

The Hutterite Option Resourcing For The Future



Andrew Raphael, Director Agri-Food

Date: April 7, 2009



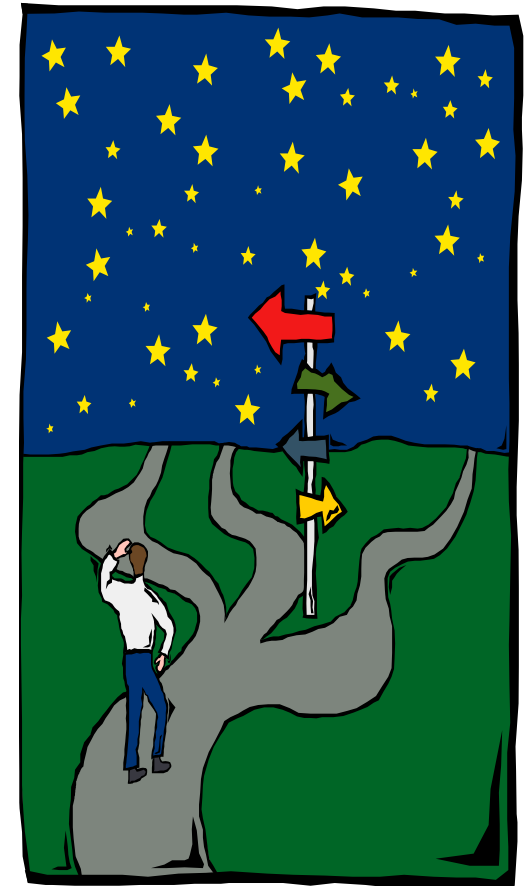
MEYERS NORRIS PENNY LLP

Exploring The Hutterite Option



MEYERS NORRIS PENNY LLP

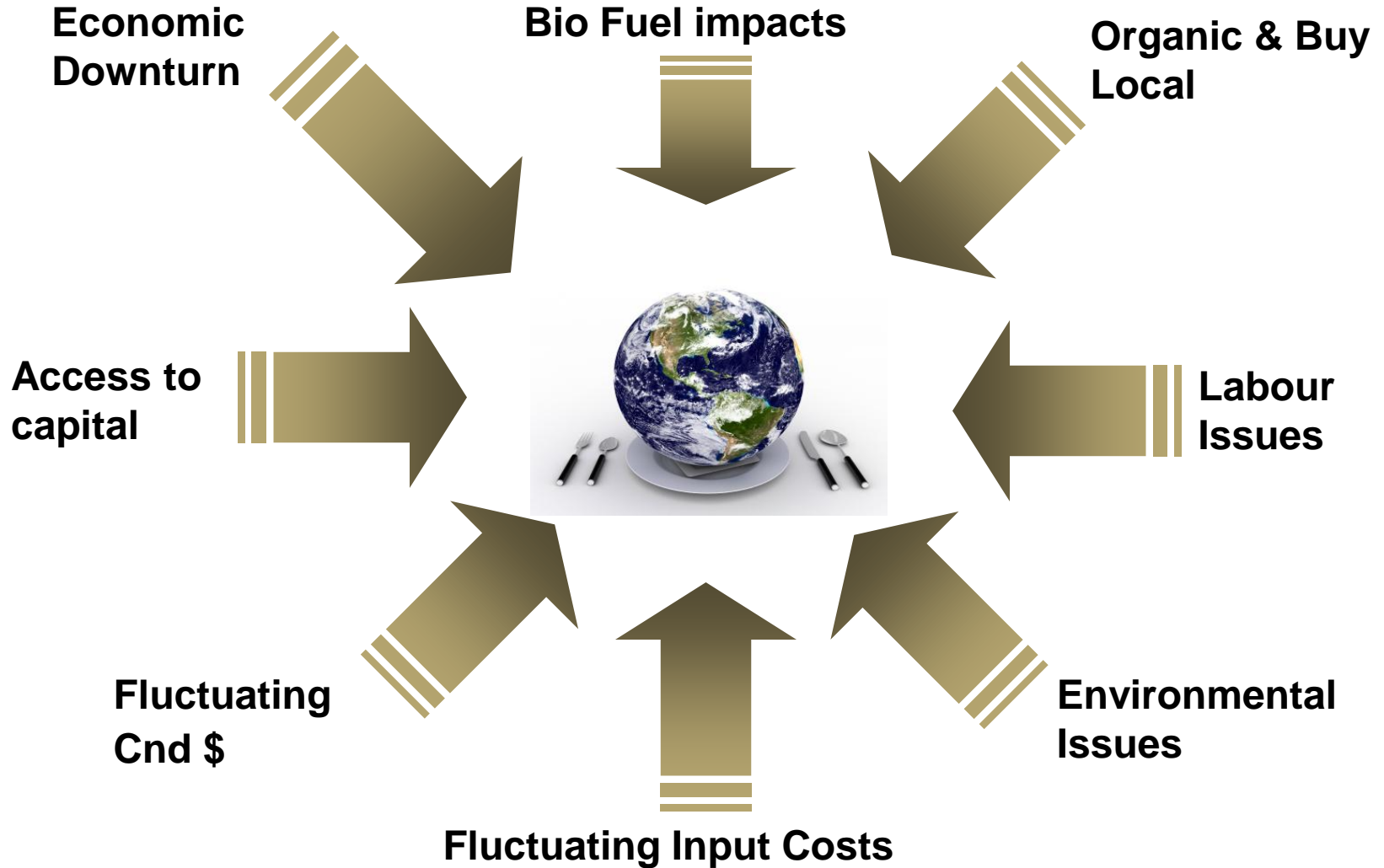
- The Hutterite Option: ***“Assessing an Alternative Solution to Labour Shortages in the Food and Beverage Processing Industry in the Prairie Provinces.”***
- Thanks to:
 - **Alberta Food Processors Association**
 - **Agriculture & Food Council of Alberta**
 - **ACCAF Funding**
- Responding to the **rapid changes** since we started this project 18 months ago
- **Resourcing The future - Now more than ever** the Hutterite option may be right for some processors & manufacturers



