
In the Market for Success

A Resource for Determining the Opportunities and Pitfalls of Cooperative Marketing Arrangements For Small-Scale Vegetable Farms



**Chris Blanchard, Flying Rutabaga Works and Rock Spring Farm
with Angelic Organics Learning Center**

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About the Authors

Chris Blanchard, Flying Rutabaga Works and Rock Spring Farm

www.flyingrutabagaworks.com

Chris Blanchard owns and operates Rock Spring Farm, with fifteen acres of organic vegetable, herb, and greenhouse production north of Decorah, Iowa. Since 1999, he has sold produce through a 200-member CSA, farmers markets, and short- and long-chain wholesale. He currently markets through wholesale markets, primarily in Minnesota's Twin Cities. Prior to 1999, Chris managed student farms, worked as an intern, packing house manager, plant breeding assistant, and farm manager, and provided consulting to a major organic processor.

Chris also offers education and consulting as Flying Rutabaga Works, where he focuses on describing and developing systems and tools for farmers to succeed in agriculture, business, and life. His outreach work has included systems development and documentation, food safety and GAPs compliance, business planning and management, post-harvest handling, and more. His workshops and articles have gained a reputation for fresh approaches, down-to-earth information, and honesty.

Angelic Organics Learning Center

www.learngrowconnect.org

Angelic Organics Learning Center (AOLC), a northern Illinois-based 501(c)3 nonprofit organization, is a regional leader in helping urban and rural people build local food systems. Since 1998, it has offered opportunities to grow healthy food and a better quality of life, connect with farmers and the land, and learn agricultural and leadership skills. The Learning Center reaches more than 4,000 people each year through programs at partner farms and urban growing sites in northern Illinois and southern Wisconsin.

AOLC has over 14 years of experience in helping to prepare farmers to meet the rising demand for locally and sustainably produced agricultural products. As coordinating body for the Upper Midwest CRAFT (Collaborative Regional Alliance for Farmer Training), AOLC engages experienced farmers to provide skills workshops, technical assistance, and mentoring for those in training. Members include more than 120 rural farmers and urban growers from northern Illinois and southern Wisconsin who produce vegetables, fruit, livestock, dairy, grains, and a variety of value-added farm goods for direct- and short-chain wholesale markets. CRAFT has the twin goals of preparing skilled farmers and building a social network and culture of farmers.

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Definitions

Aggregator or distributor: A business or firm that buys product from multiple sources and sells the combined product to another marketing channel or to the consumer. May be a cooperative or may not.

Cooperative: An organization owned and operated for the benefit of those using its services.

Cost centers: A division of a business that adds to the cost of an organization, but only indirectly adds to its profit, such as marketing and customer service.

Food hubs: Food hubs carry out and coordinate the aggregation, distribution, and marketing of primarily locally and regionally produced foods from multiple producers to multiple markets. They consider producers as valued business partners rather than interchangeable suppliers, with a focus on small- and mid-sized producers. Food hubs differentiate their products through strategies such as identity preservation and sustainable production practices to ensure that producers get a good price for their products. Many food hub efforts focus on getting produce from farmers into markets that they could not previously access; others focus on providing access by customers to a consistent supply of local foods.

Inputs: Any resources or materials that go into producing the marketable product, ie: seeds, fertilizer, sanitizers, twist ties, and boxes.

Long-chain wholesale: The sales of crops to an entity that will sell the crops again before the final consumer purchases the product, such as a wholesale distributor, growers cooperative, or produce auction.

Marketing: The process of acquiring and maintaining customers.

Marketing channel: A set of practices or activities necessary to transfer the ownership of goods, and to move goods from the point of production to the point of consumption.

Marketing cooperative: An organization owned and operated by a group of farmers who produce similar products and pool their resources to undertake transportation, packaging, distribution, and marketing of farm products.

Sales: The processes that involve the transfer of ownership of a product from one person to another for a price, including activities such as taking orders, processing invoices and payments.

Short-chain wholesale: The sales of crops from the farm directly to stores, restaurants, and institutions.

Supply chain: All of the movement and storage of inputs, planning and facilitating production, agronomic production, and the movement and storage of finished goods from the point of origin to the point of consumption.

Value chain: A value chain describes the same network as the supply chain, but focuses on the needs of the customer, and how each step in the production and provision of a product can enhance the value to the customer.

Introduction

As the local foods market expands beyond direct-to-consumer sales to encompass traditional institutions and wholesale distributors, small-scale vegetable farmers face a wide range of options for selling their produce and distributing it to their customers.

Unfortunately, the lack of distribution and processing infrastructure available to small-scale growers hampers access to many markets. In locations with limited or saturated direct-to-consumer potential, or as farms grow to sizes that are less conducive to support by CSA and farmers market outlets, farmers can find themselves facing complex marketing problems. A lack of capital, experience, and staff often limits the distribution and marketing capacity of small- and mid-sized farms, resulting in relatively high transaction costs. Furthermore, institutional and conventional buyers often need to reduce costs wherever possible; yet, the product differentiation that creates the demand for local produce—characteristics such as ripeness, flavor, and non-commercial varieties, for example—often results in increased costs for local producers. These examples of conflicting and complicated business situations may leave small-scale growers wondering how to evaluate their options and choose a path forward.

This document investigates where farmers can work together, or can work with organizations that are collaborating with farmers, to reduce marketing or distribution costs and increase revenue. Using value-chain and supply-chain models, this paper assesses the marketing considerations faced by farmers seeking to access markets beyond direct-to-consumer models. Including examples of specific businesses that have created successful (and sometimes not-so-successful) cooperative marketing models to sell farm goods, the author provides a picture of the range of collaborative options available to small-scale vegetable growers.

Specific cooperative marketing opportunities and pitfalls will be considered, with a focus on the farmer's perspective rather than that of an aggregator. In order to offer a way to evaluate the profitability of cooperative marketing decisions, a presentation of the concept of partial budgets is included, along with a detailed example of how to use them. Furthermore, decision points pertinent to entering into a cooperative marketing arrangement are described, with consideration given to strategic, tactical, and operational choices that farmers face in the development and operation of their business.

After having read this document, the small-scale direct-market farmer will understand what cooperative marketing is, have an idea of what it entails, and be familiar with pertinent cooperative marketing business models. The reader will also learn of many opportunities and pitfalls of selling farm products through cooperatively marketed channels, as well as understand how to use partial budgeting as a tool to decide whether a cooperative marketing opportunity would be profitable for an individual farm enterprise.

Supply Chains and Value Chains

Discussions of marketing and the logistics of getting produce to customers seem inevitably to involve the terms “supply chain” and “value chain” – the system of businesses, people, resources, and activities involved in producing and assembling the product and service packages required by the end customer.

By providing an outline of the potential steps involved in moving fresh market produce to market, supply- and value-chain thinking can create a structured way to consider cost centers and opportunities for costs savings, cooperation, and the outsourcing of responsibility for tasks.

The Supply Chain for Local Produce

Supply chains, almost by definition, are driven by the supply side of the marketing equation – in other words, they are driven by the necessity of delivering products to the customer, as opposed to the values added at each step of the process.

A full description of the **supply chain** for a given product, or a given bundle of goods and services, spans all of the movement and storage of inputs, planning and facilitating production, agronomic production, and the movement and storage of finished goods from the point of origin to the point of consumption.

Because local produce is grown on farms operating independently, and because marketing models for locally and regionally grown fresh produce vary significantly, supply chains differ widely from farm to farm. In general, the supply chain for local vegetables can be divided into three distinct phases:

- Production Flow Management – The decision-making, planning, and preparation for production.
- Agronomy – The actual crop production.
- Sales and Fulfillment – The process of selling product that is in the field or storage, from buyer communications to harvest to delivery.

The actual order of the steps in each of these phases varies according to the **marketing channel**; a given farm marketing through multiple channels is likely to have multiple supply chains – and may even have different supply chains for different crops in each channel.

For example, bunched greens marketed directly to stores and restaurants may have a supply chain that goes:

Marketing → Production Planning → Input Acquisition → Agronomy → Sales →
Harvest and Cooling → Wash and Pack → Storage → Distribution

(For a visual of the supply chain, refer to the diagram on page 10.)

Because greens harvest can be done to order without sacrificing overall production, this producer is harvesting greens when she knows how many cases of greens she has sold. If her crew overharvests, she might insert another sales step between storage and distribution.

On the other hand, tomatoes ripen and must be harvested to maintain production. The supply chain for short-chain wholesale sales of that crop might look like the following. Notice how sales falls later in the supply chain.

