



Values-based food supply chain case study: Organic Valley

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“Organic Valley is a social experiment disguised as a business.” — CEO George Siemon

Origins of Organic Valley

In 1988, a small group of organic vegetable growers in Wisconsin formed a cooperative to provide stable and fair prices to its members. With the addition of dairy farmer members and an explosion of consumer interest in organic dairy products, the dairy segment of the co-op grew rapidly. It evolved into Organic Valley, the largest organic, farmer-owned cooperative in North America. As of 2011, Organic Valley has over 1,600 total members in 34 states and the Canadian province of Ontario and more than \$600 million in gross sales. This Research Brief focuses on Organic Valley’s dairy business.

Beyond providing economic stability to its members, Organic Valley seeks to achieve ambitious goals regarding ecological and economic sustainability, diversity, energy conservation, food quality and advancement of cooperative principles.

Key characteristics

Organic Valley has expanded rapidly with growing demand for organic milk and is well-positioned to benefit from consumer interest in products that can be traced back to family farms. Organic Valley had 43 regional milk pools across the U.S. in 2011, and the co-op achieved 32 percent growth in dairy product sales that year. It employs more than 500 people, most working at a headquarters and distribution center in southwestern Wisconsin. The professional staff handles day-to-day management under the guidance of a seven-person, farmer-elected board of directors.

Stable prices for farmers are fundamental to the co-op’s mission and business model. Organic Valley’s parent cooperative, Cooperative Regions of Organic Producer Pools (CROPP) uses supply management strategies to maintain relatively stable pay prices that, over time, are above commodity dairy prices. It only adds new members when excess market demand warrants it. Limiting the number of farms and their milk production regionally by pools is a fundamental aspect of CROPP’s supply management. Each pool contracts with farmer members on price and

volume. Milk prices are based on production costs and vary among regions.

CROPP used supply management strategies in response to the weakened demand for organic milk during the economic downturn. In February 2009, Organic Valley reduced its base pay price by \$1 per hundredweight (cwt) of milk shipped. Later that year, a quota program was introduced requiring farmers to cut milk production by seven percent until January 2010. During the recession in 2009, pay prices for conventional milk declined much more than those for organic milk.

These supply management strategies worked because Organic Valley is a lead player in the organic milk market. Other major organic dairy processors also reduced pay prices and purchased volumes during that time. Thus, organic dairy prices as a whole stabilized in the latter part of 2009. According to Organic Valley divisional manager Kevin Kiehnau, “When we came out of 2009, we had our full pay price. By using a quota system, we were able to offer a steady pay price through that period. The return to normalcy was quick.”

In addition to selling its branded products, about 20 percent of Organic Valley’s sales are from processing organic dairy products for private labels—such as store brand organic milk. The co-op also supplies bulk milk to a range of organic food processors. While selling milk to private labels gives the co-op a diversified income stream, critical during difficult economic times when shoppers may switch to a less expensive organic product, the lower price is a downside. Telling the Organic Valley story and selling its own branded product is definitely more lucrative for the co-op. Organic Valley has a goal of over half of its total dairy sales



Cattle on Organic Valley member farms must meet the co-op’s pasture requirements.

coming from its own brand. In 2011, sales of branded products rose to 52 percent of total dairy sales compared to 42 percent in 2010.

In 2010, Organic Valley and the New Hampshire-based organic yogurt company Stonyfield Farm embarked on a new collaboration. Organic Valley now coordinates the production, aggregation and processing of Stonyfield's organic fluid milk in the Northeast, with marketing handled by both organizations. This arrangement brought 270 new organic farmer members to Organic Valley's ranks, and helped it recover from the recession.

Organic Valley's rapid growth over the last decade means that a significant proportion of both members and employees are relatively new. Once the co-op selects new members and employees, it devotes significant energy to ensuring they learn and embrace the co-op's ethics and beliefs. CROPP has a new leadership development program to grow new leaders from within both its farmer and employee ranks. It is committed to creating opportunities for the next generation of family farmers, as evidenced by its support for the University of Wisconsin-Madison School for Beginning Dairy and Livestock Farmers.

Organic Valley requires that entering farmers make equity investments equal to 5.5 percent of their annual sales to the co-op. These investments earn returns for the farmer owners. Employees are also able to buy co-op shares, and Organic Valley has raised capital by selling non-voting shares to the public. These investors have indicated an interest in supporting the cooperative beyond their financial investment, and Organic Valley is developing ways for them to do so.

Despite rapid growth and expansion into new markets, Organic Valley is a cooperative that first and foremost looks out for its members. It is communicating its cooperative model to consumers by including 'farmer owned' more prominently on packaging.

Strategic supply chain partners

Organic Valley focused from the start on selling its products through multi-stage supply chains rather than through direct marketing channels. It credits much of its early success to contracting out key parts of its processing and distribution systems

rather than sinking money into bricks and mortar and performing these supply chain functions itself. Today, it owns a single processing facility.

Organic Valley has made significant internal investments in supply chain logistics, and leaders view excellence in this area as critical to the co-op's success. It has spun off its logistics arm as a full subsidiary of the main business. It now operates its own distribution center in the Upper Midwest and may build distribution centers in the East and West. Its distribution capacity is also available to smaller organic food enterprises.

The standard arrangement followed by the co-op is to have milk processed on contract with dairy manufacturing plants located close to the regional milk pools. Organic Valley prefers working with family-owned independent processors when possible. It also contracts for transportation of both its raw milk and finished products.

Organic feed production is a major challenge for Organic Valley, as it is not keeping up with organic livestock production. To address this, the co-op created a grower pool that pairs organic crop growers with organic animal farmers to negotiate fair and stable prices for both sides. The pool offers annual contracts for feed-grade grains, beans, oilseeds and hay.

Organic Valley recognizes that it must clearly communicate product standards and develop a strong brand identity to succeed in the marketplace. Early on, Organic Valley products were primarily available through natural food stores. With the mainstreaming of organic food, most sales are now in conventional supermarkets, but Organic Valley works to support both outlets.

A longer version of this case study (and related research and updates) is available at two locations:

www.cias.wisc.edu/economics/case-studies-profile-mid-scale-food-enterprises/

www.agofthemiddle.org/

The Organic Valley web site is:
www.organicvalley.coop

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