The Future Ain't What It Used to Be!



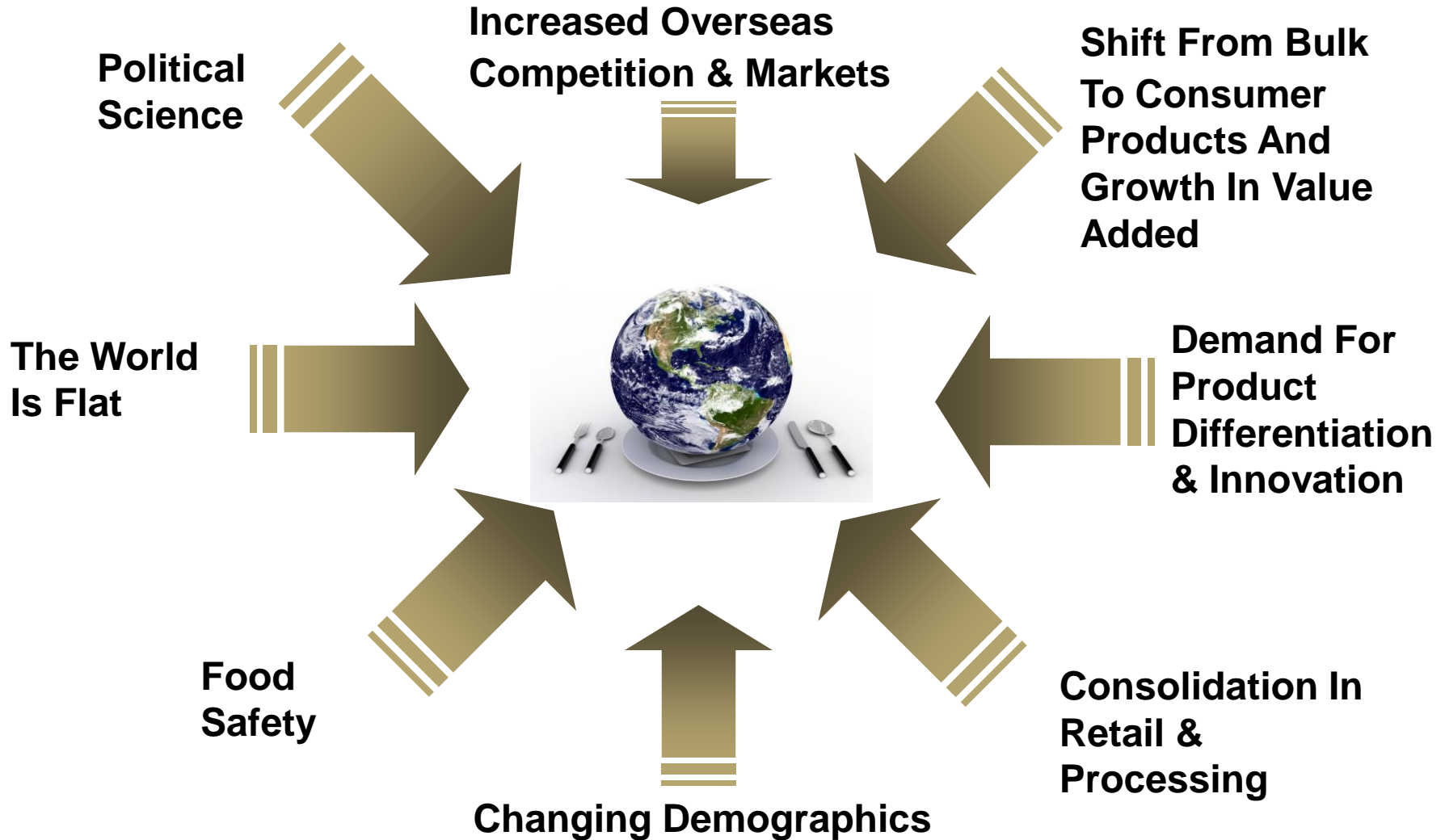
MEYERS NORRIS PENNY LLP



The Future Ain't What It Used to Be!



MEYERS NORRIS PENNY LLP

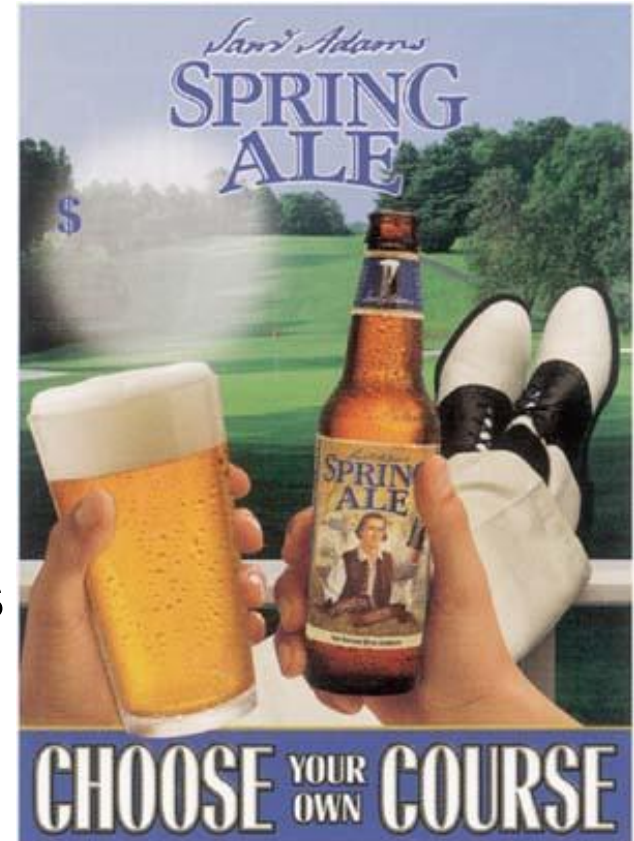


Why Co-packing ?



MEYERS NORRIS PENNY LLP

- Savings
 - Labour
 - Investment Capital
 - Ingredient access
 - Inventory
- Focus on Core competencies
 - Marketers vs. Processors
 - Samuel Adams Beer
- Flexibility & small production batches
 - Test marketing products
 - Niche markets
 - Seasonal themes
 - Catering for occasions



Co-Packing Pitfalls



MEYERS NORRIS PENNY LLP

- Reputation
- Expectations
- Capabilities
- Liabilities
- Control
- Enforceable Agreements
- Trust



Hutterite Overview



MEYERS NORRIS PENNY LLP

- **MNP's long relationship with the Hutterites**
- **Pacifist Christian** group who came from Europe in the 1900's and **live communally** according to a strict code based on the Ten Commandments. Different Sects: Dariusleut & Lehrerleut
- **Members have no legal rights to any property of the congregation.**
- Once a colony is established, assets are built up so that the colony can split and establish a **new 'daughter' colony.**
- The **minister is the head of the colony** with a number of other men forming the executive committee or "witness brothers."



Hutterite Overview



MEYERS NORRIS PENNY LLP

- Members don't watch TV or listen to the radio to keep **separate from the outside world.**
- Traditionally, Hutterite children leave **school** at age **15**. Some Colonies allow further training for specific tasks.
- **Provincial Education Agreements** set out terms for apprenticeship.

Population and Location:

- **320** Hutterite colonies in Canada.
- **60 to 160** people reside on a colony.
- 25,000 to **30,000** people live on colonies in Canada.