Marketing → Production Planning → Input Acquisition → Agronomy →
Harvest and Cooling → Wash and Pack → Storage → Sales → Distribution

Sold through a wholesale distributor, the supply chain might add another round of sales and distribution, as in:

Marketing → Production Planning → Input Acquisition → Agronomy →
Harvest and Cooling → Wash and Pack → Storage → Sales → Distribution →
Sales → Distribution

Don't wait to market your produce until it's already growing in the field. This will put you at an immense disadvantage in the market. Your vegetables have a limited shelf life, and your customers may have a number of other growers trying to sell the same or equivalent product. To get the best prices, you need to market your produce before you put a seed in the ground.

The Value Chain for Local Produce

Where supply-chain thinking puts the emphasis on systems optimization and cost savings, value-chain thinking puts the focus on the value that is added at each step of the supply chain. Instead of just transferring product or moving through production steps, you might decide to add value as the production and marketing process proceeds.

Value chains can include such traits as:

- How a product is grown (organic, IPM, with local labor)
- The third-party certifications a product carries (Certified Organic, Certified Naturally Grown, P-6, Certified Biodynamic)
- Where a product is grown (locally, regionally, in the United States)
- Timing and reliability of delivery
- Vine-ripened
- Reduced-carbon footprint
- Taste
- Availability (seasonality, variety)
- Packaging
- Intangibles (reputation, stewardship, trust, way of life)

The value chain can describe the value supplied at each step of the supply chain, not just the retail values to the customer. It can describe the value of the connection and intimate knowledge of a farmer selling herbs directly to a natural food store, or it can describe the value of those same herbs sold to a less-knowledgeable wholesale warehouse that can also provide other products to a customer as part of the same order.

Depending on where in the supply chain you relinquish control of your produce, the value chain may extend beyond your control in the short term; strategic thinking about marketing outlets will help you determine whether a supply-chain partner will add the value you seek.

Pushing and Pulling

The conventional agricultural supply chain is largely a “pushing” process. Crops are grown, and their production necessitates delivery to a largely undifferentiated marketplace. In this situation – such as growing sweet corn without knowing where and how you will sell it – the price of “pushed” products is entirely subject to the vagaries of supply and demand at the point of sale.

A value chain, on the other hand, tends to describe a “pulling” action. Consumers demand foods grown without chemical pesticides and fertilizers, creating a pull on certified organic produce; a restaurateur wants one place from which he can order his local foods, pulling a wholesale distributor to order produce from local producers, which in turn pulls on them to harvest their crops.

While some steps in the supply and value chain push product along its way, others pull. Ripening tomatoes might push a farmer to harvest them, while she might wait for the pull of an order to harvest the kale for her wholesale markets; a buyer’s request for more salad mix might pull on the production planning process, while the need for a wider crop rotation might push a farm to market a minor crop in larger amounts before growing it.

When steps in the value chain pull on a step further back in the process, it’s easier to add value. Take the situation where a chef says she wants to put local foods on her menu: immediately, the grower finds himself on the right side of the supply and demand equation. The chef is asking for something that she isn’t currently getting and pulls on the grower to provide it.

When demand exists in the marketplace for goods and services that aren’t currently offered, an implicit recognition of increased value exists – and that puts the supplier in a position to ask for a premium price. If you grow your produce locally, but nobody in your area cares if it’s local or not, you’ve got a commodity product that will probably sell for commodity prices. But if local food stores are asking for more locally grown Swiss chard, they are acting on a demand in excess of supply – and that’s a situation that allows you to act on the decommodification of your product to charge a higher price.



The Supply and Value Chain in Action

Thinking about the supply chain as your farm business develops, and as your produce moves from winter's planning work to the customer's plate, can highlight opportunities for cost savings, systems optimization, and cooperation. Applying value-chain thinking to the supply chain ensures that you ask the question: *As I seek to lower costs, what can I do to maintain or add value to the basket of goods and services I offer to my customers?*

This section describes the components of the supply and value chains, drawing attention to the many ways in which cooperative marketing opportunities can affect the farmer's business decisions – thus reshaping the farm's own supply and value chains. The potential impacts, both positive and negative, of marketing farm products cooperatively are considered, and profiles of cooperative marketing models are presented within the context of the supply and value chain.

For any given product, sold and distributed through any given marketing channel, the movement of the product and the development of its value can be described as a single chain, with one link leading to another. In the real world, where farmers grow many different crops and market through multiple channels, these chains might be more accurately described as a web or a net, since one node may pull or push directly on several others.

Production Flow Management

Production Flow Management consists of marketing, production planning, and input acquisition. Before the production of a crop happens, you have to prepare for it – **production flow management** describes the process of managing the flow of production throughout the growing season. Farmers determine what they need to grow, figure out how much to grow to meet that demand, and line up supplies of the inputs needed for production.

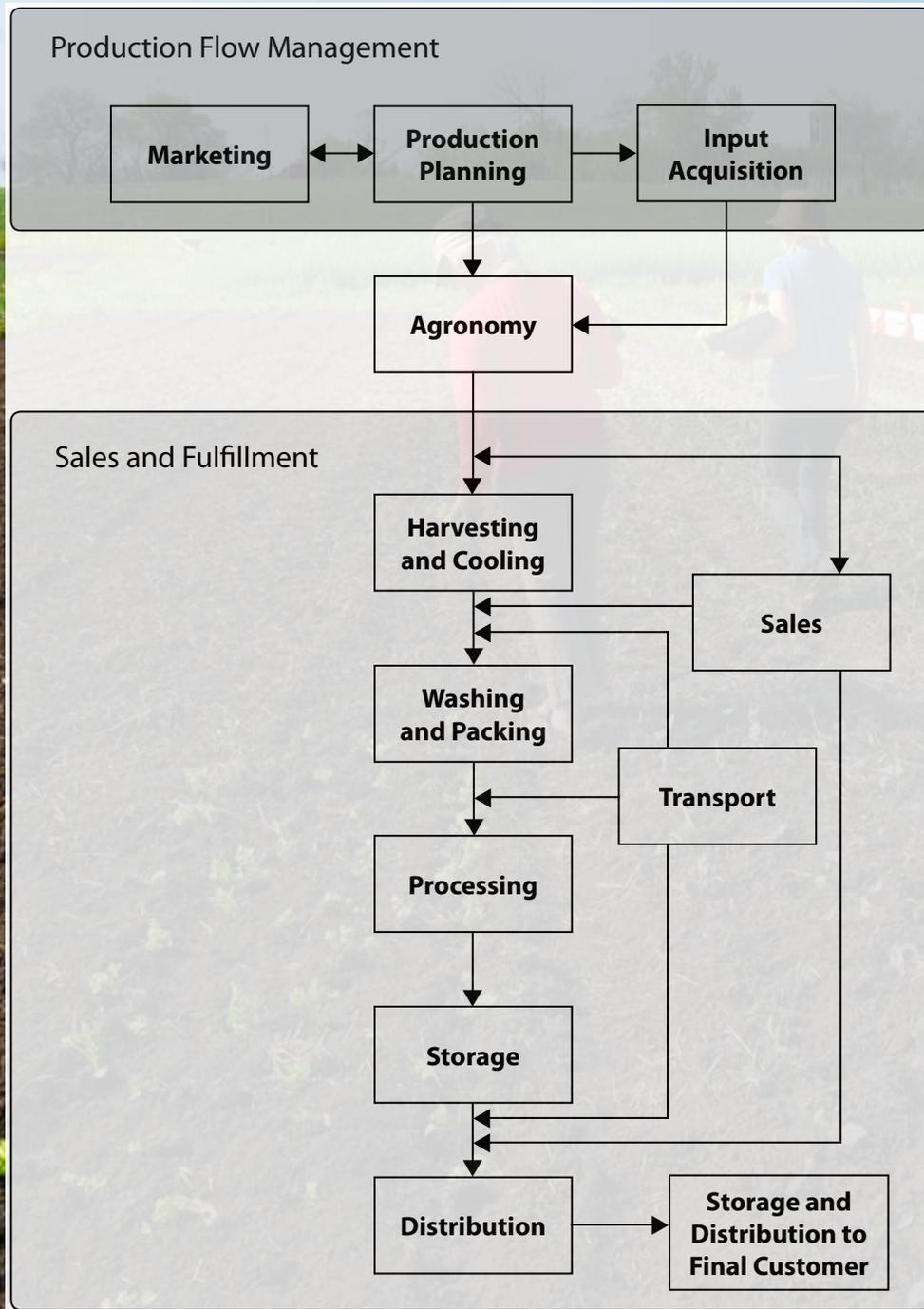
The process of managing the flow of production may involve several looping steps through the supply chain as you move towards the actual production of a crop. Late in the winter, your marketing cooperative may bring on a new customer, resulting in a request that you grow more onions – and causing you to loop back to production planning and input acquisition.

