



Feasibility Study
Small/Medium Farm
Product Distribution
In the Lower Mainland

Part 2

**Best Practices:
Distribution Systems for
Small to Medium Sized farms**

May 2014

Acknowledgements

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Executive Summary

The challenge of how to satisfy demand for food grown and produced locally in Metro Vancouver and the Fraser Valley persists. Traditional, mainstream distribution services include the purchase, storage, transportation, and resale of products. Small to medium scales farmers (SMFs) that produce on 1-4 hectares are not well served by traditional distribution systems that are scaled to move product from large international or local producers. New models for local food distribution have emerged that offer additional services and support market access for SMFs.

The feasibility study in six reports will research the requirements for a distribution system that will meet the needs of both SMFs and buyers in the Lower Mainland. These six reports will examine,

1. Requirements for food distribution for SMFs
2. Business Models and Best Practices
3. Bylaws, Regulations, and Funding Sources
4. Farmer's Needs for Distribution System
5. Buyer's Needs for Distribution System
6. Model Development and Comparison

This report, the second of six in the series, will review the logistics, administration and governance of new small scaled food distribution systems that have emerged in North America. The criteria for the distribution services researched in this report include,

1. Producer involvement that includes crop planning
2. Farm identity and brand preservation
3. Quality standards that include education on how to comply with these standards
4. Purchasing prices that acknowledge the cost of production
5. Aggregation services for product from a variety of farms
6. A service that uses existing infrastructure and so reduces costs and the period required to launch

Two producer-driven distribution systems will be reviewed: the Iowa Food Cooperative and Hudson Valley Fresh, and two non-profit-driven systems will also be reviewed: the New North Florida Cooperative and Red Tomato.

A summary of four "value chains" gives further insight into how managed systems can connect farmers to their buyers. "Value chains" also address food system gaps such as pricing, production efficiencies, competition, branding and marketing, quality control, and the alignment of production with market demands through increased communication and coordination.

Distribution Systems Reviewed

New North Florida Cooperative (NNFC): Founder Glyen Holmes worked for the USDA before he began the cooperative in 1995. Holmes identified the lack of infrastructure as the greatest hurdle and decided to leave the USDA in order to organize farmers based on their individual scale and capacity.

Iowa Food Co-op (IFC): Located in Des Moines, the co-op was incorporated in July of 2008 with their first sales in November of that same year. After research on markets and supply for local food, Huber and a small group of farmers decided on a direct-to-consumer coop with a virtual store for online ordering based on the Oklahoma Food Cooperative¹.

¹ Oklahoma Food Cooperative: <http://www.oklahomafood.coop/default.aspx>

Hudson Valley Fresh (HVF): A farmer-owned non-profit cooperative co-founded in 2005 by Sam Simon it sells premium-quality milk that is produced without artificial hormones. Simon began to talk to other dairy farmers that had his same interest in quality. The four founding farmers, including Simon, drew up a plan to sell milk under a Hudson Valley label.

Red Tomato (RT): Michael Rozyne, a founder of the fair trade company Equal Exchange, founded RT. The organization is a non-profit distributor/ broker that, buys fruits and vegetables from farms, packages and brands the produce with the Red Tomato and farm name, and sells it to retailers across Northeastern USA.

Value Chains Reviewed

The Little Potato Company (LPC): A family run business conceived of by founder, shareholder, and potato farmer Jacob van der Schaaf. He pursued the idea of emulating the “small potatoes he had enjoyed from his European background.”²

Perfection Fresh Australia (PFA): Once a commodity based company, PFA was established in 1978 and nearly went bankrupt in 1992 trying to compete on “price versus quality”. Now PFA is a “recognized industry leader that supplies innovative, high-quality fresh fruit and vegetables, juices, and packaged fruit snack packs to supermarkets, independent retailers . . .”

Livestock Marketing (LM): Philip Morgan the founder of LM approached Waitrose with the idea of a piloting a value chain for Welsh lamb with the grocery chain. Waitrose, the ninth largest grocery food chain in the United Kingdom and the grocery chain which has consistently been voted the top food retailer and “favourite shop” is known for their innovative marketing and emphasis on value chains.

Fresh Pork (FP): This is the name given to an undisclosed chain discussed in the paper: *Characterizing the Determinants of Successful Value Chains*. The Fresh Pork chain has seven links and extends from animal feed, hog production, processing, ending at consumers.

Recommendations

The distribution and value chain systems explored in this report show a number of actions that can be taken to increase the sale and access of agrifoods to urban buyers. Based on research findings the Red Tomato distribution system has the most potential as a distribution system that can support SMF’s in the Lower Mainland and other regions of BC. Their system requires no investment in any infrastructure other than a telephone and a knowledgeable staff person. Depending on needs of stakeholders the service could be expanded to include a brick and mortar warehouse. Beyond logistics, its true appeal is a structure that addresses a variety of market barriers, and is rooted in Fairtrade values and has many synergies with value chains. It is transparent, supportive of individual farmers, promotes fair pricing, has a strong focus on quality and provides producer identified marketing materials, a real benefit to retailers.

The value chains researched here provide important insights into how a local food system could work, with quality, in-demand products being grown and then marketed under a recognizable brand at prices that are beneficial for each member of the chain. How Red Tomato works with their farmers already incorporates many value chain methods. Extending these methods to distributors, wholesalers, and end retail or institutional buyers would complete the value chain.

With the decision that the Red Tomato distribution system with the addition of value chain methods provides the best option for a local pilot and greatest potential to benefit local producers and buyers, the next step is to review regional and municipal regulations, policies, zoning bylaws, and food safety requirements that may affect the emergence of local food distribution systems and how government bodies and local agencies can support their development.

² ibid

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1. Introduction:

The challenge of how to satisfy demand for food grown and produced locally in Metro Vancouver and the Fraser Valley persists. Small to medium scales farmers (SMFs) that produce on 1-4 hectares are not well served by distribution systems that are scaled to move product from large international or local producers.

This feasibility study looks beyond large scale traditional distribution systems, to a new generation of distributor that works with SMFs to increase their market access. These distributors, in addition to offering storage and transportation, often provide a range of agricultural extension services³ including education on product quality enhancement, niche marketing, as well as business planning and growth strategies. They understand the need to preserve the brand identity of their farms and often involve farmers and buyers in developing marketing, pricing and logistics strategies. Frequently operated by non-profits or groups of farmers, their objective is to re-establish financially sustainable local food systems where farmers are able to sell their products while still focussing on farming and land stewardship.

Interviews will be conducted with buyers and producers in Metro Vancouver and the Fraser Valley Region to learn what is needed for Lower Mainland distribution that is scaled for SMFs. A pro forma will then be developed that can be tailored to suit the distribution needs of the Lower mainland as well as potentially other region of BC. The larger vision is to encourage the development of a network of distribution systems that connect BC farmers to BC buyers. The feasibility study in six reports will research;

1. Requirements for food distribution for SMFs
2. Business Models and Best Practices
3. Bylaws, Regulations, and Funding Sources
4. Farmer's Needs for Distribution System
5. Buyer's Needs for Distribution System
6. Model Development and Comparison

This report, the second of six in the series, will review the logistics, administration and governance of new small scaled food distribution systems that have emerged in North America.

2. Distribution Systems Involving Small to Medium Scaled Farmers

Traditional, mainstream distribution services include the purchase, storage, transportation, and resale of products. New models for local food distribution have emerged that offer additional services and support market access for SMFs.

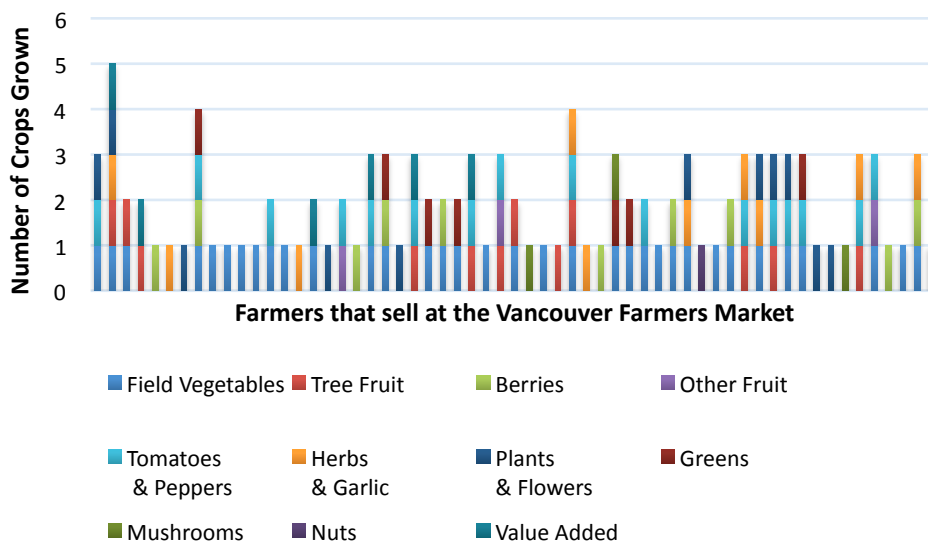
Many of the farms that fall under the SMF category sell directly to farmers markets. Picking product for grocery stores and restaurants is different than for sales at farmers markets where product that is picked ripe so it can be consumed that day. Another trend this is common for farmers selling to farmers' market the wide variety of product that they grow. The categories in Graph 2 are broad and do not reflect the diversity of products. As an example, one farm in Ladner lists "vegetables" on the Vancouver Farmers' Market website⁴ with a note that they have, "40+ varieties".