Colonies & Estimated Residents:

- **Alberta: 12,400 people -166 colonies**

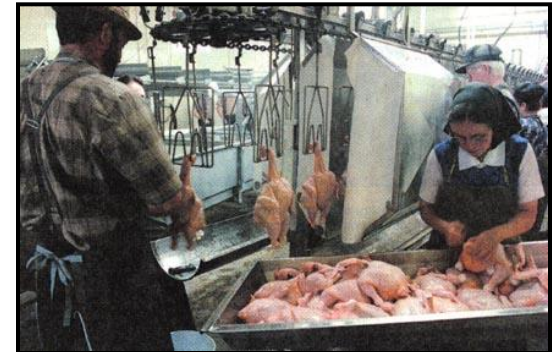


Hutterite Agricultural Activity



MEYERS NORRIS PENNY LLP

- Colonies represent **\$1.5 billion** of direct investment and **\$7 to \$10 billion** of economic activity in Canada per year.
- **Typically mixed farming operations** consisting of 7,500 – 15,000 acre grain farm, with significant hog , dairy , bird and sometimes cattle operations
- Operations typically generate **\$3 – \$5 million in gross revenue** per year and approximately the same in operating expenses.
- **Each colony often will “split” to create a new colony every 20 to 30 years at a current cost of \$20 million.**

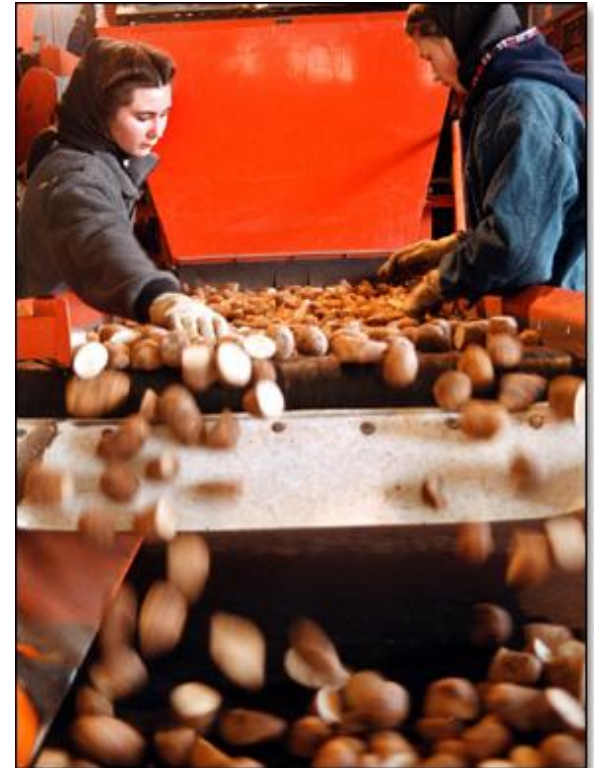


Hutterite Agricultural Activity



MEYERS NORRIS PENNY LLP

- Most of the expenses are a **direct investment back into the communities** in which the colonies reside.
- Colonies are **not self-sufficient** & purchase the same materials and inputs as the typical family farm.
- Alberta's **166 colonies** own approximately **1.5 million acres of land** (1% of the total farmland) and **produce one third of the dairy products, eggs, and hogs in Alberta** and a significant percentage of the market's down feathers.
- **10%** of the country's **milk** supply comes from Hutterite farms.



Other Business Activity



MEYERS NORRIS PENNY LLP

- **Seek profits to reinvest** in operations and cultural activities.
- Each person on a colony is **assigned a job**
- Hutterites pursue **diversification and new technologies** in their operations
 - use computers to manage cattle ID
 - wind-powered turbines
- With challenging returns in farming & environmental issues colonies are becoming **increasingly interested in diversifying business activities on the colony.**
- **Have access to their own source of capital for investing in ventures - thus in good position to invest on their colonies.**



Findings



MEYERS NORRIS PENNY LLP

Processors



MEYERS NORRIS PENNY LLP

- **77** of the 423 food processors contacted (**18%**) responded to a survey - backed up interviews and focus groups with industry representatives.
- Respondents indicated they were **47% “Somewhat Interested”** and **18% “Very Interested”** in entering into discussions about co-packing and other opportunities with Hutterite colonies.
 - Almost **half** had annual revenues of \$2,000,000 or less
 - 25% had annual revenues exceeding \$2,000,000.
- Main reason for interest in Hutterite collaborations were to access to:
 - **Labour**
 - **Raw materials**
 - **Additional production capacity**
 - **Capital**