Potential Impact of Cooperative Marketing Models: Cooperative marketing efforts with a large number of customers can more easily smooth out and predict changing demand, and often help growers with various aspects of production flow management.

Marketing

In the perfect world of marketing manuals for market farmers, marketing crops before you grow them moves the supply chain process towards production planning. Knowing who plans to buy your product, when, and for what price, facilitates the best decision-making about what to grow, when to plant it, and how much to plant.

Diagram: The Steps in the Supply Chain



Marketing that provides solid, reliable predictions of quantities and requirements helps with production and input planning; done in a timely fashion, this can help you take advantage of early-season discounts and bulk shipping rates. Since materials handling is cheaper in volume, your ability to order just what you need in bulk quantities can result in significant cost savings; discovering that you need another pallet of potting soil after you've already taken delivery on several pallets at a lower rate is less than ideal.

Production Planning

Because standardized products are a frequent feature of cooperative marketing efforts, growers benefit from early decision-making about participation in a cooperative program. Variety selection, spacing, and pest control all have an impact on the ability to provide a standardized product; in addition, many cooperative marketing ventures require producers to meet standards and achieve certification regarding production practices and food safety.

Potential Impact of Cooperative Marketing Models: Many value-chain partners provide education and training to producers as part of the cooperative marketing effort, particularly in those areas that define the value they add.

Input Acquisition

Most vegetable production models involve significant quantities of inputs, everything from seeds and fertilizer to boxes, clamshells, and labels. Specific production and marketing plans *push* the need to acquire production and packaging materials that meet the requirements of the marketing channels and supply-chain partners involved.

Potential Impact of Cooperative Marketing Models: Many growers in cooperative marketing models benefit from working together to source inputs, or from an aggregator's ability to source inputs. Unit and transportation costs go down with scale, with dramatic differences when moving from small quantities transported through a parcel delivery service to pallet loads delivered by common carrier. Some cooperative models also provide storage of dry goods such as boxes and clamshells, so that growers don't need to provide dry, rodent-protected storage for large quantities of dry goods.

Agronomy

The agronomic functions of the supply chain – those elements focused on actually growing the crop up to the point of harvest – are not the focus of this publication.

Sales and Fulfillment

Sales and Fulfillment consists of:

- Sales
- Harvesting and Cooling, Washing and Packing
- Processing
- Transport
- Storage
- Distribution
- Storage and Distribution to the Final Customer

Whether you take your produce to a farmers market or have it picked up by a wholesale distribution cooperative, selling your produce comes at a substantial investment of time and money.

Potential Impact of Cooperative Marketing Models: The cost of selling your produce increases with every customer you have. Because they sell to many customers, cooperative marketing efforts can reduce the amount of time you spend selling your produce – giving you more time to manage the other processes on your farm.

For bookkeeping and record keeping purposes, some farms make a formal or informal division between production and the other steps in the supply chain in order to more fully evaluate the costs of production versus the costs of marketing and sales.

Sales

Potential Impact of Cooperative Marketing Models: Cooperative marketing efforts usually have staff dedicated to the process of communicating with producers, as well as to communicating with customers. Accurate and timely communication between farmer and aggregator becomes a critical element of the relationship.

The time involved in selling an unexpected bumper crop can be substantial, and the opportunity costs can be even greater – especially if you have to sell your broccoli when the tomatoes are waiting to be harvested. The services of sales staff with knowledge of and access to a variety of markets can be a tremendous advantage when the time comes to move your crops.

Harvesting and Cooling, Washing and Packing

Depending on the crop and the marketing model, harvesting and cooling, and washing and packing may happen before or after communications about availability are made and orders taken.

Many growers seek to avoid the capital and operating costs of a walk-in cooler through cooperative marketing efforts. This is more suited to some crops than it is to others. Because it works largely with Amish growers who have limited cold storage and transportation options, Organic Valley's Produce Program either picks up perishable products from its producers shortly after harvest, or selects crops that require less cooling.

Other coordinated marketing efforts, such as Red Tomato, require growers to establish and maintain the cold chain from harvest forward. Most distribution companies and produce warehouses require product to be delivered in appropriate packaging, already prepared for sale and cooled to accepted temperatures.

Potential Impact of Cooperative Marketing Models: Because cooperative marketing usually involves a step back in the supply chain – instead of selling to restaurants, you sell to a marketing co-op that sells to restaurants – post-harvest quality takes on additional importance. When you sell at a farmers market, your supply chain is short – but when you take your produce to a neighboring farm to go on a truck that goes to warehouse that sells the produce to a store, you've added a lot of links to the chain, and your produce still needs to arrive in just-picked condition.

PROFILES OF COOPERATIVE MARKETING MODELS AND FIRMS

CO-OP PARTNERS WAREHOUSE

Founded in 1999 by Wedge Food Cooperative in Minneapolis, Co-op Partners Warehouse purchases primarily certified organic produce from about 30 farms in Minnesota, Wisconsin, and Iowa; as a full-service organic produce distributor, Co-op Partners also purchases produce from outside of the region when local supplies are not available. In addition to purchasing produce from local growers, Co-op Partners provides cross-docking services for farmers. “Cross-dock” is the term for transporting or holding product, often at a warehouse, without taking legal ownership of it. Co-op Partners uses its own trucks and contract haulers to deliver \$16.8 million of produce to over 200 consumer cooperatives, health food stores, and restaurants in the Upper Midwest. Buyers coordinate anticipated volume and pricing with growers during the winter planning season.

ORGANIC VALLEY PRODUCE PROGRAM

Organic Valley/CROPP Cooperative was founded in 1988 as a produce growers’ cooperative, although the dairy program quickly became the organization’s focus. The Produce Pool Coordinator works with member farms to plan production and visits each farm to review standards and provide production support. Produce is picked up by Organic Valley or delivered to the warehouse after washing and packing. Produce boxes are labeled with each farm’s identification number. The Produce Program capitalizes on Organic Valley’s existing logistics infrastructure to keep distribution and delivery costs low, and primarily sells to warehouses. Organic Valley’s Produce Program has an historically high turnover among producers, but maintains its market position through consistent relationships with buyers.

SATELLITE FARMS

A project of the non-profit Organic Field School at Gardens of Eagan, the Satellite Farms program works to partner experienced growers of in-demand wholesale crops with farmers planning to grow for wholesale markets. These partnerships provide the knowledge transfer and supply-chain strategy support necessary to expand production and meet wholesale demand. Combined with a third-party purchase agreement, this knowledge transfer greatly reduces the risk of scaling up. Satellite Farms also coordinates bulk purchases of packaging supplies.

Transport

For long-chain wholesale, product must be transported to the warehouse and distribution center. Some aggregators provide pickup services at the farm or facilitate third-party shipments; many require that farms arrange for and provide transportation.

