

## Marketing Consolidation Plan Presented to Growers

“Why can’t we reliably move the GRI above the cost of production?” Jerry Wright, United CEO and President, posed this question to growers from throughout Idaho gathered in Pocatello for the Annual All-Grower Meeting.

Sponsored by United Potato Growers of Idaho, PGI, and SIPCO, the annual meeting gave growers the opportunity to gather together and learn about current industry trends. The morning started with the seed grower’s meeting, followed by an all-grower United meeting. Wright’s question eventually led to the biggest announcement of the day.

“Everything changes when growers recognize the power of their inputs,” said Wright. “You control the most important variable—the potatoes.”

To harness grower power, United announced the new Idahoan Fresh Potato Plan. With a lender already in place, United is proposing that growers sell 100% of their potatoes to Idahoan Fresh. By consolidating the potato pile with one group, United believes that growers can take back money that’s been left on the table in past years.

Three years ago, growers recognized that over production was killing the industry. Coming together as an industry, growers made great strides in controlling the supply, helping bring prices up. Wright pointed out that, “Until we put our arms around it, we couldn’t control our industry.”

The industry now faces a packing shed overcapacity of 30%. This excess often leads to a fire sale mentality as sheds look to move what’s on the floor. “We need to end the last man standing mentality,” said Wright, “nothing will change until you change the rules.”

Wright outlined the plan as follows:

1. The first step happened when United II entered into partnership with R.D. Offutt Company and purchased Idahoan Foods. Growers now own the largest dehydrator in North America.

### This Month

#### 1<sup>st</sup> UII Shareholder Meeting IPC Whistle Stop Tour

Growers gather for plant tour and North American Foods update.

IPC reviews last year’s marketing effort and future plans.

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## UII Members Gather for 1<sup>st</sup> Shareholder Meeting

United II (UII) members attended their first shareholder meeting November 12, in Lewisville, Idaho. Hosted by North American Foods (NAF) at the Idahoan offices, growers enjoyed lunch, followed by a plant tour. Jerry Wright, United II CEO, officially started the meeting by asking growers, “What do you think of the plant you bought?” Wright’s reference highlighted UII’s partnership with the R.D. Offutt Company in the newly formed NAF.

The formation of NAF shook the dehy market by concentrating over 50% of U.S. and Canadian production capacity in one company. Addressing the growers, Ron D. Offutt pointed out that the potato industry is poised to experience dynamic changes during the next five years, changes that will come with their own challenges and problems. “You can sleep better tonight because you’re a part of a bigger organization that will help solve those challenges and problems,” Offutt said.

Following Offutt’s opening remarks, Gordon Lewis, NAF’s CEO and President, addressed the group, highlighting NAF’s activities during the last seven months. The formation of NAF represented six companies becoming one, so NAF’s Board of Directors started by naming an executive committee, then forming two business units.

The management team addressed efficiency issues by consolidating three different areas:

- Sales
- Corporate functions and plant organization
- Product lines and brands

After Lewis’ presentation, Drew Facer, V.P. of Marketing for NAF, highlighted shareholder value with an overview of NAF’s marketing strategy. “You purchased three great names: Idahoan, Idaho Supreme, and Paradise Valley,” said Facer. Through these brands, NAF hopes to continue efforts that chip away at Betty Crocker’s and Hungary Jack’s market share. To accomplish this goal, Facer focused on NAF’s goal to bring innovative and relevant products to market.

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Members were also introduced to the NAF management team, the NAF Board of Directors, and UII’s Board of Directors. Bringing the meeting to a close, Wright asked shareholders to focus on the long term. “This venture is like a marriage: things never go exactly as expected and things you never talked about will be the problems,” Wright told the group. “NAF represents an enormous undertaking, so we ask for your patience, because perfection won’t happen overnight or even during the first year.”

