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Innovating Tomorrow's Agriculture

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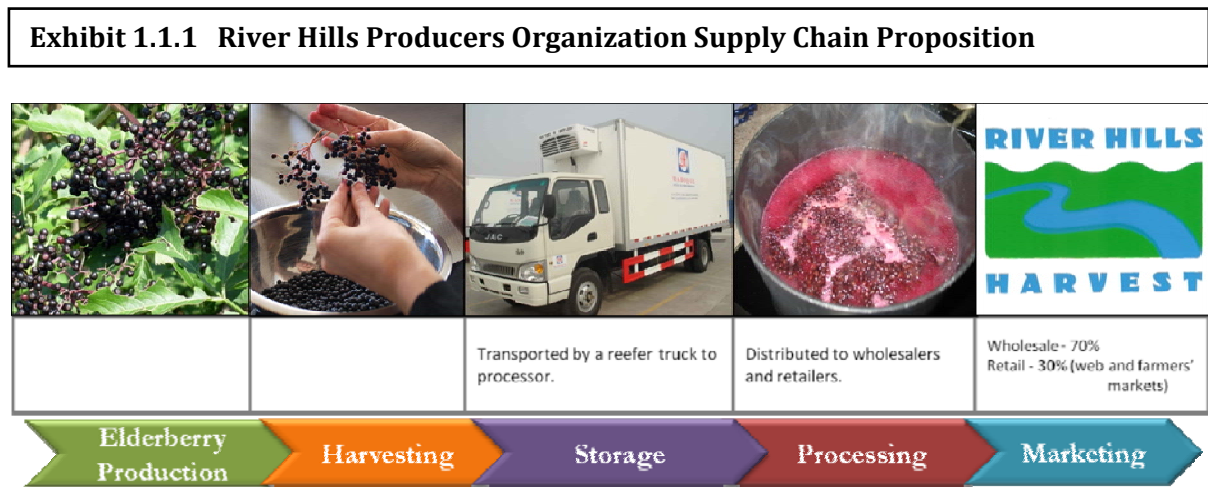
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1. Executive Summary and Key Findings

1.1 Executive Summary

River Hills Producers (RHP) Organization seeks to integrate up the value chain to capture a higher percentage of the consumer retail dollars spent on health/functional foods and beverages. The supply chain for elderberries is simple (Exhibit 1.1.1). Furthermore, barriers to entry are little other than the biological lag (three years) from planting to maturity of full production. Thus, it will be critical for RHP to either differentiate their production and quality of production or to become a first mover into the branded niche elderberry juice market. RHP organization is distinctively positioned to produce both a differentiated product and develop a unique brand name.



Source: Google Images

The production stage strategic opportunity lies with domestically producing elderberries. Currently, over 95% of elderberry products sold in the US are imported from Eastern Europe in the form of concentrate. A phone survey of elderberry product brokers found a strong desire for sourcing elderberry juices and co-products that are “grown in the USA.” This country-of-origin labeling issue is a huge marketing advantage, which translates into more on-farm dollars for producers.

US consumers are increasingly seeking nutrition and functionality from their food and beverage purchases (Exhibit 1.1.2 and Exhibit 1.1.3). This trend is expected to continue and grow substantially. The elderberry plant is now only beginning to be explored for functional and health attributes. The early research findings support the potential for elderberry juice to be linked to various health claims in the future. Thus, being an early mover on a small scale will provide for future scale-up opportunities.

Exhibit 1.1.2 Nutrition Industry Value Chain

Nutrition Industry Segment	Total Sales (\$ Billions)	Raw Material Providers	Manufacturers/Processors	Branded Distribution Suppliers	Consumer Sales Total
Total Sales	\$93.9	\$7.6	\$57.8		\$93.9
I. Natural & Organic	\$26.7	10,000 Organic Farmers 1,500+ Food Material Suppliers/ Processors	1,200 Companies	Distributors/Brokers 250+ Companies	Retail Stores: \$77.3 billion -9,339 NFS/HFS/Whole Foods/ Super Naturals -18,300 Other Specialty Retail -101,713 Grocers -40,759 Drugstores -7,495 Mass/Club -146,294 Convenience/Other
II. Supplements	\$23.7	300 Suppliers 900+ Growers, Harvesters, Refiners	740 Companies		
- Vitamins & Minerals - Herbs & Botanicals - Sports Supplements - Liquid Meal Supplements - Specialty Supplements					
III. N&OPC	\$9.2		850 Companies		Direct Sales: \$16.6 billion -1,100 Direct Marketers -562,340 Integrative Medicine Practitioners
- Skin, Hair & HBC					
IV. Functional Foods & Beverages	\$34.3	250 Suppliers	1,000 Companies		

Source: Nutrition Business Journal

Exhibit 1.1.3 Beverage Consumption Growth

Beverage Consumption Growth, 2006 to 2007 [All Food Categories]	
Natural and Organic 11.2% [15.7%]	Functional Foods 11.8% [9.4%]
Lesser-Evil Foods 4.5% [4.6%]	Healthy Foods 8.3% [8.3%]

Source: *Nutrition Business Journal*

The key to the success of RHP will be management and marketing. We see the need for these positions to be held by one person in the beginning. This individual should have strong social and marketing skills. This person should be able to coordinate. We suggest a low, up-front capital investment strategy. Initial production should be toll process, and as production increases, in-house processing should be pursued. We have acted conservatively in our financial projections. We assumed, for all three years of pro-forma projects, toll processing. If in-house processing is developed, then substantial cost savings can be achieved after year two of operations. Elderberries will be frozen, stored in reefer trucks/trailers, processed, and bottled as needed.

Marketing will be through a mixture of self-directed and broker/bulk (Exhibit 1.1.4). Key drivers of retail success will be point-of-sale education, retailer incentives, and labeling. The marketing segment will be discussed in more detail in a companion document, RHP Organization Marketing Study, to this feasibility study.

Exhibit 1.1.4 Projected Elderberry Marketing Mix for River Hills Producers Organization

	Year 1	Year 2	Year 3
Self-Directed Marketing	70%	65%	60%
Bulk/Broker	30%	35%	40%