not available to other facilities." The document went on to discuss the possibility of labeling beef as "source identified" or "natural," and declared an advantage to marketing the company as "farmer owned" and the products as "farmer produced." In a 13 February 2003 press release, Don Covington, a steering committee member, described the project:

> "This plant will be producer owned, will have value added, and it will be a closed cooperative. We intend that the plant will provide a viable market for our members' slaughter cows and bulls and a means of realizing added value from their beef.... This slaughter/processing plant will succeed for three reasons. One, it is producer owned. Farmers are trusted and the possibility of identify preserved certification. Two, it is a new generation, hygienically superior processing plant. And three, it is in close proximity to Oklahoma and North Texas food companies."

By the end of December 2002, the project team had conducted approximately 75 producer meetings, reaching approximately 2,000 potential members. The equity drive had raised approximately US$2.5 million from slightly over 200 investors (an average of roughly US$10,200/member). Over half the members invested the minimum amount of US$5,000. The total raised, however, was substantially below the US$12.5 million equity goal. Approximately 10 percent of the producers attending an equity-drive meeting ended up investing. However, over 90 percent of investors were located within a 50-mile radius of the proposed plant location. While the investment ratio compared favorably with other producer-owned projects, it implied that to meet the equity goal, equity meetings would have to reach over 10,000 additional producers and expand its geographic focus.

First Restructuring of the Cooperative Business Model

In response to the slow pace of the equity drive, the chairman of the steering committee proposed a number of bylaw changes while retaining the cooperative business form. The chairman perceived a problem in obtaining large patron/investors—only two members had invested more than US$50,000 (200 head delivery rights)—so the proposed changes included board representation for large producers, proportional voting, and differential cattle pricing to reflect size efficiencies in delivery logistics. The proposed structural changes were never enacted because both smaller producer members of the steering committee objected and the group concluded (as the Hansmann model would suggest) that they would be ineffective in generating significantly more patron investment.

As the 14 February 2003 equity drive deadline approached, the project organizers were clearly disappointed with the producer response. In comments later reported in an article in *Meat and Poultry*, ANB Steering Committee President Mason Mungle discussed his frustration with the fundraising effort:

> "We are disappointed because cow-calf producers put the project together.... We tried to sell it in the best possible way to other producers who said they needed it. Yet these producers won't come to the table with any money. ... The project is extremely viable so ANB will look for different partners if cow-calf producers don't support it" (Kay 2003).

Shortly before the equity drive deadline, the steering committee made the decision to extend the drive until 15 May 2003 (later extended again through 2005). At the time of each extension, investors were given the option of withdrawing their funds. However, over 96 percent of the investors elected to let their funds remain in escrow.

Blended Cooperative and LLC Structures

The steering committee began exploring restructuring the business as a cooperative and limited liability company blend. At that point, the Wyoming Processing Cooperative Law had been enacted, but was still poorly understood. ANB's legal counsel proposed a three-entity business structure of US$5 million patron and US$5 million of non-patron investors. The committee had by this point decided to adjust its business plan and revise the total project cost to US$20 million.

One structural consideration was rooted in a desire to continue to avoid registration with the Securities Exchange Commission (Security Exchange Commission [SEC] 2006). In addition to the cooperative association exemption, a company may sell its securities to what are known as "accredited investors." The SEC definition of "accredited investor" includes a corporation or partnership with over US$5 million in assets and an individual with either US$1 million in net worth or US$200,000 of income in each of the two most recent years and a reasonable expectation of the same income level in the current year (SEC 2006). The proposed new structure assumed that ANB could obtain enough additional equity to reach the US$5 million level needed for a corporation exemption and could identify individuals who met the definition of accredited investors to form the US$1 million investor component.

As the cooperative examined restructuring alternatives, the possibility of obtaining New Market Tax Credits (NMTC) was discussed. The NMTC were initiated in December 2000 as part of the Community Renewal Tax Relief Act (New Markets Tax Credits Coalition 2007). The act was designed to stimulate investment in low-

income communities and rural areas. The program works by channeling a 39 percent tax credit (which accrues over seven years) through Community Development Entities (CDE). The CDEs use the capital derived from the credit to help make investments in projects and businesses in low-income areas (New Markets Tax Credit Coalition 2007). Because of the proposed southeastern Oklahoma location of the ANB plant, the project appeared to qualify for the credits.

The change in business structure was essential for accessing the credit. Tax credits had not been considered for the cooperative because, operating as a Section 521 cooperative, the firm would not be expected to generate taxable income at the business level, which could be offset by the tax credits. ANB's producer members could not obtain the tax credits unless they channeled their investments through a CDE. However, that investment structure would not qualify for the cooperative association SEC exemption and would therefore necessitate a security exchange filing. Under the new combination business structure, it was now assumed that the NMTC could be channeled to the investor partners.

