

Values-based food supply chains: An introduction to nine case studies

Larry Lev, Oregon State University Department of Applied Economics
G.W. Stevenson, UW-Madison Center for Integrated Agricultural Systems

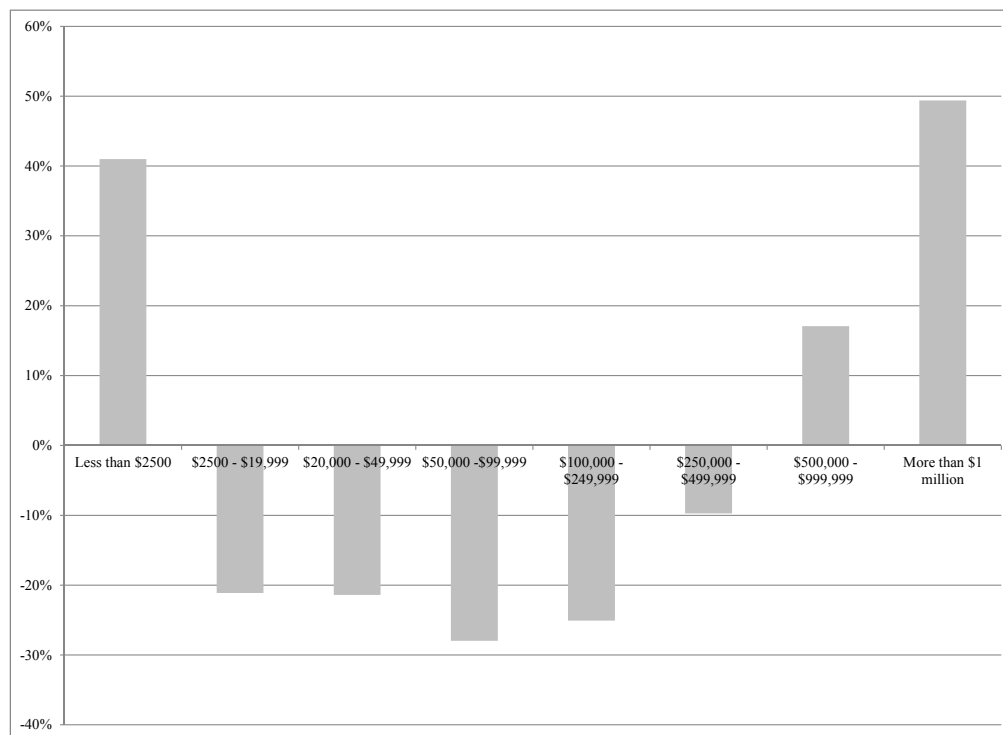
June 2013

Introduction

In recent decades, U.S. agriculture has witnessed a decline in the number of “farming occupation” farms—where operators report farming as their main occupation (USDA ERS 2000)—in all gross sales categories below \$500,000. At the same time, the number of large farms with sales above \$500,000 and non-commercial operations with sales below \$2,500 has increased. Figure 1 below documents the striking changes that occurred across farms of different sizes, as shown by sales categories between 1997 and 2007.


Many observers attribute the difficulties faced by small and midsized farms to their inability to effectively compete in the highly competitive and increasingly globalized agricultural markets for

Figure 1. Change in farm numbers by sales category, 1997-2007*




Source: USDA 1997 and 2007 Census of Agriculture

*All farm sales categories adjusted for inflation using the Consumer Price Index



The Agriculture of the Middle framework can best be understood as a new “marketing middle” consisting of diverse values-based food supply chains that are springing up within the overall U.S. food system.



generic commodities (Kirschenmann, Stevenson, Buttel, Lyson and Duffy, 2008). The most significant challenges faced by these “agriculture of the middle” farms include difficulty in accessing capital, lower rates of return on equity compared to very large farms, inability to take full advantage of mechanization and economies of scale, higher transaction costs in dealing with supply chain partners, improvements in information technology designed for commodity-scale farms and the impacts of federal farm programs (Hoppe, MacDonald and Korb, 2010).

In response, some small and mid-sized farm operators are exploring alternatives to commodity markets. A few have achieved success by selling through local and direct markets. Many others, however, produce too much, raise unsuitable products or are located too far from these direct marketing opportunities. Some of these farmers have turned instead to the types of strategies described and defined in this set of case studies as “values-based food supply chains.”¹ Values-based food supply chains are 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 their success requires significant interdependence, collaboration and mutual support. 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.

A central element in each of these cases is that the farmers are able to obtain higher and more stable prices by marketing differentiated, high-quality food produced with an authentic farming story, delivered through transparent supply chains that customers can trust. Regional supermarkets, restaurants, public and private institutional buyers and individual consumers have demonstrated an eagerness to buy these distinctive products.

The Agriculture of the Middle (AOTM) framework can best be understood as a new “marketing middle” consisting of diverse values-based food supply chains that are springing up within the overall U.S. food system. Farmer/rancher participation in AOTM models is scale related but not scale determined, with the majority of producers having gross sales between \$50,000 and \$500,000.²

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>.

²More complete discussions of the agriculture of the middle framework include Stevenson et al. 2011, the “Key Documents” section of the agriculture of the middle website <www.agofthemiddle.org> and the website devoted to the multistate research project focused in this area: <nimss.umd.edu/homepages/home.cfm?trackID=14216>.

The cases³

Country Natural Beef <www.countrynaturalbeef.com>: A cooperative of more than 80 ranch families centered in the Northwest that produces and markets natural beef products.