Processors



MEYERS NORRIS PENNY LLP

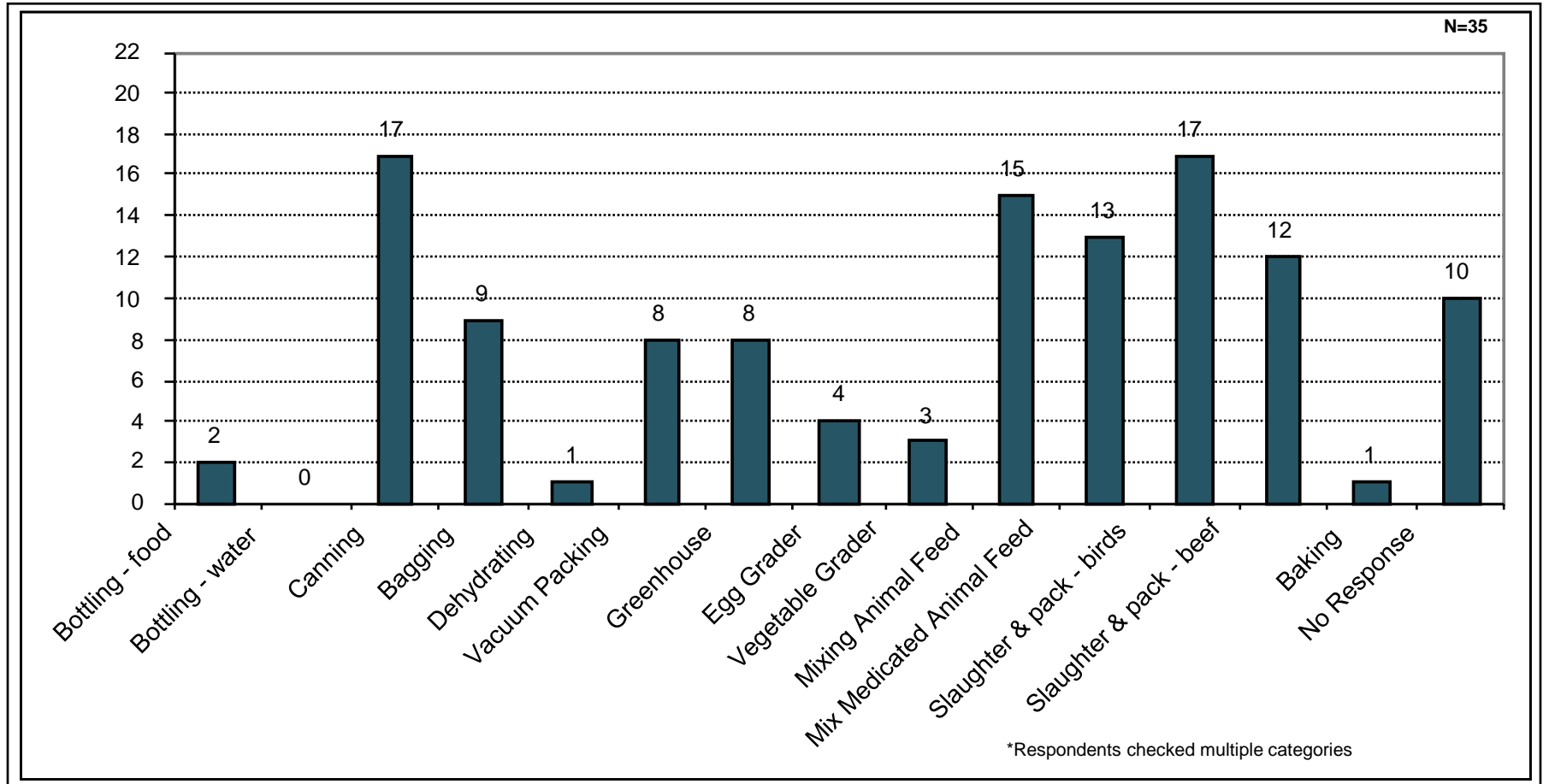
- Respondents **who were interested** commented that they would **need to be convinced of:**
 - Food safety and quality controls
 - Food security
 - Quality of raw materials
 - Contractual guarantees
 - Ethics/management history
 - Contractor's ability to comply with specifications
 - Trust
- For the **30%** of the respondents **who were not interested** in pursuing discussions they mentioned:
 - **Lack of Trust**
 - A perceived lack of fit between the scale of their processing operation
 - Worry about food security
 - Hutterites lack of capabilities