³ Agricultural Extension Services: is a general term meaning the application of scientific research and new knowledge to agricultural practices through farmer education. The field of 'extension' now encompasses a wider range of communication and learning activities organized for rural people by educators from different disciplines, including agriculture, agricultural marketing, health, and business studies.

Definition from Wikipedia: http://en.wikipedia.org/wiki/Agricultural_extension

⁴ www.eatlocal.org

Graph 1: Variety of Produce Categories per Farmers' Market Vendor:



The price that restaurants, retailers and wholesalers are willing to pay is lower than at a farmers' market, and so to realise the same profit from these buyers, the cost of production needs to be reduced. One strategy to accomplish this is to specialize in fewer crops to increase planting, harvesting, and packing efficiencies. The number of crops needed to realise these higher returns would differ for each farm and lies somewhere between the extremes of unsustainable mono-cropping and market gardening. Whole Foods Market, a retailer in Metro Vancouver has a purchasing mandate that emphasises local sustainable products. They would buy more BC produce but have found that the quality is often not "retail ready" and that "everyone has the same thing and plantings are not staggered".

Don Mills,⁵ an Ontario farmer and the Executive Director of Local Food Plus feels that farmers selling at farmers' markets have a business strategy that works for them and that "scaling up" for retail may not be the best option for them. He suggests that retail and wholesale demand for local foods will be satisfied by larger scaled farms and that selling to these larger buyers isn't a simple business decision for farmers selling at farmers' markets.

It is important that a distribution system help SMFs beyond providing storage and transportation. The criteria for the four distribution services researched in this report include,

1. Producer involvement that includes crop planning
2. Farm identity and brand preservation
3. Quality standards that included education on how to comply with these standards
4. Purchasing prices that acknowledged the cost of production
5. Aggregation services for product from a variety of farms
6. A service that uses existing infrastructure and so reduces costs and the period required to launch

Two producer-driven systems were found, the Iowa Food Cooperative and Hudson Valley Fresh; and two organized by non-profit organizations, The New North Florida Cooperative and Red Tomato. No Canadian examples were found. The closest Canadian example is the Local Food Plus (LFP) program of the Land Food People Foundation⁶.

⁵ Don Mills, Executive Director, Local Food Plus: <http://www.localfoodplus.ca/about/our-team>

⁶ <http://landfoodpeople.ca/projects>

They provide brokerage services for farmers that obtain their “Certified Local Sustainable” certification. LFP certifies farmers and markets their Certified Local Sustainable products to institutions, distributors, and grocers as well as the University of Toronto. Two attempts to bring the LFP program to BC failed, one in 2010 and another in 2012). Suggested reasons for this failure include different market needs. Farms in the lower mainland are small compared with the average farm size in 2011 in Ontario of 99 Ha, with 48% of farms being larger than 53 Ha.⁷ “In 2011, 49% of the farms in Metro Vancouver were less than 4 ha (10 acres) and another 40.5% of farms were 4-28 ha (10-69 acres).”⁸ BC also has a network of established Certified Organic farms that didn’t see an advantage in becoming certified by LFP as well. Finally LFP had hoped to establish a relationship with the University of BC. UBC already has a thriving local food purchasing policy. “In 2010/11, approximately 48 percent of UBC Food Services and AMS Food and Beverage Department expenditures were on food that was locally grown, raised, or processed within 150 miles of campus or certified organic”⁹. Interestingly LFP has been looking at the Red Tomato distribution system, one of the systems examined in this report.

2.1 New North Florida Cooperative Farm to School Program

Service Cooperative

Established by the community to support farm sales to schools and other buyers¹⁰



New North Florida Cooperative Association Inc.¹¹ (NNFC) founder Glyn Holmes worked for the USDA before he began the cooperative in 1995. Many of the small scale farmers he was meeting in his role with the USDA were missing sales opportunities, lacked the knowledge of the marketplace needed to align and diversify their crops, and could not meet USDA standards. Holmes identified the lack of infrastructure as the greatest hurdle and decided to leave the USDA in order to organize farmers based on their individual scale and capacity.

⁷ Ontario Ministry of Agriculture and Food: <http://www.omafr.gov.on.ca/english/stats/welcome.html#first>

⁸ 2011 Census of Agriculture Bulletin: Agriculture in Metro Vancouver

<http://www.metrovancouver.org/about/publications/Publications/Census2011-Agriculture.pdf>

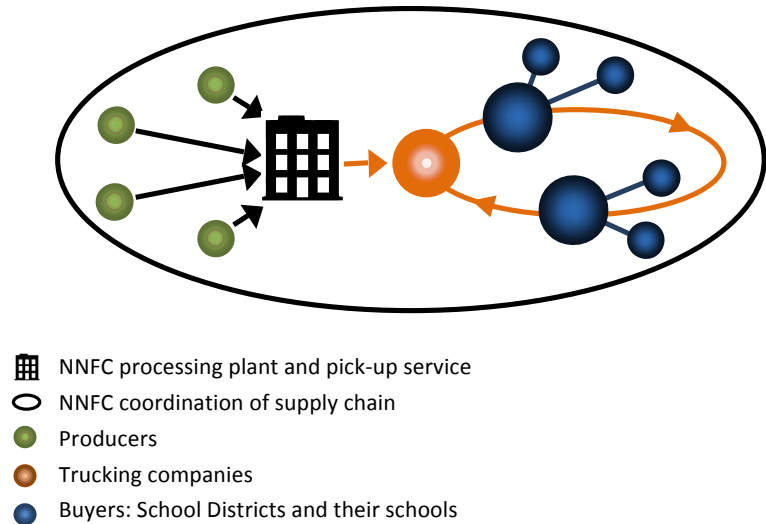
⁹ UBC Sustainable Food Initiatives: <http://sustain.ubc.ca/campus-initiatives/food/sustainable-food-initiatives>

¹⁰ Photo source: www.rurdev.usda.gov/rbs/ezec/Pubs/noflacoop.ppt

¹¹ New North Florida Cooperative Association Inc. <http://fl.marketmaker.uiuc.edu/business/421852-new-north-florida-cooperative-association-inc>

Diagram 1: New North Florida Cooperative Association (NNFC)

NNFC organizes all activities. The non-profit contracts farmers and trucks their product to the NNFC processing plant. Product is chopped, frozen and stored until it is transported by hired trucker that deliver it to school district warehouses that then distributes it to district area schools.



Services

The co-op from the beginning has been vertically integrated. In order to create more opportunity for small scale farmers the co-op provides significantly more support than a broker. Their services for 50-60 farmers include, trucking the product from the field, help with GAP food safety certification, and training in financial management. The coop buys farmers' crops at a fair predetermined price based on the market. All farmers are given the same price, there is no haggling or pitting of one farmer against another¹² to lower the price. In cases where there is a product shortage, the co-op buys from a large-scale farmer to cover the short-fall.

Logistics

The co-op uses its own trucks to pick up product from the farm. Delivery of value added product to schools and school districts from the processing plant and from their rented frozen storage facility by a trucking company is arranged for by NNFC.

Quality

There are no contracts; if the farmers are reliable and produce a quality product the co-op will buy it.

Structure

The NNFC has five board members, the minimum needed to form a cooperative in Iowa. They are individually selected based on their willingness to contribute to the community and create opportunity for small scale farmers.

None of the board members are farmers. In his experience Holmes has found that farmers in his area are often new farmers who have retired from factory work or have worked in the prison system a working culture with little inclination to join groups and work together. Holmes wanted a service coop that could work with these farmers on an individual basis. There are 50-60 farmers in any given year who sell to the coop, and 90% sell everything they produce to NNFC. On

¹² The Farm-to-Table Opportunity: <http://www.bcbusiness.ca/print/103468>

average the Cooperative grows, processes, and delivers 50,000 - 60,000 pounds of greens a month.¹³ A significant cost savings to the coop is the fact that Holmes owns the land and building where the processing is done.

