



# **Stahlbush Island Farms, Inc.**

**Arbaiya Abdula  
Caroline Boen  
Corey Fortin**

**July 29, 2007**

# Company Facts

- **Committed to**
  - Customer
  - Quality
  - Sustainability
  - Innovation
  - Safety
  - Integrity
- **Products produced:**
  - Purees
  - Farmer's Market
    - Organic pumpkin, squash, and sweet potato
  - Individually quick frozen products (IQF)
  - Frozen fruits and vegetables
- **Operate on 4000 acres of land and utilize 20 contract growers**

# Key Elements

*“Grow by capitalizing on new market opportunities while being mindful of financial constraints”*

## ■ Goals

- Expand the business
- Avoid debt financing
- Retain operational control
- Keep commitment to values

## ■ Growth options

- Industrial (84% of sales)
- Retail (16% of sales)
- Others





# Company Analysis

## ■ Strengths

- Superior value (quality control, traceability, sustainability)
- Competent management team
- Customer driven business model

## ■ Weaknesses

- Financial constraint
- Physical constraint

## ■ Opportunities

- Growing interest in organic and sustainable products

## ■ Threats

- Stiffer organic market competition
- Maturing of canned and frozen food market



# Financial Situation

	<b>Stahlbush Island Farms</b>	<b>Vegetables &amp; Melons SIC 0161</b>	<b>Frozen fruits &amp; vegetables SIC 2037</b>
<b>Debt to Equity Ratio</b>	1.75	1.4*	2.7*
<b>Coverage Ratio</b>	4.66	3.2*	1.9*
<b>Total Asset Turnover</b>	0.94	2.1*	1.9*
<b>A/R Turnover</b>	4.52	11.9*	8.0*

*\* Represents median*

**Source: Case materials, Robert Morris Annual Statement Studies, D&B  
Million Dollar Directory**

# Industry Assessment

- **Organic food**
  - 20% average annual growth (5% overall food industry)
  - Fruits and vegetables → largest and most valuable segment
- **Frozen fruits and vegetables**
  - Average annual growth 2.5%
  - Stahlbush's sustainable line has a much higher growth
  - Frozen and canned losing market share relative to fresh
- **Industrial ingredients**
  - "Majority of processed fruits and vegetables are grown under contract" (Lucier, 2006)
  - "Conventional sector is dominated by few large manufacturers" (Friddle, 2001)