Hutterite Processing Capabilities



MEYERS NORRIS PENNY LLP

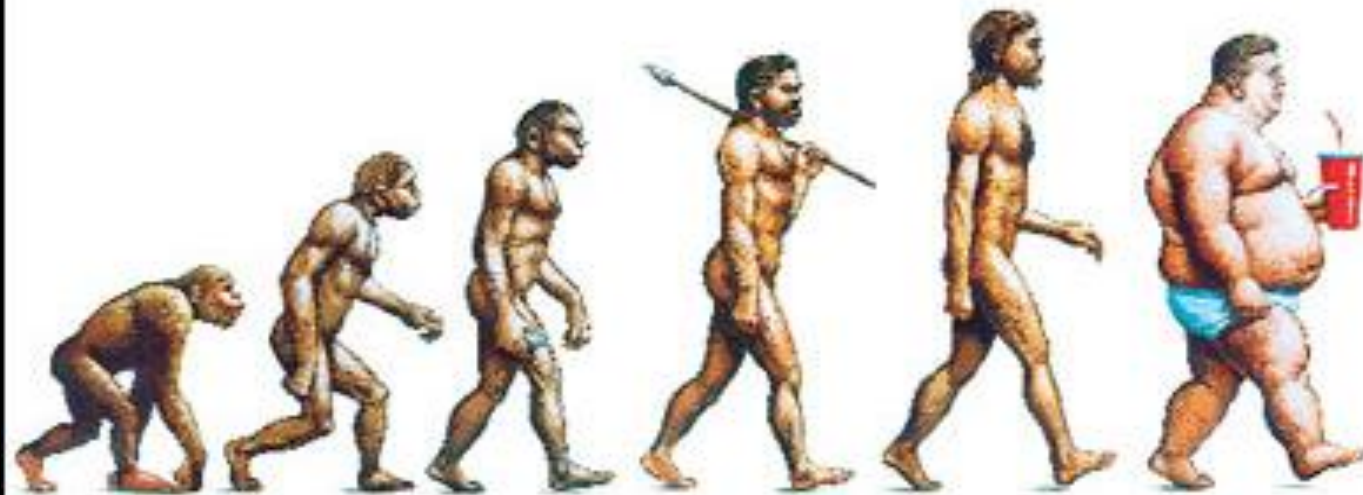
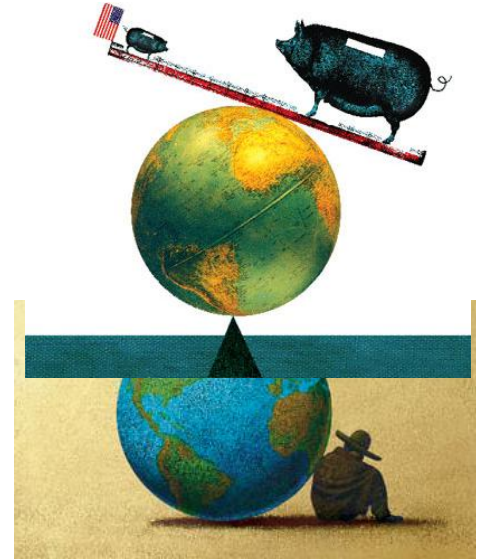


Where Hutterites Need Help



MEYERS NORRIS PENNY LLP

The shape of things to come



Consumers are segmented by income, demographics, attitude & perception, etc.

- The value of time
- Higher rate of women working
- Faster pace lifestyle
- Smaller household size

- Aging population
- Increased health awareness
- Demand for natural & organic foods
- Demand for functional foods & nutraceuticals
- “Food as medicine”
- More novel foods

Health & Convenience

Wellness

Consumers are paramount

Pleasure Value

- Educated & sophisticated consumer
- Declining food expenditure share
- Demand for premium private label products
- Income distribution & gap
- Price consciousness of lower income consumer

Food safety and quality are essential

- Fun & entertaining
- Comfort
- Ethnic & exotic
- Indulgent & guilt free
- Premium & prestigious



Hutterites



MEYERS NORRIS PENNY LLP

- **91** of 174 Alberta Hutterite colonies contacted (**52%**) participated in the survey via fax, in-person or by telephone.
- These respondents included a **cross section** of colonies with different levels of sophistication and experience in food processing and collaborations with non colony ventures.
- **48%** of the respondents expressed degrees of interest in pursuing co-packing or contracting arrangements with food processors.



Hutterites



MEYERS NORRIS PENNY LLP

Labour Availability

- **28%:** labour available all year
- **20%: seasonally available**
- Seeding (March/April) and harvesting (August/September) potential problems
- Indicated a willingness to *“pull people off of jobs that are not making any money”*



Investment in Equipment and Infrastructure

- **37%:** prepared to build
- **42%:** prepared to **enhance** their current processing facilities
- **48%:** prepared to **purchase equipment** necessary for the right opportunity



Hutterites



MEYERS NORRIS PENNY LLP

Compliance with Regulations

- **47%:** willingness to pursue **HACCP** certification
- **54%:** would achieve **compliance with Provincial regulations**

Willingness to Enter Management Agreements

- **48%:** would be willing to sign a **management agreement with a processor**
- **Needs more buy in!**



Colonies' Interest in Food Processing Opportunities



MEYERS NORRIS PENNY LLP

Those who indicated interest saw collaborations as an opportunity to:

- **Enhance their current processing activities**, increase utilization of their operations, and manage risk in pursuing new markets and activities through partnership.
- **Formalize** and grow their "ad hoc" processing business.
- Enter into **rewarding** and challenging work experiences.
- **Better utilize** their existing capital & existing facilities.
- **Capitalize** on their traditional production and processing capabilities - traditional recipes.
- **Add value** to their farming output which is limited due to: land availability, quota, environmental considerations & market driven competition.