Market

Early on the board decided to focus on sales to schools and on crops with a high economic impact that could be produced in volumes on small acreages: sweet potatoes, collard greens, butternut squash, and berries. To add value and increase marketability and profitability the raw products are washed, peeled, chopped and in some cases frozen before they are packaged, stored, marketed and distributed to the school districts. The NNFC's easy-to-prepare products are appreciated by schools and are used in their programs. The co-op is able to ask a higher price than if they were selling just raw product direct from the farm. NNFC sells their products to 15 school districts in 5 states which represents 600-700 schools. The NNFC was among the first to pioneer farm to school sales, and with the growth of these programs NNFC's longevity and reputation have helped them to maintain their foothold in this market.

Financial Overview

The cost of operations is covered by the difference in the purchasing price and the selling price. While no specific revenue numbers were shared, it was acknowledged that the coop receives 5-10% of their revenues through grants. Of the remaining revenues, 80% comes from sales to schools and 10% from grocers. Sales have been steady with some growth over the last 5 years.

Benefits of the New North Florida Cooperative

Glyen Holmes is a champion and leader in local food. His farm to school program was one of the first in North America. Products that are grown by NNFC farmers and processed by the co-op are selected based on the needs of the co-op's primary customer: school districts and their schools, and by what can be grown in that region's climate for the majority of the year.

- Farmers that have stayed with the program have a steady income.
- Education and mentoring is provided to farmers so they can learn how to increase yield and product quality.
- The co-op processes product and so is able to sell at a higher price than was it was purchased for.
- Pricing to farmers is equitable and consistent throughout the season.

Challenges of the New North Florida Cooperative

- There is greater competition now as there are more Farm to School programs.
- The group of farmers that NNFC tends to work with are not very entrepreneurial and so supply levels can fluctuate. Holmes has noticed that younger farmers that are now starting to farm are more interested in the business of local food production, marketing, and communication.

2.2 Iowa Food Cooperative

Food producer and consumer retail coop

Established by farmers for direct sale to consumers



Located in Des Moines, the Iowa Food Co-op¹⁴ was incorporated in July of 2008 with their first sales in November of that same year. Gary Huber a farmer and the current manager of the coop had worked for a sustainable agriculture corporation and is interested in ways to get local farm product to market. Farmers in the area were selling through large distributors in hopes of reducing sales calls and reducing the amount of time they marketed their product. They found however that they lost the brand identity of their farms and that the

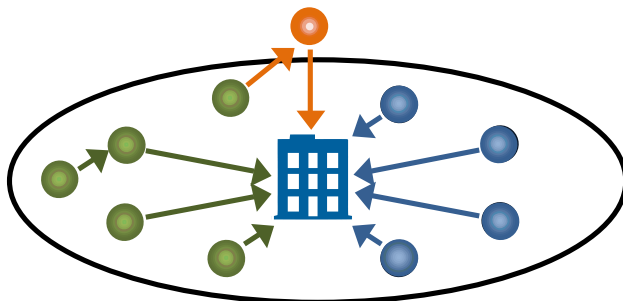
¹³ New North Florida Cooperative presentation: www.rurdev.usda.gov/rbs/ezec/Pubs/noflacoop.ppt






¹⁴ Iowa Food Cooperative: <http://iowafood.coop/>

prices they were receiving were lower than they liked. After research on markets and supply for local food, Huber and a small group of farmers decided on a direct-to-consumer coop with a virtual store for online ordering based on the Oklahoma Food Cooperative¹⁵. They decided against a hub model as hubs don't have consumer members and consumers provide the best price to farmers. Another advantage of the model Oklahoma uses is that there is no inventory to carry over as everything is sold each market day. Farmers, food processors and consumers are all members of IFC.

Diagram 2: Iowa Food Cooperative (IFC)

Farmers and consumers share the cost and responsibilities of operating the member run cooperative. Products are advertised online where consumers can order. Farmers deliver the product based on the orders. The orders are packed at the market location where the purchases are processed.



-  IFC: Producer and consumer co-operative
-  IFC member coordination through website and direct contact
-  Producer members deliver product for sale
-  Buyers: Individual consumer members order online and pick up products
-  Trucking company: Occasionally hired by individual producers

Services

The IFC website is central to operations. Food producers list their products on the website and set their own prices. Consumers order online during a nine-day window and they can pick up their order four days later. Consumers can search and order online by product and by producer. No payments are made on the website. Once ordering closes, individual orders are consolidated using the website's software into invoices/packing lists for each of the producers. Consumer invoices list each product and the producer. The software simplifies operations. Consumers pay with one cheque and producers receive a consolidated payment on one cheque.

The IFC's main pick-up location is at a small, older mall in downtown Des Moines whose businesses benefit from increased foot traffic. There were a number of closed stores with 15-17,000 square feet. The co-op was able to negotiate an agreement where IFC could use a vacant retail space in the mall free-of-charge, as long as they paid for utilities and insurance. IFC stores shelving for dry goods, refrigerators, freezer and other equipment needed in the space. While their location in the mall is not secure, they've had to move a few times when the space became rented, so far the arrangement has worked for them and the mall is happy with the influx of customers. IFC couldn't afford to rent retail space. The donated rent is valued at \$4,000 a month.

The co-op operates every two weeks from May to the US Thanksgiving holiday, and every three weeks in the winter. The retail space at the mall is used every two weeks for two days, of which one-and-a-half days are used to receive product, label it with the producers' names, and sort into orders. The store opens on the second day--Distribution Day-- in the early evening when consumer coop members can pick up and pay for their order. For consumer members in other neighbourhoods of Des Moines there are four smaller Distribution Day pick-up locations.

¹⁵ Oklahoma Food Cooperative: <http://www.oklahomafood.coop/default.aspx>

Consumer members expect transparency and want details about the products they are buying. It is up to the producers to provide these details: when crops were sprayed, if they are organic, as well as information on product availability. In some cases this has led farmers to under-reported practices that may deter sales.

Farmers are responsible for washing, bunching and/or packaging their product so it is ready for sale. Between Distribution Days they occasionally use the fridges to store product for other direct sales opportunities.

Logistics

90% of the farms are within 50 miles (80.5 km) of Des Moines. Specialty producers, including a pasta maker and dairies that produce yoghurt and cheese, travel up to 150 miles to deliver their product. Some farmers do share truck space but it is rare. Those who are unable to deliver their product themselves most often use a regional shipper who provides a speedy and reliable service.

Quality

Product safety and liability are always concerns for any food business. GAP certification is not required for farmers. Because of the model's closed membership and integrated tracking of producers and buyers, each item can be readily traced to who produced it and who bought it should there ever be a recall. The co-op has tried to be sensitive to the number of requirements they ask of their small-scaled producers so membership is not a barrier. The terms¹⁶ for farm membership do include water testing and a statement as to whether the water comes from a public or private source.

Structure

The Board consists of four consumers and four producers. It took some time for the coop to create a balanced outlook so that the emphasis was not "all about the producers". Most decisions are made by consensus.

Staff for the coop include Huber who is a half-time Manager, an Accountant and a Communications Coordinator (social media promotion) each of whom are contracted hours at 10% of fulltime. At times the co-op has also had a part-time "Producer Oversight" Coordinator who reviewed product postings for honesty and clarity. Other staffing costs include \$10,000 per year in volunteer incentives paid in free product to consumer members who sort, distribute, and process payments. Their time amounts to 80 hours per Distribution Day.

50-60 producers sell their products at each Distribution Day. 85% of producers are farmers with the remainder producing prepared foods. The size of the farms varies, with 1 to 8 acres under cultivation. Three growers have greenhouse operations providing greens all year round. It is important to monitor the product mix. At this time the coop are not accepting certain products such as frozen beef and honey.

Market

IFC's market is consumers living in and near Des Moines, Iowa. Since 2008, membership has grown from 90 consumers and 40 producers to the current 690 consumers and 130 producers. The goal is to have 1,000 consumer members. The current growth rate is ten to fifteen new consumer members each month. The IFC is the only place to buy 100% local products in their area.

Financial Overview

IFC chose a soft launch in order to test their new operations and on their first Distribution Day they sold just \$3,500. Now average sales per month are \$20,000, or \$10,000 per sales day. Co-op costs are paid by a total of 30% surcharge on all product sales. Consumer pay an additional 15% on top of their invoice value to the coop and producers pay 15% based on their sales. Initially the levy was 10% but an increase was needed as most costs are variable and so increase

¹⁶ See Appendix C

with sales. They now feel that 30% will sustain the coop as it grows. While an added expense to the members, the fee goes towards the coop and its members have a vested interest in its success.

