

Values-based food supply chains: Cross case study observations

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This series of case studies examines values-based food supply chains—strategic business alliances formed between primarily mid-sized farms/ranches and their supply chain partners—to distribute significant volumes of high-quality, differentiated food products and share the rewards equitably. Farmers and ranchers function as strategic partners rather than easily replaced input suppliers. All participants in these business alliances recognize that creating maximum value for the product depends on significant interdependence, collaboration and mutual support.¹ These supply chains attach importance to both the values embedded in the production of the food products AND the values that characterize the business relationships.

Introduction

All of the enterprises profiled in the values-based food supply chain case studies involve and serve what the authors defined as farms and ranches of the middle, and all of them exhibit considerable commonality as well as diversity. As the authors re-examined the four original cases (Organic Valley, Shepherd's Grain, Country Natural Beef and Red Tomato) we saw that, with the passage of time, the enterprises experienced various governance challenges. In comparing these and the five new cases (Co-op Partners Warehouse, Full Circle Farm, Good Earth Farms, Home Grown Wisconsin and Idaho's Bounty), we also recognized that the leadership structures flow clearly from the ownership structures. An addition to the project was policy analysis from which we learned that the use of state, federal and local programs is quite variable across the enterprises.

Key economic, internal enterprise and supply chain characteristics shared by the case study enterprises include:

Key economic characteristics

1. **Values-based food supply chains differ from mainstream supply chains in that the prices paid to farmers tend to be more stable**, and prices at all levels are often determined by factors other than supply and demand.
2. **The enterprises all communicate information allowing them to sell products that are differentiated from the**

¹Values-Based Food Supply Chains: Strategies for Agri-Food Enterprises-of-the-Middle explains the terminology and general characteristics of values-based food supply chains: <www.agofthemiddle.org>.



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mainstream, generally along multiple dimensions. Some of these differences have to do with attributes of the products themselves (organic, grass-fed) and some with the production system (direct-seeded, sustainable). For some of the products, the farmer ID is attached through the supply chain.

Internal enterprise characteristics

- 3 a. **Stable pricing is sought through supply management strategies involving control over membership and, in the case of Organic Valley, production quotas for members.** Organic Valley used supply management strategies to successfully cope with the economic downturn in 2009. Country Natural Beef, Red Tomato and Shepherd's Grain all use some version of supply management.
- 3b. **In most of the chains, potential new producer members are screened by existing members** looking at production capabilities, farming system characteristics and integrity.
- 4a. **The enterprises vary in type of ownership, and this influences the kind of leadership structure they have.** Co-op Partners Warehouse, Organic Valley, Country Natural Beef and Idaho's Bounty are cooperatives. Red Tomato is a nonprofit. Shepherd's Grain, Full Circle and Good Earth Farms are private entrepreneurs.
- 4b. **Values-based supply chains, like other businesses, need to plan ahead for the transition to new leadership.** Organic Valley and Country Natural Beef have consciously chosen to build new leadership from within the business. Red Tomato and Shepherd's Grain are considering new ideas about growth and change. Full Circle's leader is still in place, but in a new business configuration.
5. **Several of the key study enterprises have completed or are exploring business expansion models.** Good Earth Farms, Organic Valley, Full Circle and Country Natural Beef are selling into new regions and markets. Idaho's Bounty, Co-op Partners Warehouse, Red Tomato and Shepherd's Grain have expanded by increasing their volume of sales. Full Circle has split into two businesses. Several have also grown through hiring a manager (Full Circle) or hiring other staff (Shepherd's Grain and Idaho's Bounty).
6. **Many of the businesses, including Shepherd's Grain, Country Natural Beef and Red Tomato, have been reluctant to invest in brick-and-mortar infrastructure.** As Co-op Partners Warehouse expands, it will stay in the same facility; Organic Valley does not intend to build processing plants or buy trucks. Some enterprises—for example,



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Organic Valley, Shepherd's Grain, Country Natural Beef and Red Tomato—rely on leased or hired service providers.

7. **Use of and engagement in farm policies and programs varies across the case studies.** All have utilized at least one program at the federal, state or local level. Full Circle has been the most engaged at all levels. Shepherd's Grain members have made the greatest use of federal programs, especially commodity subsidies.
8. **Almost all of the enterprises have experienced governance challenges.** These include adapting to growth, finding mechanisms for stakeholder input, and leadership transitions.



Photo credit: Good Earth Farms

Appropriately scaled and regionally located processors have been critical to the success of several of the enterprises, including Good Earth Farms.

Supply chain characteristics

9. **For the enterprises that deal with processed food products—Country Natural Beef, Organic Valley, Shepherd's Grain and Good Earth Farms—appropriately scaled and regionally located processors as supply chain partners have been critical to their success.** Finding and nurturing potential partners takes a significant amount of time, whatever their role in the supply chain. Red Tomato looks for shippers; others look for new retail outlets that share their philosophy.
10. **The firms employ a variety of safety valve mechanisms** including producer participation in several different kinds of markets, purchases or diversion of products into other markets to meet shortfalls or oversupplies, and contracting with third parties to handle logistics.
11. **Whether a business takes ownership of the product differs among the cases.** Full Circle, Good Earth Farms, Shepherd's Grain and Organic Valley do take ownership; Country Natural Beef, Idaho's Bounty and Red Tomato do not. Co-op Partners Warehouse does take ownership of product in some circumstances, but not others. It takes title to product when it does a regular warehouse transaction, but has a drop ship program that allows producers to retain title.

Credits

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Organizations involved with this report:

The National Initiative on Agriculture of the Middle is concerned with a disappearing sector of midscale farms/ranches and related agrifood enterprises that are unable to successfully market bulk commodities or sell food directly to consumers. See www.agofthemiddle.org. The initiative has three areas of emphasis: new business and marketing strategies; public policy changes; and research and education support.

The Center for Integrated Agricultural Systems (CIAS) is a research center for sustainable agriculture in the College of Agricultural and Life Sciences, University of Wisconsin-Madison. CIAS fosters multidisciplinary inquiry and supports a range of research, curriculum and program development projects. It brings together university faculty, farmers, policy makers and others to study relationships between farming practices, farm profitability, the environment and rural vitality. For more information, visit www.cias.wisc.edu or call 608-262-5200.

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