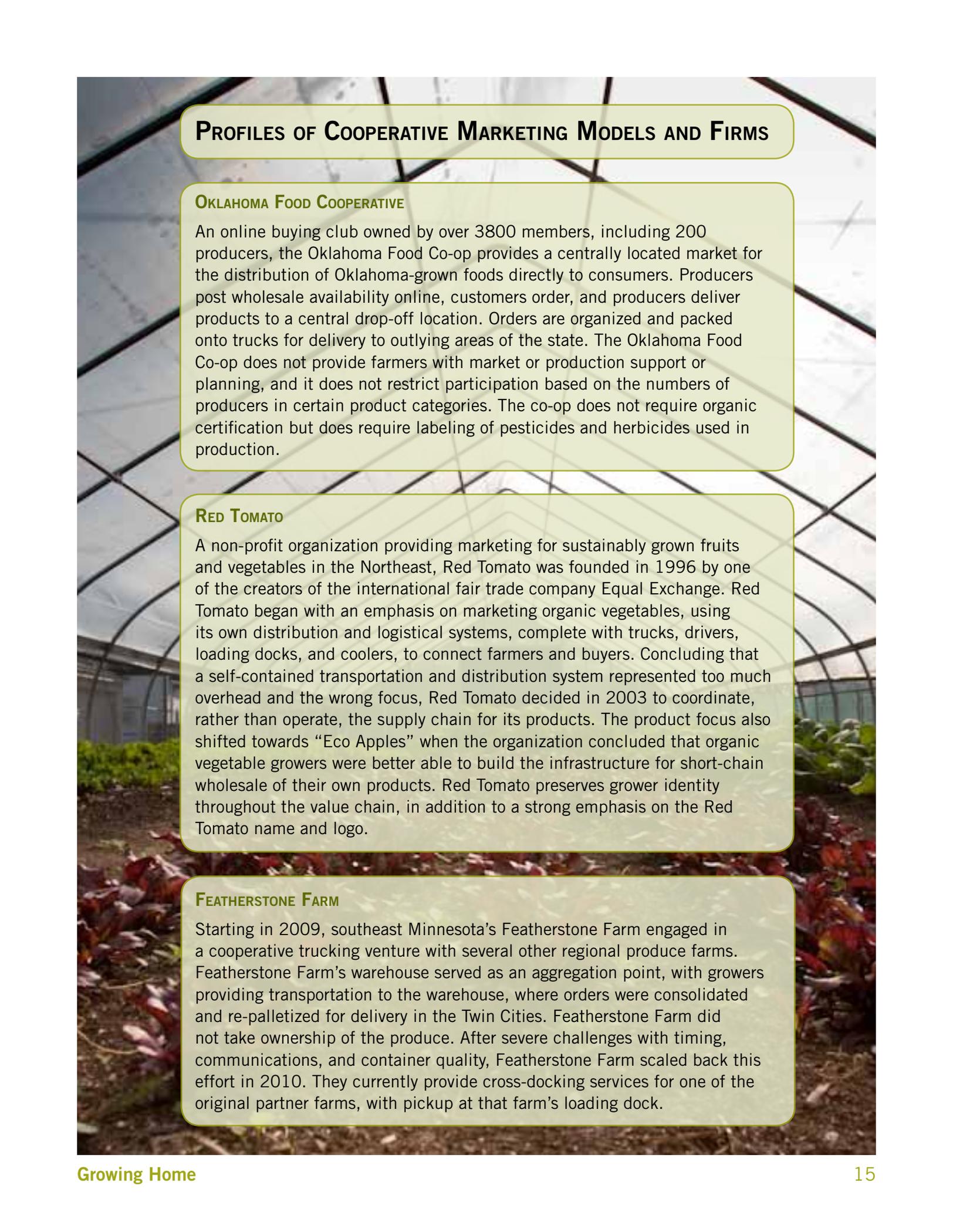
Ownership, operation, and maintenance of road-worthy delivery trucks can present significant capital and ongoing costs. Irv Cernauskas, of Irv and Shelly's Fresh Picks, estimates that hauling your own produce on a refrigerated truck from Viroqua, Wisconsin to Chicago could easily cost \$400 per pallet in time, fuel, and vehicle wear-and-tear – while a pallet on a less-than-load carrier costs \$100 for the same distance.

Storage and Distribution

Because it's the point at which small- and mid-scale producers have the most difficulty in realizing economies of scale, storage and distribution is the most common link for supply-chain partnerships as producers scale up to meet the demand for local food.

Larger facilities and larger trucks can operate more efficiently on a per-unit basis, offering an important lever for reducing supply-chain costs.

Potential Impact of Cooperative Marketing Models: Cooperative strategies for storage and distribution range from two trucks meeting in a commuter parking lot to consolidate loads, to the warehouses and trucks of an entity that takes ownership of the produce and resells it to their customers. Many cooperative marketing ventures have used different strategies at different points in the growth of their business.



PROFILES OF COOPERATIVE MARKETING MODELS AND FIRMS

OKLAHOMA FOOD COOPERATIVE

An online buying club owned by over 3800 members, including 200 producers, the Oklahoma Food Co-op provides a centrally located market for the distribution of Oklahoma-grown foods directly to consumers. Producers post wholesale availability online, customers order, and producers deliver products to a central drop-off location. Orders are organized and packed onto trucks for delivery to outlying areas of the state. The Oklahoma Food Co-op does not provide farmers with market or production support or planning, and it does not restrict participation based on the numbers of producers in certain product categories. The co-op does not require organic certification but does require labeling of pesticides and herbicides used in production.

RED TOMATO

A non-profit organization providing marketing for sustainably grown fruits and vegetables in the Northeast, Red Tomato was founded in 1996 by one of the creators of the international fair trade company Equal Exchange. Red Tomato began with an emphasis on marketing organic vegetables, using its own distribution and logistical systems, complete with trucks, drivers, loading docks, and coolers, to connect farmers and buyers. Concluding that a self-contained transportation and distribution system represented too much overhead and the wrong focus, Red Tomato decided in 2003 to coordinate, rather than operate, the supply chain for its products. The product focus also shifted towards “Eco Apples” when the organization concluded that organic vegetable growers were better able to build the infrastructure for short-chain wholesale of their own products. Red Tomato preserves grower identity throughout the value chain, in addition to a strong emphasis on the Red Tomato name and logo.

FEATHERSTONE FARM

Starting in 2009, southeast Minnesota’s Featherstone Farm engaged in a cooperative trucking venture with several other regional produce farms. Featherstone Farm’s warehouse served as an aggregation point, with growers providing transportation to the warehouse, where orders were consolidated and re-palletized for delivery in the Twin Cities. Featherstone Farm did not take ownership of the produce. After severe challenges with timing, communications, and container quality, Featherstone Farm scaled back this effort in 2010. They currently provide cross-docking services for one of the original partner farms, with pickup at that farm’s loading dock.

Opportunities and Pitfalls

In the best of all possible worlds, entry into a cooperative marketing model will result in strategic partnerships that replace the need for the farmer to provide the capital and expertise to carry out certain operational or tactical functions of the business. In other words, the farmer enters into these arrangements to leverage the expertise of partners in the supply and value chains to increase the value of her offering, decrease costs and investments, and come out ahead.

In return, the farmer accepts a lower price, effectively “paying” the aggregator to provide the logistical and other services in the supply chain. Ideally, the reduced price is offset by increased operational efficiencies and reduced direct costs on the farmer’s end. The expertise of a strategic partner defrays management responsibilities as well as labor costs.

This section reviews the pros and cons of cooperative marketing efforts from the farmer’s perspective, evaluating the risks and potential that exist when you combine your efforts with those of other growers. As I’ve grown my farm, I’ve encountered a wide variety of challenges with marketing and distribution, and I’ve observed many more as I’ve worked and talked with growers across the country as an employee, consultant, speaker, and conference organizer. In this section, I’ve provided some reflections and examples from my own farm, Rock Spring Farm, in Decorah, Iowa. Exploring issues of market access, quality, cost, stability, and the fit between a farmer and a cooperative marketing entity sets the stage for evaluating whether cooperative marketing is right for your operation.

Market Access

Especially as farms grow to a size beyond those readily supported by direct-to-consumer marketing outlets such as farmers markets and CSAs, farmers often find that they have limited market options and revenue opportunities. The lack of distribution infrastructure hampers farmers, and limited capital, staff, and experience in the various steps of the industrial fresh produce supply chain limits a farm’s distribution and marketing capacity.

Sometimes, you simply can’t get your product to market without a supply-chain partner. Rock Spring Farm has used Co-op Partners Warehouse’s cross-docking services to get product to smaller, distant accounts such as a food co-op on Lake Superior’s North Shore and a distiller in western Wisconsin – places that we could never have served with our own deliveries.

In the effort to access larger-volume markets such as chain-based groceries and food service providers, the consolidation of produce supplies can provide a distinct advantage. Buyers are not in the habit of contacting multiple providers and juggling who’s got what, so an aggregated supply can be a real advantage, improving market appeal by reducing the number of orders to place and invoices to pay.

In addition, an established aggregator can provide continuity of familiarity and credibility to its customers, as well as consistent communication, expertise, and relationships throughout the supply chain. Increased selection and the availability of customer service staff during prime farming hours can be an additional advantage.



PROFILES OF COOPERATIVE MARKETING MODELS AND FIRMS

HARMONY VALLEY FARM

Harmony Valley Farm, a large organic vegetable farm in southwest Wisconsin, has provided cross-docking services to four farms and two producer cooperatives operating in the same area since 2006. In exchange for a minimal service charge, Harmony Valley receives produce and arranges trucking via third-party carrier Edina Couriers and customer Whole Foods. Cross-docked pallets make up a substantial portion of the wholesale product leaving Harmony Valley's loading dock, with several trucks leaving the farm each week. By aggregating loads at their facility, Harmony Valley provides incentive for wholesale partners to provide pick-up services, as well as avoiding small-load penalties from third-party carriers.