Organic Valley <www.organicvalley.coop>: a national farmer cooperative with more than 1,600 member farms that produces and distributes dairy and other products.

Red Tomato <redtomato.org>: A dual-purpose, non-profit organization that markets sustainably grown fruits and vegetables from around 40 farms in the Northeast and consults on regional food system development across the country.

Shepherd's Grain <www.shepherdsgrain.com>: A limited liability company in the Northwest that markets high-end wheat flour grown sustainably by more than 40 Columbia Plateau producers.

Co-op Partners Warehouse <www.cooppartners.coop>: A certified organic wholesale produce distribution warehouse, owned by a consumer cooperative, that buys products from small and mid-sized farms and serves 160 retail stores, food service businesses and buying clubs throughout the Upper Midwest.

Full Circle Farm <www.fullcirclefarm.com>: a farm-to-table delivery service in the Northwest that produces and aggregates organic produce from around 100 West Coast farmer partners and delivers food boxes to over 15,500 households located from California to Alaska.

Good Earth Farms <www.goodearthfarms.com>: a multi-farm, internet sales enterprise that aggregates organic, pasture-raised meat products from six Wisconsin farms and delivers frozen meat to customers throughout the U.S. via overnight delivery.

Home Grown Wisconsin: A cooperative, multi-farm food marketing enterprise that sourced fruits and vegetables from more than 20 organic farms for restaurant and CSA customers in the Chicago metropolitan area. (Home Grown Wisconsin closed its business operations in 2009; the case study highlights the difficult challenges that often must be overcome by values-based food supply chains).

Idaho's Bounty <www.idahobounty.org>: A producer and consumer cooperative serving over 80 farms that provides distribution and marketing services for sales to retail outlets and individual consumers.



Photo credit: Country Natural Beef

Country Natural Beef is centered in the Northwest and produces and markets natural beef products.

³Research on the first four cases was initiated in 2006 and entered a second, updating phase in 2010; research on the last five cases was initiated in 2010.



The cases demonstrate that there is no one-size fits all approach to values-based food supply chain construction.



What can be learned from the cases?

The set of values-based food supply chains examined in these case studies provide viable alternatives for groups of small and midsized producers and their supply chain partners. They deliver more products to a larger region than direct markets and are distinguished from traditional food supply chains by (1) products that are differentiated from the mainstream based on superior quality, environmental stewardship and social responsibility and (2) the characteristics of the strategic relationships that link the supply chain participants.

The cases demonstrate that there is no one-size fits all approach to values-based food supply chain construction. There are, however commonalities. All of the supply chains rely on business models and organizational structures that achieve the necessary volumes of high-quality, differentiated food by aggregating product from multiple farms or ranches. That is, scale is achieved through collective action rather than by increasing the size of individual farms. These cases provide a wealth of information and insights because of their diversity. The primary ways that the cases can be classified include:

- **Target market:** Direct-to-wholesale (sales to regional supermarkets and food service), direct-to-consumer sales
- **Farm-level products:** Produce, grains, meat and dairy
- **Geography:** One national supply chain, four in the Northwest, three in the Midwest and one in the Northeast
- **Type of business organization involved:** Cooperatives, non-profits, private businesses and limited liability companies
- **Lead entity in the supply chain:** Producer group, individual producer, distributor or facilitator

Why value-based food supply chains are important

Strategies for providing opportunities for small and midsized “farming occupation” farms are significant for multiple reasons. According to the 2007 USDA Census of Agriculture, farms with sales between \$50,000 and \$500,000 constituted nearly seventeen percent of all farms, generated twenty-two percent of farm sales and managed forty percent of all land in farms (USDA, 2009). In addition, these farms and related businesses provide important support to many rural and peri-urban communities, meet growing consumer demands for differentiated foods and represent a key

component in maintaining a diverse, decentralized and resilient structure of agriculture (Goldschmidt, 1978; Strange, 1989; Lyson, 2004; Hoppe, MacDonald, & Korb, 2010).

Important lessons can be learned from how these supply chains operate. Values-based food supply chains are characterized by commitments to the welfare of all partners in the supply chain, including fair profits, fair wages and business agreements of appropriate, extended duration. Given the interdependence within these supply chains, participants have a strategic self-interest in the performance and well-being of one another. The farmers and ranchers are treated as strategic partners, not as interchangeable (and exploitable) input suppliers. They often function as “price negotiators,” as distinct from “price setters” in direct marketing and “price takers” in commodity marketing systems. Supply chain partners at all levels are held to high environmental standards.



Photo credit: Co-op Partners Warehouse

Farmers and ranchers, like this Co-op Partners Warehouse poultry producer, are treated as strategic partners, not interchangeable input suppliers.

Values-based food supply chain challenges

As documented in the case studies, the significant challenges that must be addressed and overcome include:

- Finding appropriate partners and developing mechanisms for supply chain decision-making, transparency and trust;
- Determining effective strategies for product differentiation, branding and regional identity;
- Defining appropriate methods for pricing products based on understanding the costs of production and other factors;
- Developing, monitoring and documenting consistent environmental standards throughout the supply chain;
- Maintaining original farm identity and/or brand throughout the supply chain;
- Surviving and thriving in diverse economic and climatic conditions;
- Developing new leaders to take over when the founders step down.

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Credits

This project was supported by the National Institute for Food and Agriculture of the Cooperative State Research, Education and Extension Service, USDA, Grant #2006-55618-17014 and Grant #2010-85211-2057.

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.

Many thanks to the organizations and individuals who provided the information for the case studies.

Edited by Cris Carusi, CIAS. Publication design and layout by Ruth McNair, CIAS.