Benefits of the Iowa Food Cooperative

The consumer co-operative model works well for IFC members as it,

- Maintains producer identity
- Is the only source in their area of 100% local products
- Keeps the money circulating in their community
- Provides a venue through which they can feed their community with local food
- Provides retail prices to their producers

Challenges for the Iowa Food Cooperative

The IFC has identified that a consumer membership of 1,000 will help to make it sustainable in the long term. They also need to,

- Continue to have an affordable and accessible location that meets their space requirements
- Provide a unique product mix that will encourage consumer membership
- Maintain a producer base that is conscientious
- Ensure that financing is sufficient to maintain operations
- Engage the membership in the direction of the coop and ensure that governance is democratic

The IFC has successfully provided a venue to sell and buy local food. If the coop didn't exist Huber feels that the farmers would have put more emphasis on other direct marketing options such as CSAs and farmers markets.

2.3 Hudson Valley Fresh

Farmer owned cooperative

Established by farmers in order to garner better pricing



In 2005 Sam Simon co-founded Hudson Valley Fresh (HVF)¹⁷, a farmer-owned non-profit cooperative which sells premium-quality milk that is produced without artificial hormones.

Dr. Sam Simon had been an orthopedic surgeon for 22 years, and when he retired in 1999 he bought a dairy farm. It was a return to his roots; he'd grown up on a 200-acre dairy farm in Middletown, N.Y. He soon discovered what other dairy farmers had weathered for 60 years: that it cost more to produce milk than he earned selling it through standard industry channels.¹⁸ At that time Simon's milk was being purchased at commodity pricing that hadn't changed much since 1977, despite the fact that Simon had started to "receive awards for his quality of milk" and he knew that there were "a couple of others that were getting awards for their milk quality but not getting paid for what it cost to produce the milk".¹⁹ He began to talk to other dairy farmers that had his same interest in quality. The four founding farmers, including Simon, drew up a plan to sell milk under a Hudson Valley label. With guidance from Cornell Cooperative Extension and a USDA grant to pay for a lawyer they were able to do a business plan and set up a registered co-op. The HVF co-op launched in 2005²⁰ and has grown to nine dairy farm members and about 2,000 cows.

Services and Logistics

¹⁷ Co-op Fortifies Milk Money: <http://www.columbiapaper.com/index.php/the-news/879-by-diane-valden>

¹⁸ Turf Magazine Interview: *Cooperative Optimism, Milking in the Hudson Valley*, www.turfmagazine.com/print-3924.aspx

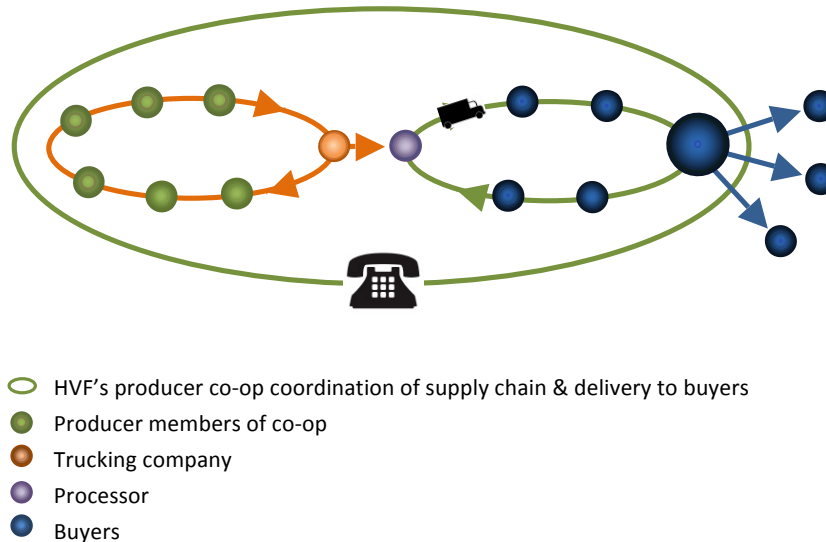
¹⁹ Hudson Valley Fresh website: <http://www.hudsonvalleyfresh.com/what-is-hudson-valley-fresh>

²⁰ Hudson Valley Co-op Formed: http://www.hudsonvalleyfresh.com/news/hv_co-op_formed.pdf

Partnering farms are within a 20-mile radius of each other. “We needed to find a processing plant that would not co-mingle our milk with milk of lesser quality, and we needed a refrigerated truck to move the bottled milk to market.”²¹ Since the beginning Agri-Mark²², a larger dairy producers’ co-op, has hauled HVF milk to the processor in a separate tanker-truck so the milk retains its provenance and distinct quality. The milk is processed at the Boice Brothers Dairy in Kingston, New York. Once processed, the dairy products are sold by HVF and delivered to buyers using their three refrigerated trucks. “After paying the expenses for trucking and processing, any Hudson Valley Fresh profits go directly to members”²³.

Diagram 3: Hudson Valley Fresh (HVF)

The cooperative is owned by dairy farmers. They hire a trucking company to pick-up and deliver their milk to a processor. The processor stores the product and the farmers using their own truck deliver the product to their buyers.



Quality

From the beginning, to differentiate HVF milk and to capitalize on its quality, the founding farmers decided to test all cows twice a day, and to go beyond federal standards for total bacteria count.²⁴ For all member farms, the somatic cell count (SCC)²⁵ averages below 100,000, far exceeding the Federal (US) standard which is less than 750,000.²⁶ As an example one of the HVF member dairy farmers won the 2008 Agri-Mark’s Top Quality Producer award with a SCC that was 41,000.²⁷ HVF now does monthly quality testing by the Dairy Herd Information Association²⁸ (DHIA). All participating farmers must have excellent milk standards for one year before joining HVF.²⁹

“Milk with those counts isn’t just generic milk,” Simon points out. He affirms that milk of such quality doesn’t need UHT pasteurization to maintain freshness for up to three weeks, therefore, HVF is pasteurized for only 22 seconds at 165 degrees. “Our milk tastes better because the protein isn’t altered by high heat. And, we leave all the fat in our whole

²¹ Turf Magazine Interview: *Cooperative Optimism, Milking in the Hudson Valley*, www.turfmagazine.com/print-3924.aspx

²² Agri-Mark Co-op website: <http://www.agrimark.net/>

²³ Co-op Fortifies Milk Money: <http://www.columbiapaper.com/index.php/the-news/879-by-diane-valden>

²⁴ Hudson Valley Co-op Formed: http://www.hudsonvalleyfresh.com/news/hv_co-op_formed.pdf

²⁵ Somatic Cell Counts: Measure of Farm Management and Milk Quality: <http://www.nmconline.org/articles/sccmgmt.pdf>

²⁶ The Milkweed April 2013: http://www.hudsonvalleyfresh.com/sites/default/files/uploads/documents/mw_04-2013_sam_simon.pdf

²⁷ Agri-Mark News: <http://www.hudsonvalleyfresh.com/news/Davenportarticle09.pdf>

²⁸ DHIA website: <http://www.dhia.org/>

²⁹ New York Serious Eats: <http://newyork.serious eats.com/2009/03/meet-eat-sam-simon-hudson-valley-fresh-milk-dairy-farm.html>

milk so it averages 3.9 percent butterfat.”³⁰ Additionally, because the farms are close together and the milk is sold to buyers in their region, “You can't get any fresher than what we deliver in the city--36 hours from cow to customer.”³¹

“You’re not going to survive milking 60 cows and competing with a 30,000-cow herd out West. So you either give up or you try something different. This is something different”.³²

Structure

Ten board members govern the co-op, seven of which are farmers. The co-op has nine member farms that contribute milk.

Market

By processing their milk at the Boice Brothers Dairy, a modern facility HVF has the ability to grow and increase their product line. “We have always sold whole, skim, fat free and chocolate milk along with half and half, heavy cream and now our own sour cream will be making its debut very soon. We are also looking into making our own ice cream and crème fraiche. Perhaps buttermilk.”³³ Their milk is never co-mingled with milk from non-member farms at the facility, thus ensuring taste and quality³⁴.

Table 1: Hudson Valley Fresh Customers ³⁵

Hudson Valley Fresh Customers: Breakdown			
Retailers	97	Wholesalers	2
Restaurants	33	Retail	Farm 2
Schools	16	Markets	
Total Number: 150			

The co-op sells to 150 customers and one of the methods they use to market their products is to do tastings at retail stores. Product pricing “is midway between mass-produced milk and organic”,³⁶ and they can boast that the milk comes from cows that are 80 miles from their customers rather than the average 1,200.