## Interested in Joining UII?

*United members in good standing are welcome to join United II. You must purchase one share of common stock (\$1,000) plus \$188 per share of preferred stock, which equals one fresh base acre as defined and currently registered as preferred stock in United of Idaho. For more details or to join, contact your field representative.*

## Marketing Consolidation Cont.

2. Starting in December, United will meet with groups of growers in each district to review the program and ask for your commitment. To meet the demands of the lender, a majority of growers will need to sign their contract between January and March of next year. The program will start selling potatoes in September 2008.
3. Along with grower meetings, United will schedule shed meetings with the goal of consolidating sheds. Sign up will start in April 2008. As part of the plan, sheds can join a "merged ownership" pool with full equity ownership in NewCo or join a "lease group" where the shed owners maintains ownership and leases the facilities to NewCo. The presentation will also cover a fair exit strategy for owners based on a common valuation format offering cash with terms. NewCo can acquire inefficient sheds and close them, making up the purchase cost through increased efficiencies at the remaining sheds.
4. The final step involves creating a coordinated sales and marketing system for the Idahoan potatoes. Growers and shed owners will see, at minimum, a system overview during the group meetings at the beginning of the year.

Growers who commit their potatoes will receive cash payment on a staggered schedule. For all quality potatoes (based on independent harvest, cellar, and shed inspections), growers will receive \$2.00/cwt as a down payment in October. After a successful holding period, growers will receive an additional \$2.00/cwt in December. Then, based on market returns, growers will receive up to \$1.25 in February.

Growers will receive the balance of their returns, based on the market for the year, in September. Minus administrative expenses, growers will receive 100% of the up, a change from the current grower/shed relationship. The final settlement will reflect each grower's individual pack out and crop quality.

To join, a grower must be a United member in good standing and adhere to the 2008–09 Acreage Planting Guidelines (reduce 20% off of 2004 acres). This acreage-based contract requires 100% commitment of the fresh crop, with Idahoan Fresh honoring prior process grade and shed commitments.

For more information on the Idahoan Fresh Potato Plan, or to learn when a meeting will be in your district, call the United office at (208) 535-8500.

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## IPC Reviews Year, Plans for the Future

The Idaho Potato Commission (IPC) joined growers at the All Grower Annual Meeting, hosting lunch and sharing its Whistle Stop Tour presentation. Frank Muir, IPC CEO and President, highlighted the ongoing challenges in the potato industry and how the IPC promotes brand awareness for Idaho potatoes.

Challenges range from countering ideas about potatoes and diet to maintaining an active export channel with other countries. For example, after fighting the popular lo-carb diet craze, the IPC now focuses on educating consumers about the claims made related to glycemic index diets. Then, after an outbreak of potato cyst nematode (PCN), Idaho

potatoes weren't allowed into Mexico and Canada. However, in combination with a federal eradication program, the IPC worked with officials to reopen the borders to Idaho potatoes.

Beyond the challenges, the IPC also enjoyed success during its 70th anniversary year. A highlight of the year included working with the UN on its recently announced International Potato of the Year campaign for 2008. In addition, the IPC visited Cuba on a trade mission, exploring the possibility of providing seed potatoes to this island nation.

IPC's ad campaigns made a splash in print and TV, highlighting chef-created potato recipes and fitness

### **IPC Reviews Cont.**

expert Denise Austin. With help from Dawn Wells, the IPC also sponsored a successful online video competition at iTuber.com, and its booth proved to be one of the most popular at PMA 2007 in Houston. Plans for the future include a new, online video competition and a trade mission to China.

Muir then walked growers through the recent PGI consolidation and introduced Todd Cornelison, the

new Industry Relations Director. Located in eastern Idaho, Cornelison will help coordinate three new committees—Research/Education, Trade/Promotion, and Ag Affairs—created to address the industry issues previously handled by PGI.

For more information about the IPC's efforts, visit [www.famouspotatoes.com](http://www.famouspotatoes.com).

**To learn more about United Potato Growers of Idaho, contact:**

*Jerry Wright, CEO & President*

*Email: [jerry.wright@united.com](mailto:jerry.wright@united.com)*

*Phone: (208) 535-8500*

**To learn more about this newsletter, or to be added to our mailing list, contact:**

*Britt Raybould*

*Email: [braybould@gmail.com](mailto:braybould@gmail.com)*



**6109 S. Yellowstone Highway  
Idaho Fall, ID 83402**