*Source: RAFI-USA 2003, ERS/USDA, Euromonitor 2006*



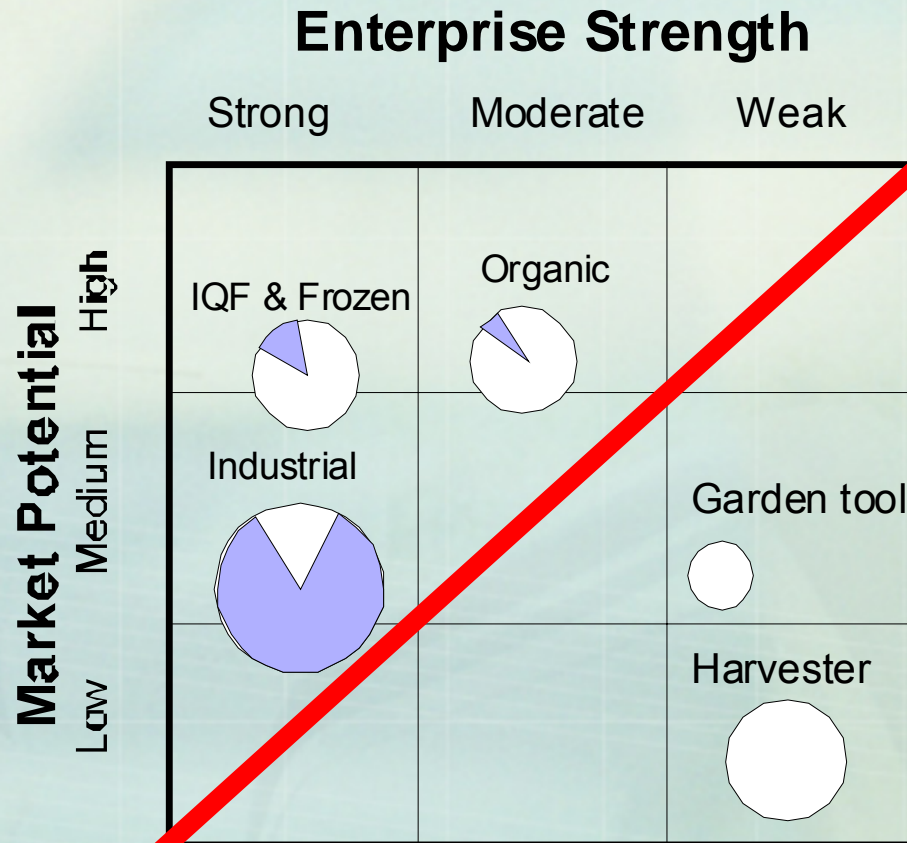
# Industry Assessment

- **Baby food market**
  - Global
    - Average annual growth of 5.2% from 2000 to 2004
    - Asia-Pacific - the world's largest market (36%)
  - Domestic
    - Average Annual growth of 3.4% from 2000 to 2004
- **Health food**
  - Average annual market growth of 11.5% from 2000 to 2004
  - Changes in consumer attitudes



*Source: Datamonitor 2006 and Euromonitor 2006*

# Strategic Direction



Size of circle represents labor and capital use.

Shaded area represents land use.



# Strategic Recommendation

- **Expand the amount of acreage grown under contract**
  - Organic or sustainable certification
    - Ensure products meet Stahlbush's standards
  - Weather risk
- **Have less quality-sensitive purees and frozen products custom packed (co-pack)**
  - Expand production with little added costs



# Strategic Recommendation (cont'd)

- **Patent and license machinery and tools**
  - Explore licensing possibilities with machine manufacturers
  - Generate additional revenue
- **Retain international partner (Ajinomoto)**
  - Arrange contract agreement to supply the Asian market
  - Lessen regulatory procedures





# Strategic Recommendation (cont'd)

- **Functional foods and nutraceuticals**
  - Aligns with company's goals and values
  - Marketing opportunity
    - Fits with existing health conscious costumers
  - Emphasize the locally grown and processed ideas
  - Value added
    - Pumpkin and squash peel → dietary fiber
    - Sweet potato → one source of phenolics (anti-oxidants) and beta-carotene
    - Spinach → Lutein
    - Berries → Anthocyanin (anti-oxidants)





# Implementation for Functional Foods and Nutraceuticals

- **Consider contract with competent public/private research laboratory**
  - Identify crops for nutraceutical production
  - Intensify cultivar selection for nutraceuticals
  - Obtain information about extraction and dehydration processes
- **Utilize waste products**
  - Extraction
  - Dehydration
- **Identify and market to potential industrial manufacturers**
  - Yogurt
  - Frozen fruit bars
  - Cereal
  - Dietary supplement
  - Health drinks



# Implementation (cont'd)

- **Identify and market to potential international manufacturers**
  - Industrial ingredients
    - Supply to Asian baby food manufacturers
- **Self-finance the investment and operating costs**
  - Utilize existing plant for extraction and dehydration