Financial Overview

During their first week of business in 2006, HVF sold \$37 of milk, by June 2009, it was \$64,000 per month³⁷ and now it is well over \$100,000 a month³⁸ at \$23.00 per hundred weight³⁹.

If the local uniform farm milk price is \$17.00, the \$6.00 difference is listed on the milk check stub as a quality premium. In months when the local milk price reaches \$23.00, there is no premium.⁴⁰

HVF hasn’t been affected by the slow economic recovery of the US. They have been growing at nearly 10 percent per quarter.⁴¹ Their goal is to have at least 70% of the milk from HVF member farms marketed under their co-op’s label⁴².

³⁰ Turf Magazine Interview: *Cooperative Optimism, Milking in the Hudson Valley*, www.turfmagazine.com/print-3924.aspx
³¹ New York Serious Eats: <http://newyork.serious-eats.com/2009/03/meet-eat-sam-simon-hudson-valley-fresh-milk-dairy-farm.html>
³² ibid
³³ ibid
³⁴ Hudson Valley Fresh website: <http://www.hudsonvalleyfresh.com/what-is-hudson-valley-fresh>
³⁵ Stores Locator map: http://www.communitywalk.com/poughkeepsie/ny/milk_locations_for_hudson_valley_fresh/map/370038
³⁶ New York Times: http://www.nytimes.com/2010/02/08/nyregion/08towns.html?_r=0
³⁷ Turf Magazine: <http://www.turfmagazine.com/print-3924.aspx>
³⁸ Hudson Valley Fresh website, video: <http://www.hudsonvalleyfresh.com/what-is-hudson-valley-fresh>
³⁹ The Milkweed April 2013: http://www.hudsonvalleyfresh.com/sites/default/files/uploads/documents/mw_04-2013_sam_simon.pdf
⁴⁰ The Milkweed April 2013: http://www.hudsonvalleyfresh.com/sites/default/files/uploads/documents/mw_04-2013_sam_simon.pdf
⁴¹ Turf Magazine: <http://www.turfmagazine.com/print-3924.aspx>
⁴² The Milkweed April 2013: http://www.hudsonvalleyfresh.com/sites/default/files/uploads/documents/mw_04-2013_sam_simon.pdf

Member farmers are paid a living wage for their milk and by keeping these farmers in business they are saving over 5,000 acres of farmland in Hudson Valley.⁴³

Benefits of Hudson Valley Fresh

- Their emphasis on quality and their proximity to their customers has differentiated their product: In addition to a higher quality local product, customers in tasted testing find HVF milk is it is more flavourful and creamier.
- Pricing for their products is above commodity pricing.
- The co-op has found strategic partners in their community that can help them to grow their business.

Challenges of Hudson Valley Fresh

- Each HVF dairy farmer contributes significant effort into maintaining (or exceeding) the milk standards set by HVF. While it is a challenge, the benefits are higher prices.

2.4 Red Tomato

Non-profit Virtual Brokerage/Distributor

Red Tomato was conceived of as a way to bring Fair Trade values to local food.



Michael Rozyne, a founder of the fair trade company Equal Exchange, founded Red Tomato during a sabbatical. Since its beginnings in 1997, Red Tomato has evolved through four stages as a sustainable food trading system.

1997-1999: Red Tomato began as part of a network of East Coast non-profit food-related organizations. It soon established its own distribution and logistical system in New England to connect farmers and buyers, with an emphasis on “marketing, trading and income generation.

1999-2002: Red Tomato expanded to become an independent distribution system with trucks, drivers, docks and coolers that it shared with Equal Exchange. A system which proved to be too expensive to sustain with “focus in the wrong areas: “concrete and rubber versus farmers and products.” The base of producers and buyers during this stage provided the foundation for the next.

2003-2004: To cut overhead and to refocus their operations on farmers and buyers, Red Tomato decided to,

- Coordinate, not operate, the supply chain
- Sell their trucks and coolers
- Focus on their marketing and logistical abilities

2005-2013: Red Tomato has found a successful model which,

- Allows growth without being overwhelmed by expensive infrastructure and maintenance
- Focusses on growers, products, customers, logistics, differentiation and branding
- Emphasises product differentiation rather than commodification

Services

The organization is a non-profit distributor/ broker that, buys fruits and vegetables from 35-50 partnering farms (depending on the season and year), packages and brands the produce with the Red Tomato and farm name, and sells it to more than 200 retailer outlets across Northeastern USA. They hire trucking companies to deliver products to their buyers. Produce in and of itself has no brand and so packaging is essential to differentiate the product in the

⁴³ New York Serious Eats: <http://newyork.seriousseats.com/2009/03/meet-eat-sam-simon-hudson-valley-fresh-milk-dairy-farm.html>

marketplace. Red Tomato's successful branding includes *Born and Raised Here*TM, *Eco Apple*TM, totes and *Eco Peach*TM baskets which display the Red Tomato logo and the name of the farm. An added bonus of aggregation is that products can be marketed in unique ways. Baskets of mixed variety heirloom tomatoes let growers mix and match varieties as they ripen, and smaller peaches, which normally would be considered undersized, can be marketed separately. The Red Tomato website strengthens the brand with recipes, information on the importance of regional food sheds, farmer profiles, and buyer locations.

Red Tomato's pricing philosophy is also outlined on the website. Called the *Dignity Deal*, each farmer negotiates pricing in the winter based on three tiers:

1. Last year's average price
2. The coming year's ideal price
3. The lowest acceptable price, or price floor

Deals with buyers cannot go below tier three without negotiation with involved farmers.

Farmers are further supported on the website with research papers on pests and Integrated Pest Management strategies, a statement on farm labour and Red Tomato's support for both growers and farm workers, and grower guides outlining the Eco standards. Launched in early March of 2009 the website is a testament to the value Red Tomato places on transparency.

Logistics

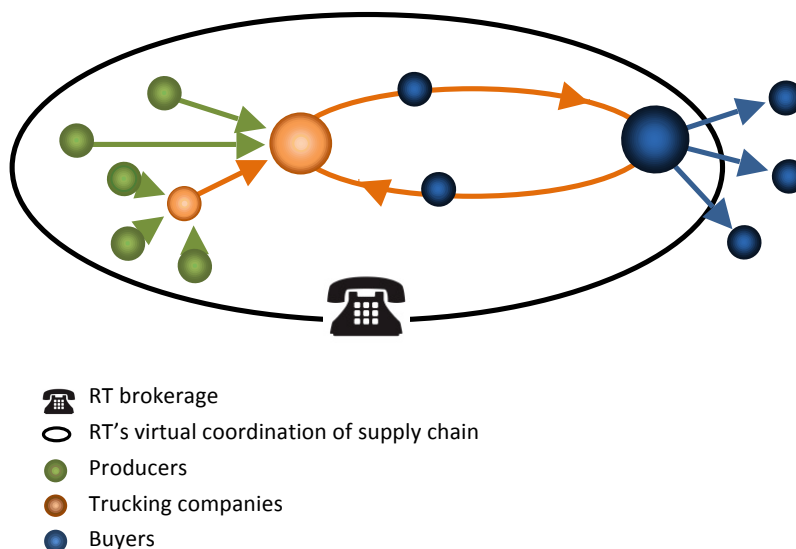
Red Tomato's distribution system combines the use of farmers' vehicles and three independent trucking companies in their region. Their ability to consolidate a variety of products *en route* so buyers only need one contact is very valuable and increases the marketability of local farm products. Delivery turn-around time is two to four days, depending on the producer's location, the availability of their farm truck, the distance to the buyer, and the availability of the trucking company. In addition to meeting at a designated rendezvous to transfer products to one of their trucking companies, "Overnight pooling and cooling regularly occur at producers' farms, trucking firms' warehouses, and warehouses at the terminal New England Produce Market in Boston."⁴⁴ Logistics can be complicated, especially when orders are less than a full load. The cost of transportation averages \$1.25 to \$4.00 per case; \$7.00 per case is considered too high⁴⁵. Larger farms are increasingly using their own trucks for shorter hauls to reduce the cost of handling.

⁴⁴ Values-based food supply chains: Red Tomato
<http://www.cias.wisc.edu/wp-content/uploads/2013/08/redtomatofinal082213.pdf>

⁴⁵ Telephone interview with Lesley Seikes from Red Tomato

Diagram 4: Red Tomato (RT)

Red Tomato coordinates the sale, delivery, pick-up, storage and distribution of the farm product by phone. Farmers deliver the product to the trucking company. The trucking company then delivers the product to wholesalers and retailers.