The steering committee and legal counsel completed a term sheet for a new business structure on 13 June 2003. The structure was even more complex and involved the creation of three additional LLCs. The first, Investment LLC, would be owned by both the ANB cooperative, which was to hold US$4 million in common equity, and outside investors, who were to hold US$6 million in preferred equity with a 12 percent cumulative dividend. The cumulative feature implied that if the project were unable to pay a 12 percent dividend in any particular year, the unpaid portion would be added to payments in following years.

Investment LLC would, in turn, invest in Rural Enterprises of Oklahoma Inc. (REI) LLC. REI would be a CDE vehicle for obtaining NMTC. REI would receive a transaction fee for obtaining the tax credits, but would not participate in the profits of the project. REI would own Beef LLC, the entity that would construct and operate the processing plant. The US$4 million producer/US$6 million venture capital structure of Investments LLC was based on the group's assessment of additional patron members. It was not clear how the group planned to avoid security registration given that the ANB cooperative investment was below the US$5 million threshold for an accredited corporate member.

The steering committee began work to identify outside investors and venture capital groups that could provide the investment capital. On 15 November 2003, ANB sent a letter to the membership indicating that the cooperative had a verbal commitment from a venture capital group for US$6 million and were working on a US$10 million government guaranteed loan package. The letter, once again, outlined members' ability to withdraw their investment, but encouraged them to help raise US$2 million of additional patron equity.

Series LLC and New Market Tax Credits

The term sheet for what the steering committee called the "blended cooperative and limited liability company" was publicly released in December 2003. It revealed that the business structure had further evolved. The REI LLC, which was to be the vehicle for the tax credits, would be a Delaware Series LLC. The series LLC is essentially a single umbrella entity that has the ability to partition its assets and liabilities among various sub-LLCs or series. Each sub-LLC may have different assets, economic structures, members, and managers. The profits, losses, and liabilities of each series are legally separate from the other series, thereby creating a firewall between each series. It also eliminates the administrative burden and expense of forming multiple LLCs (Limited Liability Company Center 2006). In this case, REI had presumably decided to create a series LLC to manage NMTC for a number of projects. The tax credits associated with the ANB project would be in one series of the entity.

In addition to this change, the profit distribution formula was modified. The 12 percent cumulative dividend of the investor partners would be redeemed at the end of the seventh year. The redemption amount was set so that the investor members were guaranteed a 21 percent internal rate of return on their investment. In response to the proposed structure, faculty at Oklahoma State University incorporated a simulation analysis into a feasibility spreadsheet that had been prepared by a business consultant. The simulation analysis used the same average price levels assumed in the business plan, but also used historical variation in live cow and carcass cutout prices to model year-to-year variations. The analysis indicated that there was only a 42 percent likelihood that the project would generate sufficient cash flows to pay the dividends provided to investor partners.

Issues also emerged over delivery rights, which now represented less than one-fourth of the proposed slaughter volume. Venture capital representatives who reviewed the business plan highlighted cattle supplies as a key risk area and asked the steering committee to provide greater detail on their plans for cattle acquisition. This was a dramatic reflection of how the business structure had evolved given that the original strategic advantage had been based on cattle supply logistics. It was also becoming increasingly unclear whether the cooperative leg of the structure could maintain its Section 521 tax status. Venture capital representatives urged the cooperative to scale up the delivery rights so that the anticipated patron investors would provide the number of cattle needed for processing. ANB members were reluctant to scale up the delivery obligations because higher levels would likely exceed the number of cull cattle that the investing producers would have available. Because the cooperative had continued to de-emphasize physical delivery, it was also be-

coming evident that most members intended to fulfill their obligation by having the cooperative purchase cattle in their name.

Final Search for Capital

Throughout 2004 and after further extension of the equity drive, the steering committee continued to seek venture capital and encourage additional producer investments. The committee also worked to arrange a government guaranteed loan. At the anticipated level of borrowing, the bank originating the loan would receive a 70 percent loan guarantee. The Oklahoma bank that had handled the escrow funds indicated that it was not interested in participating in the loan funding. Operating under the assumption that the loan commitment would help to convince venture capital and producer investment, the steering committee focused their efforts on identifying a bank willing to serve as the lead on a guaranteed loan.

During the final search for funding, the committee worked with a number of business consultants. ANB paid over US$65,000 to consultants who also worked on a contingency basis and would receive a specified percentage of the total funding if they successfully arranged the debt and venture capital. Because the ANB project had exhausted the USDA Value-Added Grant funds, faculty at Oklahoma State University assisted the team in updating the business plan. Despite these efforts, the committee was unable to secure commitments for venture capital financing. They were also unable to locate a lead bank for a guaranteed loan. In a September 2008 interview, Mungle commented on the difficulties in attracting venture capital: "We discovered that venture capitalists wanted a level of return and a payback time frame that simply exceeded our project's profit potential."

ANB's difficulties in securing financing were not unique in the meat industry. Capital financing for meat processing projects had been drying up for several years. A May 2003 article in *Meat and Poultry* discussed the capital crisis in the meat industry:

> "Given the uncertainties over the war with Iraq, food safety issues, disruptions to exports, drought and feed costs, a possible ban on packer ownership of livestock, and a host of other issues, fewer investors and lenders are prepared to risk financing existing operations, let alone investing in new ones" (Kay 2003).