HOME GROWN WISCONSIN

Begun in 1996 as a grower's cooperative marketing under a unified label, Home Grown Wisconsin provided restaurants with a single-phone-call, single-availability-list, and single-invoice source for local produce. With a relatively stable roster of farms through the years, Home Grown Wisconsin started off using a member's coolers just outside Madison, Wisconsin as an aggregation point for contracted trucking to Chicago restaurants. When that farm moved, Home Grown Wisconsin rented warehouse space and leased trucks. By the late 2000's annual revenues exceeded \$500,000. Supply disruptions due to flooding in 2007 and 2008 resulted in reduced revenues to apply to overhead expenses and created a market opening for competing farms in the Chicago marketplace. Home Grown Wisconsin ceased its cooperative operations in 2009.

TIPI PRODUCE

Tipi Produce provided transportation as part of an existing delivery route to Home Grown Wisconsin's secondary market in Milwaukee. When Home Grown Wisconsin ceased operations, Tipi Produce began offering cross-docking services to selected farms. After completing deliveries in Madison, Tipi Produce's trucks meet up with trucks from cooperating farms to pick up produce for delivery to Milwaukee. While increasing market access for smaller growers, Tipi Produce defers some trucking expenses by utilizing excess trucking capacity for a portion of their delivery route.

Putting All of Your Eggs in One Basket?

For any combination of supply-chain efforts, one of the major challenges is balancing the diversification of income streams with the efficiency of logistical and administrative programs. For many producers, outsourcing a critical supply-chain function may only pay off if they commit most or all of their production to it. If you already deliver produce to stores and restaurants in a given location, turning over those sales may be an all-or-nothing proposition if you expect to realize significant cost savings. In addition, marketing co-ops often prohibit members from selling directly to their existing customers.

In our early years, Rock Spring Farm made a deal to provide a large crop of lettuce to a wholesale distributor. We relied on large volumes and production and transportation efficiencies to provide cost savings so that we could meet their price point. Due to our inexperience and bad weather, we had serious challenges with production timing and quality control. Then, the buyer we had negotiated with went on vacation just as our crop was coming in. We didn't have another outlet for the product, and after our first delivery went awry, the warehouse refused to accept any more of our lettuce.

Producers of grains, dairy, and beef have a potential reserve market in the conventional commodities market, which, while it may provide significantly reduced overall income, at least provides a backup market. Such dumping grounds are limited for vegetable growers, particularly if the producer has outsourced functions to avoid investment in bricks and mortar or wheels and steel. When a vegetable farmer puts a significant portion of her vegetable crop into any one marketing outlet, she is putting a tremendous amount of trust into that outlet's fiscal competence and marketing integrity.

Losing Yourself

Combining your farm's produce with others to access markets also means that your identity becomes their identity. The relationship with the final customer becomes their relationship, not yours. If you work with an aggregator who does not maintain farm identity through to the end of the supply chain, further growth or the decision to pursue other marketing channels may result in the absence or loss of those connections.

Several cooperatives are conscious of conserving the farm's brand and identity. Satellite Farms and Home Grown Wisconsin's labels provide(d) space for growers to add their own label or farm name; Organic Valley's Produce Program uses a farm number instead.

Standards, Grading, and Quality

To achieve the price premiums that are necessary to support local and regional food systems, value-based food chain models must produce and market significant volumes of differentiated, higher-value products. To market significant volumes, the differentiated products must still meet industry standards. In other words, a local, vine-ripe tomato still needs to come in a box with other tomatoes of the same size and ripeness level, certified to the value-added standards that the customer is paying for.

Bringing together product from many different farms can enhance value for buyers by promoting more consistency. Communication happens at scheduled times because farm crises aren't at the forefront, and aggregators can develop criteria that meets the needs of a more conventional marketplace.

Quality and Consistency of Product

For many direct-market and short-chain wholesale market farmers, the definition of quality focuses on traits such as flavor, texture, and unique colors and shapes. Unfortunately, the differentiation of products going into larger-volume sales streams tends to focus on the more conventional definition of quality in the produce industry: traits such as size, color, and stage of ripeness as they are described in the USDA grading standards. Where those traits aren't dominant, consistency within the box is almost always important – a box of beets should contain beets of similar size and shape, even if it's a specialty variety.

Moving up to these standards presents serious challenges to growers involved in “scaling up,” as they need to acquire new skills and possibly new machinery to facilitate production and sorting. Some cooperative marketing models, such as the Organic Field School's Satellite Farms, Red Tomato, and Organic Valley, provide training to farmers on production techniques that can produce higher pack-out percentages, as well as providing expert, farmer-based advice on grading standards.

Of course, quality and consistency of product can be affected by the quality and consistency of the growers providing it. As part of a cooperative marketing effort, your production is lumped in with everybody else's – whether the label includes your farm name or not. It can also put you at the mercy of other producers and your supply-chain partner if either party falls short in delivering the high level of quality that your farm delivers.

Quality and Consistency of Service

Just as important as the quality of the product provided, aggregators make an implicit promise to their customers about quality of service. Having dedicated staff focused on



providing quality service at the time of sales, regardless of the exigencies of farming, can be one of the greatest values provided to the producer.

A hired delivery driver for Rock Spring Farm once got into a yelling match with the produce manager at a natural food store and we lost that account just a few months later. When you delegate responsibility, you also give up control; but the further away you put that responsibility, the less control you have over the situation.

Just as in the situation where an individual farmer provides these services, customer service involves the quality of the work in putting together the orders (getting the right product to the right people at the right time), and the quality of estimating the available produce. A high-quality supply-chain partner consistently gets this right, but if your identity-preserved product goes through a partner who lacks this consistency, the value of your brand will suffer along with your partner's. In this vein, quality of service applies to more than just produce. One multiple-farm effort to consolidate trucking was nearly scuttled because of problems with box quality and pallet stacking that resulted in shifting loads.

The quality and consistency of the service includes a “one-stop shopping” aspect, by bringing more products together in time and space. A smaller number of vendors providing more selection and less individual deliveries increases the value and accessibility of local produce to customers, especially those in more conventional or institutional markets where the “story” of the produce is more difficult to convey to the end customer.

Savings and Costs

Ideally, entering into a cooperative marketing agreement allows the farm to shed entire areas of responsibility. In the timeliness-is-everything world of market farming, the opportunity costs of managing operational areas such as deliveries or sales is potentially huge. While entering into a cooperative marketing agreement won't, for example, eliminate the need to estimate and communicate about crop availability, it does reduce the number of buyers you have to communicate with. With something like trucking, giving that responsibility to another entity can be incredibly freeing of both management time, energy, and money.

At Rock Spring Farm, we spent years trucking our produce 150 miles from Decorah, Iowa to the Twin Cities in Minnesota, a significant commitment of time and capital, especially when I took over deliveries after an employee ruined our first refrigerated truck. We now outsource our deliveries to another farm and are able to deliver twice each week instead of just once. We also no longer have to worry about putting together a large enough order to make the trip worthwhile, not to mention that when the delivery truck breaks down, it's simply not our problem.

The tipping point for this exchange becomes one of the key criteria for evaluating the viability of a cooperative marketing effort for both farmers and aggregators. Bringing together product from multiple producers allows an aggregator to achieve economies of scale at various points in the supply chain. For example, an order coordinator for a

A PROFILE OF AN AGGREGATOR AND DISTRIBUTOR, AS DISTINCT FROM COOPERATIVE MODELS

IRV AND SHELLY'S FRESH PICKS

Irv and Shelly's Fresh Picks purchases over \$800,000 of local produce for their year-round home delivery service to households in the Chicago metropolitan area, offering both a "Fresh Picks Box" (similar to a CSA share) and custom ordering. For established vendors, Irv & Shelly's will send a truck to Chicago-area farmers markets to pick up pre-ordered produce directly from farmers. Irv and Shelly's tapped into a "virtual hub" at Harmony Valley Farm in Viroqua, Wisconsin (also profiled in this document) where produce is picked up by a less-than-load (LTL) carrier. Another "virtual hub" they facilitated around Galatia, Illinois utilizes a local carrier to aggregate produce from several farmers for transport to Tiny Greens organic farm in Urbana; Tiny Greens uses its own truck to transport produce to a farmers market in Chicago, where Irv and Shelly's picks it up.

network of forty farms only needs to generate one price list, and can move a larger volume of produce with one phone call to a buyer. Likewise, larger trucks can provide greater fuel efficiency per unit of produce delivered, lowering costs at the same time as improving service by reducing the number of deliveries a store or institution must receive to get the same orders.

Outsourcing marketing and distribution activities can affect more than annual operating expenses. Collaboration, and the purchasing of supply-chain services either directly or through accepting a reduced price, can reduce the need for purchases of equipment and facilities. This can substantially reduce the risk involved in operating a market farm by decreasing fixed costs (such as loan payments) and increasing cash and capital available for investments in direct production.