# Final Recommendations

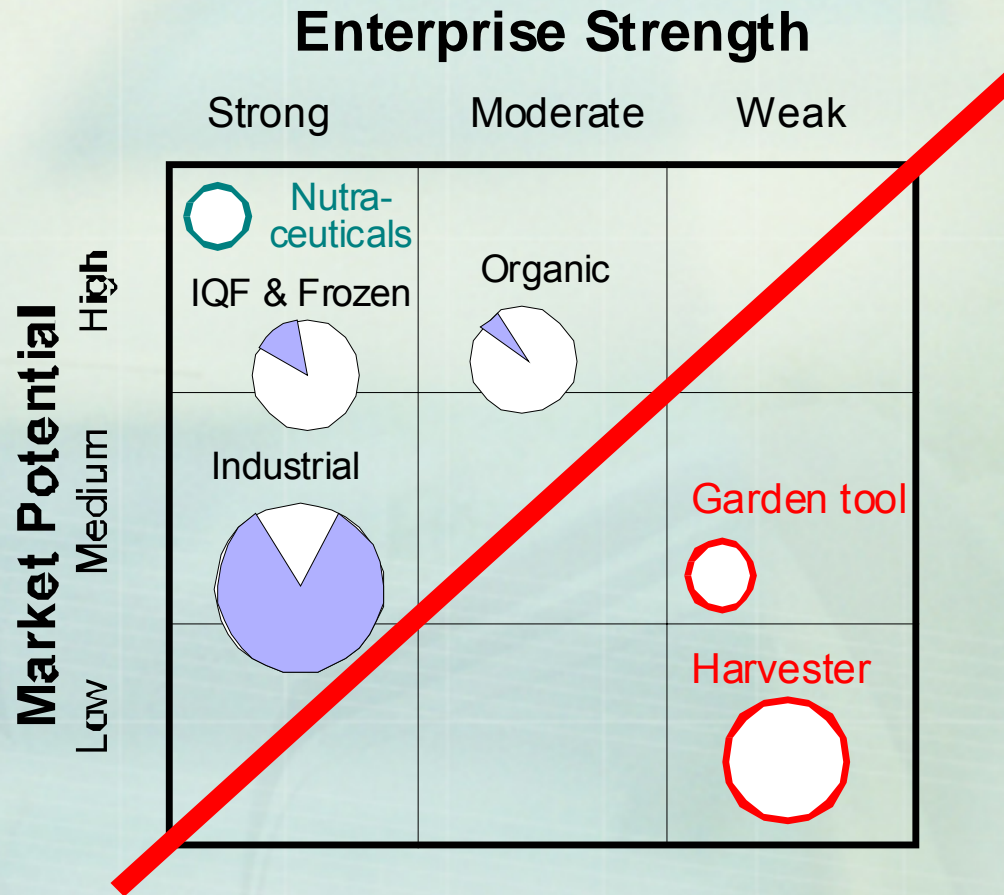
*“Grow by capitalizing on new market opportunities while being mindful of financial constraints”*

*“Add value to the crops that you currently produce and let others help you grow.”*

- Expand the amount of acreage grown under contract
- Have their puree and frozen products custom packed (co-pack)
- Utilize international partner
- Explore patenting and licensing of the machinery and tools
- **Functional foods and nutraceuticals**
- **Improve A/R turnover (possibility of \$2.5 million in collections)**



# Final Recommendations (cont'd)



Size of circle represents labor and capital use.

Shaded area represents land use.



**Thank You**  
**Questions, Comments**

**UofA**  
**UNIVERSITY OF ARKANSAS**  
**DIVISION OF AGRICULTURE**

# Nutraceutical Plant Expenditure

- **Extraction (approximate cost \$100,000)**
  - Extractor
  - Hot water
  - Organic solvent
  - Evaporator
- **Dehydration (approximate cost \$150,000)**
  - Freeze dryer
  - Grinder
- **Additional capital outlay**
  - Salary (chemist, food scientist)
  - Working capital

*Source: Dr. Luke Howard  
Food Science – University of Arkansas*

***“I don’t want to relax our position on long-term debt. Three generations of agricultural producers before me survived in agriculture because they had no debt, and when opportunities came along, they had cash to invest.*”**



# Competitors For Functional Foods and Nutraceuticals

- Fragmented Market
- Large Pharmaceutical Companies
  - Stahlbush utilizes Niche Markets
- FreshPoint Division of Cisco Systems
- InterHealth Nutraceuticals

# Financial Ratios

	2006	2005	2004
Net Profit Margin (%)	0.11	0.06	0.08
Debt to Asset Ratio	0.64	0.69	0.70
Debt to Equity Ratio	1.75	2.19	2.29
Fixed Asset Turnover	2.23	2.06	2.52
Total Asset Turnover	0.94	0.94	1.07
Leverage Factor	2.75	3.19	3.29
Dupont Analysis	0.27	0.17	0.27