Quality

The majority of Red Tomato's fruit and vegetable products are ecologically grown, a category that includes organic production and advanced IPM.⁴⁶ In the Red Tomato model maintenance of high quality is the growers' primary responsibility. Complaints about the quality of products are dealt with quickly; staff evaluate where in the supply chain the problem originated and they address problems quickly and honestly. New grower partners are usually recommended by other growers and are screened carefully. Farmers are selected based on a number of criteria:

Experience has taught Red Tomato that certain producer characteristics, including a combination of structural and personal attributes, fit well with its supply chains. These are *farm enterprise capacity*, or sufficient product volume and variety, storage, refrigeration, packing and trucking capacity; *location*, or geographical fit with logistical routes; *economic match*, where partners are neither too large nor too small: "We matter to them and they matter to us"; and *temperament*, marked by reliability, openness and ability to communicate: " ... no defensiveness allowed"⁴⁷

In 2009 Red Tomato launched a program where growers could voluntarily certify under the USDA's Good Agricultural Practices (GAP) program with Red Tomato's financial support to "underwrite the cost of creating plans designed specifically for each farm"⁴⁸

Structure

Red Tomato's organizational structure reflects its unique model. There is a Board of Trustees (a group of advisors, which includes one farmer) and one director, the founder Michael Rozyne who is also active on the front line where he has direct relationships with customers and growers. Staff include a Director of Operations, Director of Marketing, Creative/Packaging Director, Finance Manager, Director of Resource Management and Product and Account Manager.

⁴⁶ Advanced IPM for apples: www.redtomato.org/ecoapple.php

⁴⁷ Values-based food supply chains: Red Tomato

<http://www.cias.wisc.edu/wp-content/uploads/2013/08/redtomatofinal082213.pdf>

⁴⁸ Red Tomato archive: <http://www.redtomato.org/newsarchives.php>

The organization values collaboration. It's a network that includes farmers, scientists, researchers, distributors and retailers.

Financial Overview

Red Tomato has three sources of income:

1. Trading income
2. Consulting fees
3. Gifts and grants (foundation and government grants, and gifts from individual donors)

Their objective is to have 50 percent of their income come from food trading and consulting fees with the remaining half to come from grants and increasingly from gifts provided by the general public. In response to market fluctuations and “a commitment to increase productivity per employee” Red Tomato’s annual budget of \$1.1 million was reduced through restructuring to \$625,000 in 2011.

Table 2: Red Tomato Trading Income

Red Tomato Trading Income (in millions \$)					
2007	2008	2009	2010	2011	2012
2.48	3.10	2.40	>2.40*	2.63	2.85**

* Actual figure not provided. Stated as between \$2.40 and \$2.63 million

** Projected

The reasons for the drop in trading income in 2009 and 2010 include the recession, increased price competition, and hail damage to the apple crop.

Benefits of Red Tomato

- RT is not stagnant. They are constantly refreshing how they can achieve their goal: To “help our region’s farmers bring their fresh sustainably grown produce to the local grocery store. At a fair price.”⁴⁹
- They value transparency and honesty internally with their own operations as well as with suppliers and buyers.
- Pricing is based on individual farmers’ costs and is negotiated each year.
- They use existing infrastructure instead of owning their own trucks and warehousing space.
- They are close to large urban markets.
- They work closely with farmers and foster cooperation between farmers.

Challenges of Red Tomato

- RT’s success is dependent on outside companies to truck their products.
- Trucking is a significant cost.

There hasn’t been any significant increase in farm revenues from using the RT service however, less effort is required to realise those revenues using the RT service.

2.5 Distribution Best Practices

The distribution criteria used in this report provides a framework to analyze the best practices of the four distributors.

1. Producer involvement that includes crop planning

- Both IFA and HVF were started by producers and have the greatest producer involvement of the four systems.
- Red Tomato also involves farmers and works to develop collaboration between farmers through regular meetings as a way to address farmer competition.

⁴⁹ Red Tomato homepage: <http://redtomato.org/>

- NNFC understand farmers' needs in their area. They plan crops with the farmers and a small variety of crops are that are suited to their climate are grown as a way to increase product yield per farm and as well as efficiencies. These crops can be grown for the majority of the calendar year and so maximise financial returns.

2. Farm identity and brand preservation

- Red Tomato packaging is co-branded with branding from the farms they buy from. Farmers pack their product into Red Tomato bags and boxes that also promote their farms' unique brand and story. As the seasons for different products come and go, Red Tomato's recognizable brand maintains its market presence throughout.

3. Quality standards that included education on how to comply with these standards

- NNFC understands the importance of quality. They set quality standards and provide education and support to increase on-farm product quality and yield.
- IFC has adopted a fully traceable system from farm to consumer and so has reduced food safety concerns. They also understand that transparency and trust are important to consumers and so they hired a staff member to review and vet product ads
- HVFC has never compromised product quality and knows the value of their farming methods. They have been able to grow their brand based on the quality and taste of their dairy products. This quality and their standing as a local producer have helped differentiate their brand so they can ask premium prices that were consistently above commodity pricing.

4. Purchasing prices that acknowledged the cost of production

- NNFC provides fair, transparent, and consistent purchasing prices to farmers and fair selling prices that schools can afford. They have also developed infrastructure to add value, so products can be sold for more than they were purchased which helps offset the cost of running the cooperative.
- IFC uses an online ordering system where farmers can update their ads and set their own prices.
- RT has established a clear and flexible pricing strategy that honours individual farmer's costs
- HVFC has a transparent pricing strategy which acknowledged the added value that the co-op provides its members

5. Aggregation services for product from a variety of farms





- NNFC purchases from a number of farms and provides a transportation service so producers can stay on the farm.
- RT aggregates product from a number of growers.
- HVFC has contracted a trucker to collect only from their dairy farms so the brand identity of the coop is maintained.

6. A service that uses existing infrastructure.

- IFC located their market at a local mall and has developed a relationship that is beneficial and affordable for both parties
- RT has reduced their overhead by partnering with other businesses and rents warehouse space and hires truckers as needed. This model was the result of reviewing and revising their business based on the organization's talent and skills.
- HVFC partners with existing local businesses to grow the co-ops capacity.

Another commonality that contributes to the success of these distribution systems is that they have a strong founder and champion. A final summary of the four distribution systems shows the range of services they offer.

Table 3: Summary of Distribution systems

ORGANIZATION	TYPE	TRUCKS	WAREHOUSE	PROCESSING	BROKERING	RETAIL	ONLINE ORDERS
	Non-Profit Service Co-op	✓	✓	✓	✓		
	Non-Profit Producer & Consumer Co-op				✓	Free Space	✓
	Non-Profit Dairy Farmer Co-op	✓	✓	Contracts	✓		
	Non-Profit	Hires Trucks	Rents Space		✓		

3. Value Chains

The term value chain describes a full range of activities that bring a product to market. For agricultural value chains this extends from the crop planning stage to the consumer purchase and includes activities such as marketing, quality control, distribution as well as support for buyers. Communication, including sales information, customer feedback and anticipated crop yields flow up and down the value chain to ensure that a quality product get the best price. Including value chain strategies in a distribution system will help SMFs meet market expectation and obtain the price they need to be profitable.

They are managed systems that integrate observations and experiences to improve daily business practices. Each link in the chain, from suppliers to buyers, adds value to the product. Value chains are collaborative. Together, members’ businesses along the chain, evaluate market opportunities, refine their product’s desired attributes, increase quality and reduce waste, realise production efficiencies and cost savings, in order to continually improve.

Value chains are helping to change agrifoods from interchangeable commodities into differentiated recognisable brands. There is no single definition or model for value chain based food systems, but the one commonality is that they require as least one champion that can support and guide communication as well as integrate improvements.

3.1 The Little Potato Company, Canada ⁵⁰



The Little Potato Company (LPC) is a family run business. Founder, shareholder, and potato farmer Jacob van der Schaaf, pursued the idea of emulating the “small potatoes he had enjoyed from his European background.” ⁵¹ His daughter Angela Santiago joined the business and became the value chain champion. LPC is “the only company in North America to specialise in working with the entire chain to produce, pack and market little potatoes.”

The five primary links in their value chain are,

1. The Little Potato Company
2. Seed growers
3. Producers in Canada and the US
4. Key retail and food service customers
5. Consumers

LPC works closely with buyers to improve their operation and to test and develop new varieties of potatoes. Their value chain provides a premium price to producers. Supported by regular feedback from buyers directed through the distributor, LPC managers are able to align their quality standards with customer expectations in order to produce a high quality product year-round that appeals to customers and is seen as good value. LPC’s proprietary varieties, quality and strong brand have differentiated their product in the marketplace. High standards are rewarded and the financial benefits are shared.