Many farmers enter into cooperative marketing arrangements expecting to avoid the costs of a packing house or a cooler. Unfortunately, this restricts possible crops because cooling produce and maintaining the cold chain are such critical aspects of the fresh produce supply chain.

When we outsourced our deliveries at Rock Spring Farm, we sold our refrigerated delivery truck, allowing us to pay down that loan and free up capital for other uses. Unfortunately, this means we are chained to our partner's delivery schedule, and don't have the ability to use that refrigerated transport to access smaller, more local markets that aren't served by our delivery partner.

Stability

Because aggregators work with a large number of growers, they have a mechanism to buffer the effects of price and production, as well as weather. Vegetable production can be strongly affected by microclimatic events such as wind bursts and hail storms, so a

network that draws from even a modest geographic area can reduce the overall risk to the brand by avoiding a failure to perform to the customer's expectations.

Many aggregators coordinate crop planning with their growers to meet weekly market demand based on historical needs. For example, Pennsylvania's Tuscarora Organic Growers Cooperative (TOG) growers make a good faith commitment to provide a weekly quantity of each produce item, and the co-op commits to a good faith effort to sell those products. Aggregators that supply a large number of customers are less likely to encounter disruptions to their overall markets, providing stability in the market position of their entire supplier network.

Many aggregators also enter into pricing agreements with growers. Commodity produce markets can exhibit high degrees of volatility, and these agreements allow growers and aggregators to plan accordingly. However, aggregator emphasis may change over time, and while those changes are likely to benefit some members or vendors, they are not likely to benefit everybody. For example, over the course of several years, Red Tomato changed their emphasis from organic vegetables to a line of eco-labeled apples.

Farmer-Partner Fit

Any partnership between a farm and a cooperative marketing entity requires a good fit between the two on matters of scale, location, and capacity. Growers should feel that they are getting enough business from a supply-chain partner; likewise, the grower needs to provide enough product to the partner to make it worth the partner's time and expense of having another vendor.

Economic Match

Neither partner in the arrangement should be either too small or too large. A small farm can easily get lost in a large partnership – you want to matter to your aggregator, so that you get treated fairly, your products get promoted, your orders are large enough to be worth fulfilling, and your needs get met. At the same time, you need an aggregator that fits your scale, so that you aren't delivering small amounts of product to a specialty outlet. Otherwise, you don't gain anything from lowering your price so that they can profit from their sales to the end customer.

Location

Location matters tremendously. Many cooperative marketing efforts are aimed at reducing transportation and logistical costs, so don't forget to take this into account.

Location matters not just in terms of absolute distance from the point of origin, but also in direction and accessibility – the idea here is that the market needs to have geographical fit, as well as the ability to reach it.

At Rock Spring Farm, we started off marketing north of the farm to Rochester, Minnesota. When we decided to expand beyond what we felt we could sell in Rochester, we decided to head further north to Minneapolis and St. Paul; even though they were further away than more local markets like Cedar Rapids and La Crosse, we were already halfway there by the time we got to Rochester.

Farm Enterprise Capacity

Does your farm have sufficient production volume and variety to warrant the aggregators involvement with you? In the same way that an aggregator increases its value proposition to customers by having a variety of products available over a long season, your farm needs to increase its value proposition to the aggregator by having a sufficient volume and variety of products throughout the production season.

For many cooperative marketing efforts, individual farms still need to have sufficient storage and refrigeration capacity to establish and maintain the cold chain. Mixing warm and cold product in the same trucking load can cause problems for all of the produce in transport.

Packing capacity is an important element of this evaluation as well. While many farmers seek to avoid the labor and capital costs associated with cleaning and packing produce, this requires an aggregator to have suitable facilities and capacity, which is not often the case.

Regulatory Fit

The further away from the customer you get in the supply chain, the more important third-party verification becomes in assuring the final customer of the qualities of your produce. Many cooperative marketing efforts require organic certification, GAPs audits, and other third-party verification., which will likely represent additional costs to the farmer.

Organic Certification

The National Organic Program regulations allow growers selling under \$5,000 annually to market produce to end users as organic without being certified. But if you sell your produce to a store, warehouse, or cooperative, you must be certified organic to use that label, in order for that customer to use the organic label on your product.



Food Safety Modernization Act

The Food Safety Modernization Act, passed in the summer of 2011, gives the FDA regulatory authority over food safety in fresh produce. It provides exemption from certain aspects of the act for growers who sell over half of their production to “Qualified End Users” – consumers or businesses that sell directly to consumers within your state or within 275 miles. Moving a substantial portion of your sales to an aggregator may change an operation’s status in regards to compliance with the law.

When Cooperative Marketing Efforts Don’t Succeed

The end of a cooperative marketing effort doesn’t necessarily indicate failure. Tipi Produce’s Steve Pincus notes that although Home Grown Wisconsin eventually ceased operation, the consolidated service the cooperative provided to restaurants in Chicago over a ten-year period opened the door for chefs to experiment with and learn about local foods; the cooperative also provided an important source of growth for a number of member farms.

Cooperative marketing efforts can fail for many reasons:

- Many efforts start without sufficient recognition or commitment of the time and money needed.
- Some business models fail to provide sufficient cash for management and operations.
- Many efforts have struggled with the overhead costs of owning or leasing warehouses and trucks. The Organic Valley Produce Program succeeded in the early years by utilizing distribution infrastructure that was already in place. At its core, supply-chain management is a logistics game, and full trucks that run every day of the year provide the most cost-efficient way to play.
- Cooperative efforts where a small proportion of the farms provide a large proportion of the product depend heavily on the success of those farms. When one of Home Grown Wisconsin’s dominant suppliers was shut down by flooding in 2007, the reduced flow of products resulted in short revenues for the cooperative and product shortages that created a supply gap, allowing other operations to capture market share.
- A failed understanding of expectations can crush a cooperative marketing effort. From communications about product availability and delivery schedules to standards for produce quality and packaging, joint marketing efforts require clear standards and a mechanism for enforcing those standards. Harmony Valley Farm is able to cross-dock shipments from multiple growers at low cost without jeopardizing their relationship with carriers because they require producers to package in clean, sturdy boxes and to communicate clearly, on time, and accurately with Harmony Valley’s trucking coordinator.

Deciding If It's Worth It

As the market for local foods continues to expand, pricing is being pushed down by increased participation by “bottom line” players such as food service and conventional grocery. Downwards price pressure drives the need to reduce costs to stay competitive as the market expands, while at the same time product differentiation increases in importance as a tool to maintain price. Deciding how and where to market your product, and how and where to facilitate its aggregation with the rest of the fresh produce supply chain is a question of where the balance point lies between differentiation and cost.

Analysis of these questions often comes down to financial considerations. Fortunately, there's a well-established tool for evaluating changes to a marketing strategy.

Partial Budget Analysis

A partial budget lets you analyze financially a portion of your farming business to determine whether a change should be made, such as the decision to divert acreage currently devoted to farmers market to sales to a wholesale cooperative. Basically, you are evaluating changes in costs and revenues that you can expect when you undertake new procedures in production or marketing practices. This can be summed up in a rigorous, financially based pros and cons list.

The success of a partial budget depends to a large extent on the accuracy of the estimates used. Wherever possible, the financial numbers used for the base comparison should come from your own operation, and estimates for alternative consideration should be as accurate as possible. Because you are evaluating both positive and negative financial figures, errors can easily compound to give you a much larger discrepancy between two options than might actually exist. If accurate numbers are not available for the proposed change, go through the partial budgeting process several times using a range of estimates.

Record Keeping to Facilitate Partial Budget Analysis

As with any decision that has a financial basis, the thoroughness of record keeping across all aspects of your operation will determine what information you can draw on. If you need to evaluate shifting your crop mix to accommodate the needs of a new cooperative marketing partner, you will need to have at least some ability to evaluate costs and revenues on a crop-by-crop basis. Likewise, if you need to evaluate the impact of partnering with an entity that provides trucking, knowing how that will reduce your expenses is a critical part of the decision-making calculation.

Proposed changes to marketing strategies often affect many different areas of an operation. For example, expanding potato production to sell to a wholesale distributor who will pick up your product at the farm might mean investing in a potato harvester, increased expenses for fertilizer and seed, reduced sales expenses (compared to calling all of the buyers yourself) and reduced transportation costs. Records that accurately reflect your labor inputs and the costs of marketing, production, and distribution will greatly facilitate the accurate analysis of production and marketing options.