# Notes

- 2002 census data from the USDA says that the average farm size is 100 acres in Willamette Valley
- 10 contract growers = 1000 acres
- Decision rules for investment
  - 15% rate of return for working capital
  - Minimum 2 year payback
  - Allocation for perennial plantings
- Waste products could be composted and used for fertilizer

*“We have 20 contract farmers that we have direct influence with, and I hope how they grow our products permeates how they grow crops on their own acreage.”*



# Financial Situation

	<b>Stahlbush Island Farms</b>	<b>Vegetables &amp; Melons SIC 0161</b>	<b>Frozen fruits &amp; vegetables SIC 2037</b>
<b>Debt to Equity Ratio</b>	1.75	0.5 / 1.4 / 2.8	1.0 / 2.7 / 12.5
<b>Coverage Ratio</b>	4.66	14.4 / 3.2 / 2.2	4.9 / 1.9 / 0.7
<b>Total Asset Turnover</b>	0.94	2.8 / 2.1 / 1.2	2.9 / 1.9 / 1.2
<b>A/R Turnover</b>	4.52	118.8 / 11.9 / 6.2	12.7 / 8.0 / 6.2
<b>A/P Turnover</b>	7.90	N/A	28.7 / 12.2 / 8.3

**Source: Case materials, Robert Morris Annual Statement Studies, D&B  
Million Dollar Directory**

# Sales at Ozark Natural Foods- Fayetteville, AR

Item Description	Size	Volume	Revenue	Retail	Wholesale
Canned pumpkin	15 oz	364	900	3.29	1.72
Sweet potato puree	15 oz	164	393	2.19	1.60
Pumpkin pie mix	15 oz	235	553	2.49	1.83

*2006-2007 sales figures*

# Definitions

- **Nutraceuticals**

Any food or food components that may *provide a health benefit beyond basic nutrition* (FDA 2007)

- **Health Foods**

Foods, drinks, and supplements aiding in the *improvement* of consumers *physical health and well-being* ([www.euromonitor.com](http://www.euromonitor.com) 2007)



# Definitions

- **Primocane Blackberry**
  - Perennial
  - Later harvest
  - Harvest in first year
- **Florican Blackberry**
  - Biennial
  - Early harvest
  - Harvest in second year

# References

- Lucier, Gary. Pollack Susan. Ali, Mir. And Perez, Agnes. "Fruit and Vegetable Backgrounder." United States Department of Agriculture Economic Research Service. April 2006.  
<http://www.ers.usda.gov/publications/VGS/apr06/vgs31301/vgs31301.pdf>
- Robinson, Alan. 2006 "State of the industry." Frozen Food Age
- Rubin, Karen Wilk. " They're a High-Growth \$9 Billion: Functional Foods". FoodService Director. November 1999. VOI 12 No 11, p90. Ebscohost.com
- Sligh, Michael and Carolyn Christman. 2003. "Who owns organic? The global status, prospects, and challenges of a changing organic market." RAFI-USA. [www.rafiusa.org](http://www.rafiusa.org)
- "Health Foods in the USA (October 2005)".  
(<http://www.euromonitor.com/mrm>)
- " Baby Food In the USA (June 2005)".  
(<http://www.euromonitor.com/mrm>).
- " Global Baby Food ( July 2005). (<http://www.datamonitor.com>).

# References

- Dr. Luke Howard – Food Science Department, University of Arkansas
- Dr. Navam Hettiarachchy - Food Science Department, University of Arkansas
- Jerry Huddleston – Marketing Manager, Ozark Natural Foods Fayetteville, AR
- Berry, Donna. 2003. :Lab talk Infinite fruity resolutions.” Dairy Foods. pg. 41.
- Dimitri, Carolyn and Catherine Greene. 2006. “Recent growth patterns in the US organic foods market.” ERS/USDA
- Friddle, Charollette G. Mangaraj Sandeep. Kindey Jean D., “The Food Service Industry: trends and changing structure in the new millennium.” The Retail Food Industry Center, University of Minnesota. March 2001.