Hutterites Concerns



MEYERS NORRIS PENNY LLP

- **Trust**
- Collaboration must be on the Colony
- Compliance inconsistencies
- Culture incompatibilities
- Discomfort with sales and marketing
- Confusion regarding regulatory & labeling requirements
- Getting other work done



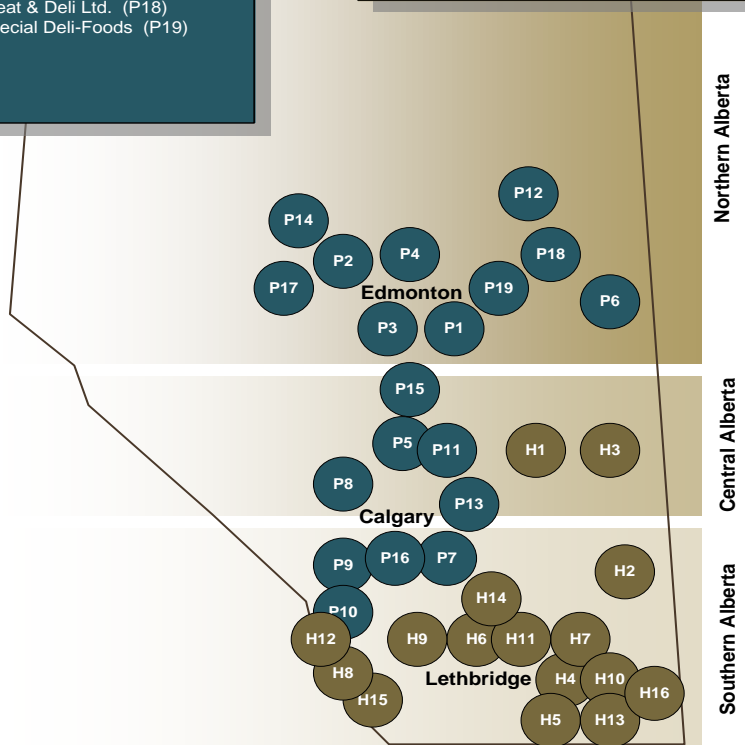
Interested Processors and Colonies



MEYERS NORRIS PENNY LLP

- ### FOOD PROCESSORS
- Sunfresh Farm Ltd. (P1)
 - Blue Kettle Specialty Food Ltd. (P2)
 - Country Mom Foods (P3)
 - Sunrise Bakery (P4)
 - Yb Quality Meat (P5)
 - Vermillion Packers (P6)
 - Calgary Italian Bakery Ltd. (P7)
 - Foothills Creamery Ltd. (P8)
 - Saskatoons@prairieberry.ca (P9)
 - Longview Meat & Mdse. Ltd. (P10)
 - Organic Ranchers (P11)
 - Sundalanda Farm (P12)
 - Waggers Pet Products (P13)
 - Sepallo Food Ingredients (P14)
 - Bles-Wold Farm Yogurt (P15)
 - Delizia's Pasta Ltd. (P16)
 - Parkland Packers (1976) Ltd. (P17)
 - Prime Cuts Meat & Deli Ltd. (P18)
 - Something Special Deli-Foods (P19)

- ### HUTTERITE COLONIES
- Suncrest (H1)
 - Jenner (H2)
 - Veteran (H3)
 - Big Bend (H4)
 - Elmspring (H5)
 - Enchant (H6)
 - Oaklane (H7)
 - Ewelme (H8)
 - High River (H9)
 - New York (H10)
 - Lakeside (H11)
 - Livingstone (H12)
 - Rocklake (H13)
 - Lomond (H14)
 - Thompson (H15)
 - Kingslake (H16)



Next Steps



Unlocking The Value By Building Trust



MEYERS NORRIS PENNY LLP



Chartered Accountants & Business Advisors

mnp.ca

Finding the
right answer
starts here.



Trust Building



MEYERS NORRIS PENNY LLP

Building Trust = Understanding “The Cultural Drivers” Behind the Collaborators’ Interest in Entering into an Agreement.