LPC owns the processing plant where the potatoes are cleaned, sorted, and packaged. They contract a select group of producers to grow the product with which they share information on LPC’s operations and updates on potato varieties. LPC selects their retailers based on their ability to cooperate and contribute to the success of the value chain. As part of their operation they use Key Performance Indicators to involve “other members of the chain in monitoring, reporting, and suggesting/implementing improvements. Following this approach helps minimize the potential for freeloading that would otherwise undermine the chain’s overall performance and lessen its ability to innovate directly in line with consumer recognized value.”

At first the governance structure of the board was heavily weighted with producers, but they found this hindered the business and that they needed representatives from different sectors in order to advance communication and benefit the entire value chain.

. . . the current Board includes a grocery retail expert, the owner of a regional hotel group, an experienced agrifood management consultant, and a small number of carefully chosen primary producers. Approximately half of the Board are shareholders and the remainder are paid advisors.

These strategies make it possible for the business to continue to differentiate the LPC product in the marketplace both for their retailers and consumers.

⁵⁰ Characterizing the Determinants of Successful Value Chains

<http://www.georgemorris.org/publications/file.aspx?id=bb0ada93-0cf5-4003-b6e6-bd4cdf9894bf>

⁵¹ *ibid*

3.2 Perfection Fresh Australia⁵²



Once a commodity based company, Perfection Fresh Australia (PFA) was established in 1978 and nearly went bankrupt in 1992 trying to compete on “price versus quality”. Now PFA is a “recognized industry leader that supplies innovative, high-quality fresh fruit and vegetables, juices, and packaged fruit snack packs to supermarkets, independent retailers . . .”

They introduced innovative and often proprietary products to the Australian market including Broccolini®, The Original™ Grape Tomato, baby broccoli and baby capsicums (peppers). PFA’s value chain includes seed companies, producers, and retailers.

Every aspect of the value chain is overseen by PFA staff: research and development; production; food safety and quality assurance; packing; logistics; finance; administration; sales; export services; customer service; and marketing.

Through these value chain partnerships retailers, seed growers, food service operators, and producers have realised increased profits and growth. PFA’s management approach is flexible enough to challenge partners to improve as a team and rigid enough to firmly guide the chain to maintain high quality and productivity standards. They have exclusive rights to the products that are produced and their proprietary varieties mean that there is no direct competition.

PFA uses 12 month “rolling forecasts” to align supply with demand. Production is increased by 20% of the forecasted demand to allow for a margin of error and to reduce risk of shortages when market spikes occur. Coordinated efforts along the chain to adjust to changing market demand are supported with consistent pricing and effective quality control and grading. There are weekly and in some cases daily reports along the chain. These communications include whether or not quality benchmarks are being met. Producers that don’t meet these quality standards risk having their products discounted or rejected. This regular communication means transparency along the chain and allows for the transfer of knowledge and “empowers everyone to look for new opportunities to create or capture value, and the ability to continually improve how the system operates.”

The PFA has found that people and their behavior has led to successful value chain and a profitable business. As a consequence of their coordinated efforts, members of the chain no longer compete against themselves; instead they compete against other value chains.

3.3 Livestock Marketing, United Kingdom⁵³

Livestock Marketing

Livestock Marketing began as a pilot project with Waitrose, the ninth largest grocery food chain in the United Kingdom and the grocery chain which has consistently been voted the top food retailer and “favourite shop”. Waitrose’s unique structure, that every employee is a part owner or “partner”, has led to other innovations including their keen involvement in value chains: working closely with suppliers and distributors to ensure mutual success.

Philip Morgan from Livestock Marketing approached Waitrose. A retiree from the retail industry who had recently become a Welsh sheep farmer, he was interested in piloting a value chain for Welsh lamb with the grocery chain. As he’d become familiar with the lamb industry Philips had observed that production quality and marketing could be enhanced to “create and capture better value”. A farm quality assurance program had been established in 1992. Morgan in collaboration with Waitrose was able to transform the initiative into an effective marketing program.

The key issues to be addressed in the Livestock Marketing pilot were:

⁵² Characterizing the Determinants of Successful Value Chains

<http://www.georgemorris.org/publications/file.aspx?id=bb0ada93-0cf5-4003-b6e6-bd4cdf9894bf>

⁵³ Livestock Marketing Case Study: http://www.cansheep.ca/User/Docs/PDF/Livestock_Marketing_CaseStudy.pdf

1. Cooperation between farmers: Cooperatives don't necessarily mean that members worked well together.
2. Farmer's communication about their lamb: Farmers and supermarket buyers spoke differently about the product, making communication challenging.
3. Farmers' businesses and marketing skills: Farmers' skills were in production. They didn't have the same business skills as their buyers and so couldn't "take opportunities forward" as they didn't understand the retailers' needs.
4. Communication between farmers: Farmers, while they often had good ideas they often don't share them with other farmers, resulting in fewer benefits than "could be obtained when working together to supply a particular market".

Success for the pilot was dependent on selecting a group of farmers who could supply quality lamb as part of an equitable, highly structured network. Morgan felt that their commitment as a group would garner communication throughout the chain to satisfy market demand. Farm assured Welsh lamb would be provided from late spring to early winter; for the remainder of the year supply would come from New Zealand. 30 producers were approached, 24 signed up for the pilot. There are now more than 450 producers supplying Waitrose with organic, Welsh, and British lamb.

Using a short chain, to reduce costs meant that there were just four links: producers, processor, quality grading company, and Waitrose the retailer, with each link in the chain adding value to the product. Livestock Marketing facilitated communication along the chain to monitor process and share information. By using this system Livestock Marketing has improved their quality so much so that 85% of their lamb meets UK retailers' lamb specifications, this while the industry average is 56%. This means less waste and better prices for Livestock Marketing producers.

Planning for the season entails creating a production schedule based on historical and expected demand.

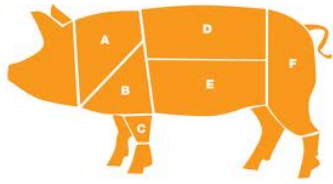
Livestock Marketing then identifies the number of lambs that each producer expects to have available each week and gains a commitment from each for that number. Once the season is underway, supply and demand are monitored on a rolling basis, as well as producers' actual supply compared to commitment. Variations between expected demand and available supply are factored into Waitrose's promotional plans.

Once the season closes, producers receive a detailed report comparing their supply and quality of lamb against the group average. They also receive proprietary information from Waitrose on sales and marketing, data that is not normally shared with suppliers. Additionally, stories and information from the producers is used by Waitrose to market the lamb to consumers and maintain their interest in the brand.

The result of the Livestock Marketing value chain is better communication, better quality lamb and so more of the carcass is used which means less waste and so lower costs for value chain partners. The combination of decreased costs and increased revenue translates into a significant improvement in profitability. Better quality also supports higher and more consistent prices at retail, leading to better brand recognition, customer satisfaction and therefore demand. Waitrose, because of their trust in their lamb suppliers, continue to pay higher prices for the lamb.

We're all working as one big group to produce and to (achieve) better quality at the end of the day.
John Price, Lamb Producer, Aberystwyth

3.4 Fresh Pork, Canada⁵⁴



Fresh Pork is a name given to an undisclosed chain discussed in the paper: *Characterizing the Determinants of Successful Value Chains*. The Fresh Pork chain has seven links and extends from animal feed, hog production, processing, ending at consumers. The only segment that is truly a value chain is the relationship between the distributor and retail stores. There is no individual champion or leader of the chain, instead there are champions along the chain including a hog producer, a processor and

the CEO of the distributor, making their influence rather fragmented. As there is no overarching communication, an understanding among chain members of the needs of the end consumer is limited. As a consequence many decisions are based on assumptions, with one of the key assumptions being that pork sales are determined based on price, a commodity approach that produces “a generic hog more suited to producing pork for processing than as fresh meat that could provide a superior eating experience” for consumers.

Another case study of fresh pork value chains⁵⁵ showed that consumers valued juiciness and guaranteed taste as attributes they looked for in pork. An approach that valued these attributes and worked with producers and other value chain partners to increase production and promotion of pork with these attributes is an interesting contrast to the commodity approach taken by the Fresh Pork example where they placed little value on innovation and differentiation.

Fresh Pork also had no overarching governance structure which made it challenging to establish medium and long term goals. When the processor offered lower prices, the retailer was able to move higher volumes at an “on special” price. “This occurred during weeks when a processor was not supplying alternative retailers with pork for their promotions”. The result was that consumers primarily bought their pork during promotions.