In your bookkeeping system, using sub-accounts to organize your chart of accounts according to high-level categories can help you identify related expenses. For example, grouping worker's compensation insurance and payroll taxes with other labor-related expenses such as wages can facilitate analysis of changes to the amount of labor required or saved in a revised marketing strategy.

Some growers use QuickBooks' "class" function to track income and expenses for different marketing channels and location. This allows an expense account such as "Boxes and Labels" to have separate classes assigned for boxes purchased for CSA and those purchased for wholesale packing.

Partial Budget Components

To create a partial budget, four possible financial changes are considered: the positive effects of making the change are additional revenue and reduced expense; and the negative effects of making the change are reduced income and additional expense.

The overall effect, or net change, compares additional revenue and reduced expense on one side of the scale, to decreases in revenue and additional expense on the other side. Where the positive effects outweigh the negative effects, a positive change in net revenues is predicted.

Partial Budget in Action

Take, for example, a hypothetical market farmer, Maria Winters. She currently markets her vegetables through a CSA and by selling and delivering directly to restaurants and food stores. As her farming business has grown, so has the length of her delivery days; she is exploring new options for getting her produce to market that might reduce her expenses and save the time that her farmer's assistant spends driving each week – he's a key employee and she doesn't want to wear him out with long delivery days twice each week.

She meets with the manager of a produce marketing cooperative, and learns that the prices they pay are lower than she's used to getting, because the co-op has to cover its own expenses while still offering a competitive price to its accounts. The co-op serves



the businesses she's already selling to, and doesn't allow members to sell to accounts the co-op sells to. Their needs for crops and quantities match her current production – running the numbers, she sees that she's going to forego all \$52,146 in short-chain wholesale sales from last year, while the co-op's prices for the same product will yield \$45,022.

The co-op requires members to use co-op-branded boxes, labels, and twist-ties, so Maria makes certain to ask about pricing on those critical inputs. Last year's packaging for wholesale sales cost her \$6,128. She's surprised to learn that the co-op's branded packaging materials cost less because they buy them in such large quantities; plus, she won't have to pay for shipping since she can pick them up from the warehouse as she needs them. This has the additional benefit to Maria of freeing up space in her packing house – something that has real value, but is hard to quantify. Based on her needs for the sales she's calculated, her packaging costs will be \$4,504.

Maria takes a careful look at her delivery expenses. The co-op can deliver her CSA boxes to three of her five pick-up locations, since they already go to those businesses; but she'll have to cover two of them herself. The co-op charges \$20 per stop to cross-dock up to a pallet of produce, so she figures that she'll have a new outbound freight cost of $\$20 \times 30$ CSA deliveries per year $\times 3$ stops = \$1,800.

The city where she markets her produce is 120 miles away, and she'll still have to get her produce there. But her delivery route for wholesale and CSA in the metropolitan area covers 91 miles after she gets to the point on the freeway where her delivery loop begins and ends. Maria uses Google maps to calculate mileage, and sees that her new delivery route in the metro will only save 29 miles on Fridays, since she has to get to the co-op warehouse and two CSA stops; on Tuesdays, when she doesn't deliver CSA shares, she'll save 58 miles. That reduces her annual delivery truck mileage by 2,610 miles; her records indicate that the farm's delivery truck gets 14 miles per gallon, so with diesel prices at last year's average of \$3.71, Maria would save \$692 in fuel. Because maintenance and repairs are largely a function of miles travelled, she calculates that the 13% reduction in miles will result in an annual maintenance savings of \$179.

Because Maria requires her driver to keep a log of delivery times a couple of times each year, she's able to calculate that her new delivery route would save her driver 12.5 hours each week. She uses the full hourly cost of her farmer's assistant's labor – including worker's compensation insurance, payroll taxes, and admin – of \$12.47 to calculate a savings of \$4,676 each year. She estimates that each delivery to the warehouse will take an additional hour. $\$12.47 \times 60$ deliveries per year will increase her expenses by \$748 annually.

Maria is excited about the potential of selling through the co-op to reduce the amount of time she'll spend on the phone tracking down orders, but she looks back at a detailed time journal she kept for a couple of weeks last year and sees that she only spent about two hours a week sending out an availability sheet and tracking down orders; she uses a higher hourly rate of \$15 per hour for her own labor to calculate a decreased expense of \$900. But she figures she'll still have to email her availability list to the co-op, and process their orders into picking instructions and invoices - she estimates that will take her 30 minutes a week, resulting in an increased expense of \$225.

How to value farmer labor always creates controversy in discussions of farm economics. Maria knows that she's the fastest worker on her crew, so she values her hourly work at a higher rate than anybody else's; with Winters Farm's current production model, the time that Maria doesn't spend making phone calls will be spent helping the harvest and weeding crews.

Finally, the co-op charges a \$200 annual membership fee, so Maria needs to account for that as well.

Maria assembles all of this information into the following table (based on the chart of accounts in her bookkeeping program, so she feels confident she didn't miss anything) and sees that this change would have a slightly negative impact on her bottom line. However, she'll also need to evaluate the risks – and possible benefits – of putting such a large portion of her production into one customer's hands, as well as the potential loss of her brand identity in the local foods marketplace. In addition, she might consider the added non-financial benefits of not having to think about driving deliveries, and the opportunity costs of having a high-value employee in the position of delivery driver.

Partial Budget Form

Proposed Change: Short-chain vs. Long-chain Wholesale Marketing			
POSITIVE EFFECTS		NEGATIVE EFFECTS	
Additional Revenues:	Amount	Reduced Revenues:	Amount:
Short-chain Wholesale	45,022.00	Long-chain Wholesale	52,146.00
Reduced Costs:			
OPERATIONS		Additional Costs:	
Packaging	6,128.00	Packaging	4,504.00
Delivery Labor	4,676.25	Delivery Labor	748.20
Delivery Truck Maintenance & Repairs	178.60	Freight - Outbound Product	1,800.00
Delivery Truck Fuel	691.65		
SALES & PROMOTION		SALES & PROMOTION	
Sales Labor	900.00	Sales Labor	225.00
		Co-op Membership	200.00
A. Total annual additional revenues and reduced costs:	\$57,596.50	B: Total annual reduced revenues and additional costs:	\$59,623.20
Net Change in Income (A minus B):	\$ -2,026.70		

Accounting for Capital Costs in a Partial Budget

For capital expenses – those purchases that represent multiple-year investments – use the following formula in the partial budget to assess overall profitability:

$$\frac{(\text{Purchase Price} - \text{Salvage Value})}{\text{Life of Investment}}$$

The salvage value is the price you could get for the equipment after the life of the investment. The IRS has standard depreciation schedules for equipment that can be used to assess this.

This method doesn't evaluate the effect on cash flow – to do that you need to evaluate the actual annualized cash outflows required for the investment. For example, if you are considering leaving the marketing co-op to pursue marketing to individual accounts on your own, you might need to purchase a delivery truck. Although after seven years, the \$35,000 truck may have a salvage value of \$8,000, with an annualized cost of $(\$35K - \$8K)/7 = \$3,857$; if you take out a five-year loan at 6% interest, the effect on your annual cash flow would be \$8,120 of increased expense. In an expanding operation, cash flow is often more important than profitability. You also need to account for costs such as insurance and repairs associated with a capital item.

In the example of Maria's farm, further discussions with the co-op lead to the revelation that they require Italian parsley and kale to arrive iced – and Winters Farm doesn't own an ice machine. A call to her refrigeration supplier indicates that she can expect to pay \$6,000 for a reliable used machine with a mobile bin in good condition. Ice machines last for about ten years; she figures that used machine will last another 5 years, and probably be worth about \$2,000 at the end of that time. She'll need to add

$$\frac{(\$6,000 - \$2,000)}{5 \text{ Years}} = \$800$$

plus repair and maintenance expenses of (looking at her refrigeration repairman's previous bills and figuring one repair a year since it's used equipment) \$300 per year to the "Additional Costs" component of the partial budget.

Partial Budget Your Life

The long-term health of your farm depends on more than just finances. It requires that you have focus on the right things at the right time, as well as have a quality of life that sustains your engagement in the operation.

Marketing decisions also have non-economic effects, such as their impact on your family's quality of life. Farmers markets every Saturday can be great for a young, single couple, but become another thing entirely for a single parent with two kids in school.

In addition, if you are selling produce when you should be managing a harvest crew (so that they work faster), that's indirect economic cost. While hard to quantify in the rigorous financial analysis above, these judgments are what make the difference between you running the farm and your banker running the farm.

Other Considerations

A decision about marketing strategies must also take into consideration the long-term development of your business, as well as the impacts on cash flow, profitability, and quality of life.