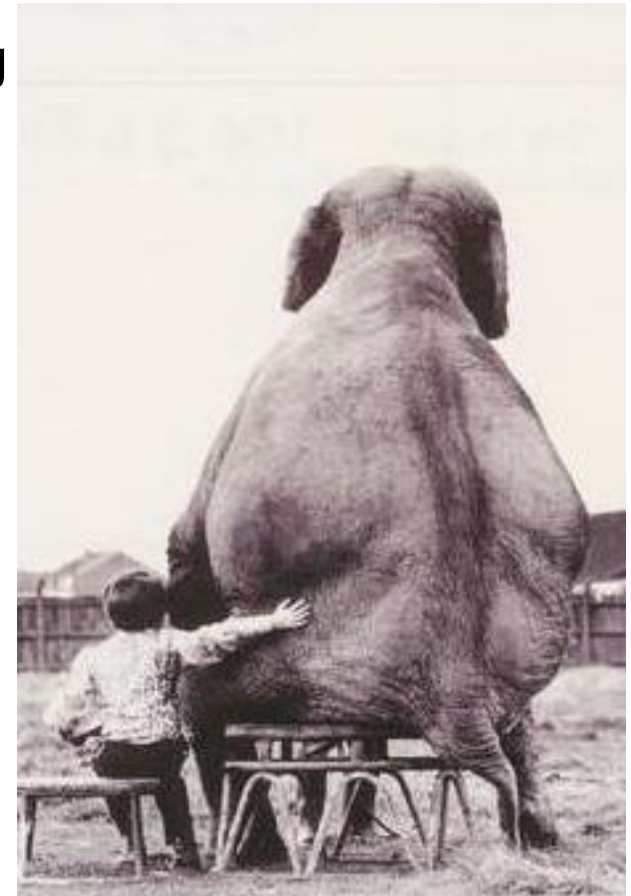
Building Trust



MEYERS NORRIS PENNY LLP

Food Processor Association

- **Cross Cultural Education & Skills Training**
 - Work Books “Processor & Hutterites Collaboration Helpers”
 - “Collaboration Helper” workshops
 - Training for Hutterites: Processing skills
- **Interaction**
 - Processor Orientation / Colony Visits
 - Collaboration Registry
- **Coordination**
 - Coordinate Hutterite capabilities
 - Work towards a state of the art Hutterite processing cluster



- **Due Diligence Checklist For Both Parties To Follow**
 - Shared vision of the collaboration
 - Experience and reputation of both parties
 - Expectations
 - Proof of capabilities required to succeed
 - Responsibilities of both parties
 - Understanding of commitments and recourse
- **Agreement Templates**
 - Collaboration responsibilities
 - Commitments
 - Expectations
 - Liabilities & recourse



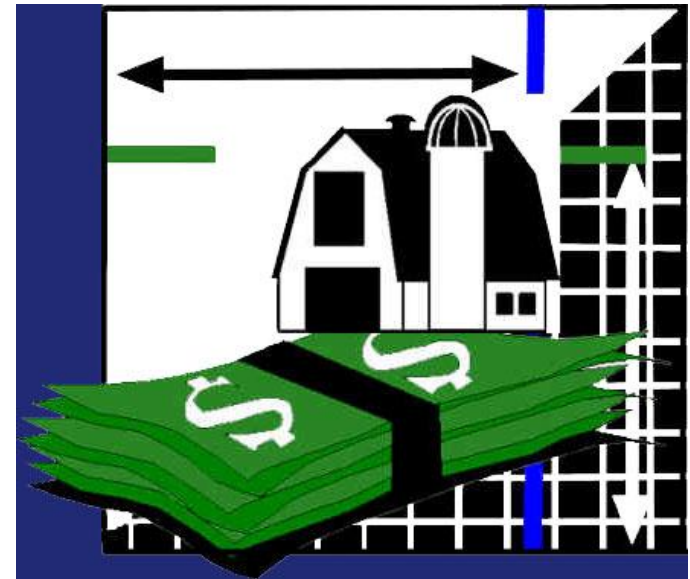
Resourcing The Future: The Hutterite Option



MEYERS NORRIS PENNY LLP

The Hutterite Co-Packer Value Proposition:

- Capital
- Labour
- Raw resources
- Quota
- Wholesome Hutterite products for distribution



Tough Times Demand New Approaches



MEYERS NORRIS PENNY LLP

***“THE SIGNIFICANT
PROBLEMS
WE FACE
CANNOT BE SOLVED
AT THE SAME LEVEL
OF THINKING WE
WERE AT
WHEN WE CREATED
THEM”***

Meyers Norris Penny & Einstein

