Apple Crisp Cooperative
Final Report – Dick Broeker

General Review

The creation of value added products in the "less than first" quality segment is a key factor for continued business development of the Minnesota apple market. Successful development of this secondary market has provided ACC growers with the ability to generate higher returns from high-grade fruit that does not meet the 1st Quality (highest return) but is not processed into juice (lowest return). This product has improved the pack-out of first quality apples in Minnesota by taking marginal quality fruit out of the 1st Quality fresh market and provided a consistent reliable supply for the secondary market.

Apple Crisp Cooperative developed three key strategic objectives for the development of the IQF Haralson Sliced product. These strategies have remained in place and continue to underpin the success of our program;

Strategies

1. Generate enough product demand to justify having the product sliced and processed locally in Minnesota.
2. Generate significant demand for product to have a positive measurable sustainable impact on local apple growers P&L.
3. Explore market opportunities for continue development of innovative value added apple based products characterized by reliable, consistent and high quality supply.

Tactics employed to achieve success were the following:

Communicating the Value Proposition
Defining, positioning and promoting the value proposition of the IQF Haralson apple slice were paramount to the success of this project. ACC must be able to define the key features that make this product a preferred alternative to the products already in use.

Product Quality
ACC must be able to measurably demonstrate improved quality and consistency of the IQF haralson apple products in the finished baked goods.

Baking Industry Perception
Many bakers viewed apples as all the same. Need to educate bakery professionals as to the benefits of baking with the Haralson apple.

Competitive Cost Position
ACC needs to be able to produce, market and distribute the IQF product at a competitive cost to alternative baking ingredients. Current IQF products of non-haralson varieties range from $.38 per pound up to $.75 pound. ACC products will not be the lowest price for bakery ingredients. Other qualities and value added benefits need to be positioned for this premium priced product.

Management Industry Expertise
The management team, collectively, has over 120 years of apple production and retail experience. This combined with distribution, grower and retail relationships positions ACC with a good opportunity to introduce value added product through traditional channels as well as develop new distribution/supply agreements.

By following these strategies and implementing our plan, Apple Crisp Cooperative has experienced significant growth in terms of product volumes, sales dollars and profitability over the past two years. The original concept of taking a second grade apples and processing into IQF apples has been able to develop a niche in the marketplace due primarily to matching the right marketing concept of a Minnesota favorite apple with a best in class retail grocery chain.

Results were the following:

Description	2001	2002	2003 Proj
Raw Product - pounds	160,000	600,000	800,000
Finished Product - pounds	90,000	350,000	470,000
Sales Price	$ 0.75	$ 0.72	$ 0.78
Sales Dollars	67,500	252,000	338,400

Increased Return to Grower	$ 0.05	$ 0.06	$ 0.06
Total Pounds	160,000	600,000	800,000
Total Increase Dollars to Growers	8,000	36,000	48,000

The Apple Crisp Coop Board:
My particular view of how the board worked came down to two main variables; what is your level of risk tolerance and how deep are your pockets. In the end, business comes down to having to take some risks and some people are good at taking calculated risks while others have a much lower tolerance level. This definitely impacted who drove the success of the program once it came to the point of commercializing the project, in essence, funding it.

Also, when you have many points of view on a board like this you will get different views and so a lot of time is spent selling programs/ideas internally. This is good but the

drawback is speed to market. Luckily, our board was pretty aligned and we were able to react more rapidly than most.

Sustainability
I believe that the success of the Apple Crisp Cooperative will remain in place for some time to come. Primarily due to the fact that the Haralson apple is a Minnesota favorite and we have now found a way to provide source product on a year round basis. I believe, we will see more version of Haralson apple pies locally and with a couple of key opportunities, could see the Haralson pie exported to other states and into key high end restaurants/grocery store chains.

Value Added Products:
Value added products continue to grow in market share and will grow at a faster pace moving forward. All consumers and business are looking to save costs and one great area to save costs is by having ready to eat/go products. This is a huge growth sector driven by needs to reduce cost/ time when preparing foods for consumption and the significant advancement in packaging technologies.

Regional Food System:
A regional food system is a very good concept but I struggle with the value proposition to the average or mass consumers. Not being close enough to all of the efforts expensed here I have a difficult time giving an opinion.

University Relationships

The three key support teams from the University of Minnesota that helped bring this product and what they did are listed below;

- AURI team helped validate product integrity and storage capabilities of Haralson apple slices put through a process commonly known as Individually Quick Frozen(IQF). Their team conducted significant testing and analysis to validate the Haralson apple slices was a good candidate for IQF Processing; therefore, enabling us to be able to offer a reliable supply of product on a year round basis.

- University Extension Food Science & Nutrition via Bill Schaefer – The baking characteristics of an IQF product is significantly different than a fresh apple. This was a very large endeavor as IQF apples were a new product not previously used by our customer. With the Bill's help, our team conducted multiple product tests and re-formulation analysis over a three-month period. Finally, after much effort, the Lunds/Bylerlys team felt they had formulated the best pie recipe.

- Experiment in Rural Cooperation and Dick Broeker – Dick provided a huge gatekeeper role in giving us the insight and sponsorship into various parties within the University of Minnesota. Without Dick taking a personal interest in our

success our ability to succeed in the marketplace would have been significantly delayed. Dick got the doors to the key people we needed on our "team" and we knocked on various customer doors.

- By Design and Carol Waldron – Carol's team played a secondary role on developing packaging concepts. Even though we did not use Carol to develop an apple crisp package her insight and feedback provided value to our team.

One other group we worked with that brought value to our efforts but was less impactful was the Retail Food Industry Center.

General Observations

On a personal note, I find that in order for any of these cooperative efforts to be successful, the participants must in all instances be able to create demand. There are so many similar products, one needs the ability to market and differentiate themselves from their competitors.

We have had good success and a lot of it was due to your team helping us get funding and get started. However, once the ball has been put in motion, it is up to the marketplace to decide if there is a viable product or not. Continued funding or propping up of poor ideas is perhaps the worst thing that can be done as it takes money away from potential wins. The trick is how do you find the balance of seed money, entrepreneurial spirit and marketplace acceptance.