The article went on to discuss a number of factors that were limiting capital, including low margins, a possible Bovine Spongiform Encephalopathy (BSE) outbreak, and the failure of the Future Beef Operation in Arkansas City, Kansas. The article also indicated that single plant projects were particularly difficult to finance because "zero tolerance food safety regulations" made these projects particularly risky. As

the business structure shifted from producer financing to investor financing, the attitude of outside investors toward the beef processing industry became critically important.

End of a Grassroots Effort

The final chapter of the ANB effort was written on 3 June 2006, when the steering committee informed the membership that the effort was being abandoned. Inability to secure debt financing was cited as the chief reason. The group's inability to secure venture capital or additional producer financing was not highlighted.

> "The ANB Steering Committee has been working diligently for five years trying to make this beef processing plant a reality. However, our lead bank, has had a change in personnel and is no longer interested in being our lead bank. Without a lead bank we cannot move forward with our project. Therefore, we believe it is time to refund the money we have been holding in escrow for you, our members."

Precise information on the amount of funds remaining in escrow by June 2006 is not available. However, conversations with steering committee members suggest that a high percentage of the original investors, possibly over 80 percent, maintained their investment with the project despite numerous opportunities (available at every extension of the equity drive) to withdraw their funds. Maintaining member financial commitment over the five-year period should be regarded as clear evidence of the deep grassroots support for the project.

Conclusions

The ANB effort presents an interesting example of a project where producer investors could not be dissuaded and outside investors could not be persuaded to invest. ANB's producer members had a strong commitment to the project, primarily because of its potential to improve profitability for their cull cattle. As the project organizers realized that producers would not be able to provide sufficient equity, they restructured the business model to accommodate outside investment. Reflecting this shift in focus, the final business structure was influenced by security exchange issues, new market tax credits, and venture capital advisors. It was quite complex and concentrated solely on venture capital firms to provide the outside investment. A simple categorization of the business restructuring steps and issues is provided in table 1.

As previously discussed, Hansmann (1988) identifies transactions costs and conflicts of interests of heterogeneous owner groups. ANB's restructured business model did not address these issues. The steering committee consisted of cattle pro-

Table 1. Restructuring Steps and Issues

Organization Form	**NGC**	**NGC with Bylaw Changes**	**NGC/LLC**	**NGC/Delaware LLC Targeting Venture Capitalists**
Basic Rationale	Coordinator of raw material, SEC registration exemption	More attractive to large producer members	Access to outside capital	Defined investor pool, new market tax credits
Homogeneity of expectations	High	High, but raised concerns between large/small members	Non-homogeneous investor versus producer	Extreme differences in goals of producer and venture capital investors
Contracts and monitoring mechanisms	Delivery rights	Delivery rights, differential voting, and volume discounts	Delivery rights for NGC, profits split between NGC and LLC entities	Delivery rights for NGC, guaranteed returns and exit strategy for venture capital investors
Other issues	Few producers willing to exceed minimum investment	Preferred stock not attractive to outside investors	SEC restrictions limited pool of outside investors	Cattle supply now identified as risk factor

ducers and advisors. The term sheet for the blended LLC provided board representation for the non-patron investors. However, there were no non-patron investors on the steering committee. The venture capital investors who were being asked to supply 60 percent of the capital may not have been convinced that the project was geared to their interests. The nature of the project—ramping up production of an integrated slaughter and processing facility—also did not provide the short-run returns and clear exit strategy favored by venture capital investors. The decision to focus on venture capital was driven by a need to find accredited investors and thus avoid a registered security offering. In light of the issues raised by Freshwater et al. (2008) and Alexander and Alcala (2006), it is not surprising that the venture capital investment did not materialize.

It is difficult to speculate on how the ANB project would have fared had it begun with a blended cooperative/LLC business form and structured its fundraising to meet the diverging needs of producer and outside private investors. Conceptually, the blended model could capture a cooperative's advantage in supply control meshed with an LLC's flexibility in attracting equity. A successful project would need to involve both producer and investor stakeholders in the steering committee and organizational effort. The level and timing of the projected returns would have to be consistent with the goals of private investors. All the issues that ANB faced in designing a delivery system and allocating returns between producer and investor partners would also have to be successfully navigated. In a September 2008 interview, Mungle commented on the final business model:

> "The new generation cooperative structure was key to at least having a base level supply to the plant. The cooperative model was good. We had a good business plan and the right management team in place. We just discovered too late that we had to include outside equity capital. We also didn't have the knowledge to attract outside investment."

The ANB project demonstrates the complexities of restructuring an emerging cooperative into a blended cooperative and investor firm. A major rationale for hybrid business structures is access to a greater pool of capital, and the ANB project illustrates the difficulties in attracting outside investors. Groups pursuing similar models will need to design both their organizational effort and business strategies to meet the long-term goals of both producer and investor stakeholders.

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