Entrance into a cooperative marketing venture may provide a stepping stone for your business's growth by giving you access to markets that are not otherwise available. Many Amish growers use CROPP/Organic Valley to provide access to markets that they otherwise lack the ability to access. For other growers, cooperative marketing could provide the ability to develop the production capacity and scale to justify providing their own sales and transportation in a distant market.

Marketing ventures may also provide resources that are not otherwise available. Many cooperative models provide technical outreach services to their members.



Decision Points

You can decide to engage any given mode of marketing at any time, but your success will be influenced by how well you've thought through and implemented your marketing strategy. Some marketing strategies and venues lend themselves to instant adoption, but others require years of advanced planning.

Strategic Decisions

When you understand your goals for your farm – from both the business and the quality-of-life perspective – you enhance your ability to develop marketing channels and supply-chain strategies that move you towards those goals. The way you develop your business model, and build your farm's infrastructure, may be influenced by the choices you make about where to market and how to get your produce there.

Strategic thinking may involve plans to phase-in or phase-out certain supply-chain strategies. For example, you might decide to pursue farmers market and short-chain wholesale in your local marketplace to provide the experience and profits you need in the short term, working toward the scale and production efficiencies that would allow you to benefit from a strategic partnership in transportation and distribution.

Strategic work in any marketing channel might be done by talking to potential buyers about your offerings and demonstrating your ability to deliver on your promises a full season ahead of time – showing your goods at farmers market one year to promote a CSA initiative the next, or delivering samples of your products to warehouse or institutional buyers and describing your current marketing channels and production levels.

Examples of Strategic Marketing Decision Points

- How will you market? Will you sell through a farmers market, CSA, short-chain wholesale, or long-chain wholesale? What farm infrastructure will you need to access those markets?
- How will you produce your product – using organic, IPM, or Good Agricultural Practices? Will the crops that you grow require rapid cooling and extensive post-harvest handling, or will you choose crops that you can ship directly from the field?
- Who do you need to talk to and what relationships do you need to establish for your supply chain – farmer cooperatives, truckers, other farmers? Are there marketing strategies that might facilitate your cooperation with other growers to reduce costs?
- Is your supply-chain strategy in line with your business and personal goals?
- Will you certify organic this year, or go through a GAPs audit? Do your marketing partners require or prefer a particular certifying agency or food safety auditor? How will you structure your record keeping to meet their requirements?

Developing a strategy for your farm and business takes time, energy, and forethought, but the value that can be achieved by accessing prime markets and creating value-chain partnerships can be worth it.

Tactical Decisions

Planning your annual production, and where you will sell it, should happen within your overall strategic plan. Working with buyers to determine quantities and pricing, planning production to improve CSA box contents or grow your membership capacity, and planning delivery routes with your trucking partners are all important tactical decisions, and should be made before the season gets underway – although they are subject to intelligent modification as the season progresses.

These tactical decisions must take into account the need to balance the efficiency of logistics and administration with the value you offer your customers – you might rethink a cooperative trucking arrangement if the level of service or delivery schedule doesn't meet the customers' needs.

Examples of Tactical Decision Points

- Which farmers market will you do? What CSA pick-up sites will you serve this year? Are you going to continue selling through your marketing cooperative? Do you want to sell more carrots to them this year?
- How will you get your produce to your market, or to a distributor? Will you haul it yourself? Can you meet requirements for arrival temperatures? If not, who's going to haul it, and on what schedule? How much will it cost?
- Where will you get your boxes, twist ties, and labels? What branding will they carry – yours, or a marketing partner's?
- When will you plant your crops to meet what harvest timelines? How much will you plant? How much flexibility will you leave in your planting plan to accommodate developing demand?



Operational Decisions

The more decisions you can make ahead of time, the better. In the heat of the growing season, it's better to have figured out how you are getting your product to what markets, and who is handling the sales and invoicing, on what terms and at what price. Still, day-to-day operations require supply-chain decisions on an ongoing basis. As a result of all of that planning work, you've got product to offer to a customer you've established, and you have to determine how much you've got and at what price you are willing to sell it.

Examples of Operational Decision Points

- How many tomatoes do you have to sell this week? At what price will you sell them?
- Are you going to take more tomatoes direct to stores this week, or offer them to your marketing co-op? What impact will this have on your relationship and status with either customer?
- If you have shortages, who doesn't get what you promised? If you have excess supply, where will you sell it?
- How many pallets of space do you need to reserve with your third-party trucker this week? Do you need to adjust your harvest schedule so that the product you deliver to a neighboring farm for trucking to the city is ready on time, while you delay the harvest for farmers market?
- Are you going to harvest your wholesale kale or your farmers market lettuce in the hour before the radar says the hail will hit?

Wherever possible, operational decisions should be made within the context of the strategic and tactical goals. Although you may make more money selling an in-demand crop at the farmers market, you need to meet the demands of your wholesale customers as well. Likewise, maintaining good relations with your transportation partners may necessitate adjustments such as shuffling harvest plans or reworking employee schedules on the farm.

EVALUATING SALES OPPORTUNITIES FOR EXCESS PRODUCE

What if you end up with an excess of produce that you don't have an established market for? Last year, our hypothetical farmer, Maria Winters, had a bumper crop of tomatoes. She was already filling the demand with her retail store customers, so she approached a local foods distributor. Because she had a cool room full of picked and packed tomatoes, she settled for a price that was well below what she sold to the stores for – after all, the distributor would have to mark the produce up to get their margin.

Unfortunately, even after the distributor added their margin, the price was still below what Maria was charging the stores – she got several calls from upset store buyers who had just purchased tomatoes from her, and one of the stores bought Winters Farm's tomatoes from the distributor instead of directly from the farm.

Conclusion

The increasing number of cooperative efforts in the supply chain – whether food hubs or groups of farmers aggregating product at a loading dock – speaks to the value of working together to add value to the products of a market farm while reducing costs. Supply-chain partnerships are as old as the local and sustainable food movement in this country.

Market farmers, and those who support them, can use “In the Market for Success” to analyze the supply chain for their particular marketing channels and products, helping them to identify the ways in which they can work with supply-chain partners. Understanding the opportunities and pitfalls in relinquishing control over aspects of the supply chain will help farmers evaluate and reduce the risks inherent in marketing perishable agricultural products.

Partial budgeting can provide valuable insights into the economics of marketing decisions, especially when combined with the honest evaluation of the broader impacts of moving areas of responsibility off of the farm. Especially on small- and mid-sized operations, giving up control of elements of the supply chain can result in substantial shifts in management focus, freeing up time for the development and supervision of business systems. It can also free time for the farmer to focus on other important things, like family and personal goals.



Resources for Further Study

Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses: A standard resource for local and sustainable business, this extensive guide walks readers through the process of developing marketing and business strategies for growth and long-term sustainability.

<http://www.sare.org/Learning-Center/Books/Building-a-Sustainable-Business>

Center for Integrated Agricultural Studies (CIAS): A sustainable agriculture research center at University of Wisconsin – Madison, CIAS has many case studies of value- and supply-chain partnerships available on their website. While most are written from the aggregator's point of view, they all provide valuable insights into the processes and considerations of a cooperative marketing venture.

<http://www.cias.wisc.edu>

Fearless Farm Finances: Farm Financial Management Demystified: This overview of farm finances simplifies the concepts and techniques of successful farm financial management, from setting up data collection and bookkeeping systems to understanding profitability and cash flow. This book can help you get the financial data you need to make good marketing and production decisions for your farm. Available in print.

Innovative Strategies for Meeting New Markets: A 2007 study of the ways farmers and supply-chain partners are working to facilitate the creation of value- and supply-chain efficiencies in the marketplace.

<http://bit.ly/RqRWoh>

Profit in the Field: A Primer on Direct-Market Farm Business Models for Beginning Farmers, Lenders, and Investors: While this publication focuses on direct-marketing opportunities, it provides a good overview of the creation of value, how to analyze markets, and how to predict profitability.

http://www.learnrowconnect.org/files/ProfitInTheField_Web.pdf

Regional Food Hub Resource Guide: This USDA guide provides an overview of a variety of food hub models, how they influence local food systems, and the resources available to support their growth and development.

<http://www.ams.usda.gov/AMSv1.0/getfile?dDocName=STELPRDC5097957>

Veggie Compass Website: The University of Wisconsin's Veggie Compass provides management tools to improve farm decision-making and financial planning. The core is a record keeping system and spreadsheets designed to help you gather information about cost of production and cost of marketing for different crops and marketing channels.

<http://www.veggiecompass.com>