Poor communication and a lack of processes, infrastructure, and monitoring capabilities made it inevitable that waste occurred at numerous points along the chain.

Because of the limited exchange of information and chain relationships which were “transactional rather than strategic” the report determined that “the chain’s long-term survival may rest more on decisions made by the wider industry than those made within the value chain itself. What was needed to achieve long-term sustainability was an effective value chain that supported innovation and product differentiation in order to create and capture added value for value chain partners and to provide consumers with a “superior eating experience”⁵⁶.

⁶² Characterizing the Determinants of Successful Value Chains

⁵⁴ Characterizing the Determinants of Successful Value Chains:

<http://www.georgemorris.org/publications/file.aspx?id=bb0ada93-0cf5-4003-b6e6-bd4cdf9894bf>

⁵⁵ Opportunities to Increase Profitability by Responding To Consumers’ Definitions of Value: A Case Study in Fresh Pork

<http://vcm-international.com/wp-content/uploads/2013/04/Atlantic-Pork-Case-Study-FINAL.pdf>

⁵⁶ Characterizing the Determinants of Successful Value Chains

<http://www.georgemorris.org/publications/file.aspx?id=bb0ada93-0cf5-4003-b6e6-bd4cdf9894bf>

3.5 Value Chains: Lessons Learned

Although the size of the farms that supply these value chains is unknown their best practices align with three of the six criteria for a Lower Mainland SMF distribution system.

1. Quality standards that include education on how to comply with these standards

- LPC, supported by regular feedback from buyers are able to align their quality standards with customer expectations. They use Key Performance Indicators to involve members of the chain to suggest and implementing improvements.
- PFA's coordinated efforts along the chain have meant effective quality control and grading. Transparent communication along the chain allows for the transfer of knowledge and "empowers everyone to look for new opportunities to create or capture value, and the ability to continually improve how the system operates."
- LM producers receive a detailed report comparing their supply and quality of lamb against the group average. Better communication has resulted in better quality lamb.

2. Purchasing prices that acknowledge the cost of production

- LPC's value chain provides a premium price to producers
- PFA's value chain partnerships have meant that retailers and producers have realised increased profits and growth.
- LM: The combination of decreased costs and increased revenue has translated into a significant improvement in profitability for producers.

3. Aggregation services for product from a variety of farms

- LPC and PFA contracts a select group of producers to grow their product
- LM has more than 450 producers supplying Waitrose with organic, Welsh, and British lamb.

Value chains, like the innovative distribution systems review above, also require a champion to encourage communication and guide operations for the benefit of all value chain members.

4. Recommendations

The distribution and value chain systems explored here show a number of actions that can be taken to increase the sale of agrifoods to urban buyers. We've learned that the logistics of moving products from A to B is not the only barrier to functioning distribution system for SMFs. Even if there were trucks regularly running between farms and buyers, significant barriers would continue to exist. The following recommendations are not ordered in any priority.

Quality

Farmers need to have a greater understanding of the quality expected at the retail level. Retailers need to be more innovative as far as marketing products that may be of a different size or variety than is considered standard. Both farmers and retailers need a better understanding of customer preferences: why one product sells when another doesn't. "Fresh produce offers a point of difference that supermarkets are using to establish a competitive advantage."⁵⁷ A study on value chains done for the BC Vegetable Marketing Commission found that,

⁵⁷ Opportunities Assessment of British Columbia's Vegetable Sector:
http://www.firb.gov.bc.ca/documentation/supervisory_reviews/d_opportunities_assessment_bc_vegetables_2012.pdf

. . . the BC vegetable industry is being hampered because many producers and their intermediaries lack the desire or ability required to ensure that they are able to produce consistently high quality vegetables in consistent volume for extended periods of time.⁵⁸

When aggregating product from a number of farms, improvements to quality require coordination. A distributor can work with SMFs and buyers to set standards, support changes in production practices and monitor the results of these changes .

Availability

BC has a shorter growing season than our major competitor California. If growers are to help retailers sell more local, retail-quality product into the shoulder seasons, then they need to stagger their plantings. A distribution service that specializes in SMFs and understands buyer needs can work with farmers to accomplish this goal.

Product Differentiation and Non-Commodity Pricing

BC produce cannot compete on price with cheaper imports. For local vegetables to receive pricing that reflects the cost of production, it is necessary to, “offer a value proposition that is equal or greater than that of imported vegetables.”⁵⁹ The branding strategy that Red Tomato uses to identify their growers, or the tasting experience provided by Hudson Valley Fresh are examples of this. Branded packaging, labelling, or other marketing materials make it possible to identify produce items that address a specific market need. Customers can return to experience the branded product again and again, as they come to identify the product with certain appreciated qualities.⁶⁰

Communication

The success of a farming business, like any other business, is based on knowing the needs of the customer or partnering business and then adjusting the farm business to address these needs. The examples of value chains show how communication can identify opportunities that can lead to production efficiencies, product differentiation, and better more consistent pricing.

Competition versus Collaboration/Aggregation

The local market 20 years ago only had a few retailers that had a preference for organic or local produce. In an environment with few sales opportunities, competition between farmers was inevitable. Produce cannot wait indefinitely for the market to improve or for competition to slow. When it is ready, vegetables, and especially fruits, need to be harvested, and once they are harvested their quality begins to decline. At harvest time it isn't unusual for grocers and distributors to pit⁶¹ farmers against each other to lower prices.

This kind of haggling is a symptom of the commodity marketplace where one farmer's carrots can be easily be substituted for another's. It is also a symptom of fractured supply made up of many small farms, none of which can meet demand on their own. Volume production is challenging for BC's SMFs, especially if they grow a considerable number of products.

Demand for local food is expected to continue to rise. These smaller individual farms are not able to meet the demand of grocery chains the size of Choices Markets, let alone larger chains and universities. Farmers will need to either work together to supply produce categories as a group, or non-farm businesses or organizations will need to aggregate produce categories from several farms. In either case crop planning, quality standards, group invoicing, and collective marketing will all be part of the future paradigm to sell local product.

⁵⁸ ibid

⁵⁹ Ibid: page 34

⁶⁰ See Appendix B for examples of produce differentiation.

⁶¹ The Farm-to-Table Opportunity: <http://www.bcbusiness.ca/print/103468>

Buyers also need to consider changes to how they do business with farmers. Those that prioritize local on their menus and grocery shelves to differentiate their businesses from competitors need to realise that the push for lower and lower prices actually jeopardises their own bottom line. La Montanita,⁶² a retail cooperative with just 4 stores, understood that “if the local producers go away [i.e. out of business], where are we in the market? Where is our competitive advantage?”

Value chains show how collaboration rather than competition between farmers and between farmers and buyers can support more financially robust businesses.

Which Distribution Model: Producer Driven or Non-Profit Driven

Red Tomato, a non-profit driven distribution system has the most potential for the Lower Mainland as there is no need to invest in any infrastructure other than a telephone and a knowledgeable staff person. Depending on the needs of stakeholders, the service could be expanded in the future to include a brick and mortar warehouse. Beyond logistics, its true appeal is a structure that addresses a variety of market barriers, and is rooted in Fairtrade values and has many synergies with value chains. It is transparent, supportive of individual farmers, promotes fair pricing, has a strong focus on quality and provides producer identified marketing materials, a real benefit to retailers.

Using a producer-driven model would take greater time with slower gains. No leader within the local farming community has come forward to tackle the distribution question. This is not surprising as farmers already have a demanding work load. And, even if there was a farmer who emerged that was interested in establishing a distribution system and had to time to work on it, competition between farmers and concerns about trust and confidentiality might still hamper the formation of a system.

The value chains researched here provide important insights into how a local food system could work, with quality in-demand products being grown and then marketed under a recognizable brand at prices that are beneficial for each member of the chain. How Red Tomato works with their farmers already incorporates many value chain methods. Extending these methods to distributors, wholesalers, and end retail or institutional buyers would complete the value chain.

5. Next Steps

With the decision that the Red Tomato distribution system with the addition of value chain methods provides the best option for a local pilot and greatest potential to benefit local producers and buyers, the next step is to review regional and municipal regulations, policies, zoning bylaws, and food safety requirements that may affect the emergence of local food distribution systems and how government bodies and local agencies can support their development.

A questionnaire will be designed and three municipalities will be interviewed. Potential funding and financing for local food distribution development will also be researched. The findings will be compiled in Report 3 and will be part of the presentation to stakeholders.

⁶² Moving Food Along the Value Chain: Innovations in Regional Food Distribution, case study: La Montanita Co-op: <http://www.ams.usda.gov/AMSV1.0/getfile?dDocName=stelprdc5097504>