

Using values-based food supply chain case studies in university classes

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Introduction

Scholars, policy makers, farmers, food distributors, retailers and consumers have all expressed growing interest in exploring changes to the food system that simultaneously target diverse and sometimes conflicting objectives including efficiency, fairness, farm viability, food access and security, and sustainability. Structural changes in national and global agrifood systems have made it increasingly difficult for small and mid-sized farm enterprises to compete effectively in conventional commodity markets. As a result, the U.S. agricultural system has seen a dramatic decline in numbers of commercially viable small and mid-sized farms.

“Values-based food supply chains” are one option that has emerged to create more viable marketing channels for small and mid-scale producers. This concept refers to mid-scale supply chains formed among farm and business enterprises distinguished by shared values around (a) product attributes and (b) an equitable division of benefits shared throughout the supply chain. Such strategic alliances have enabled groups of farmers to aggregate their products for distribution at a larger scale, while maintaining a unique product identity that allows them to connect with like-minded consumers in the marketplace. The emergence of values-based food supply chains has been closely linked with rapidly expanding efforts around the country to rebuild regionally

organized food production and distribution systems to meet growing consumer and institutional demands for premium quality, sustainably and locally produced foods.

Nine values-based food supply chain case studies developed under a series of two USDA National Institute of Food and Agriculture (NIFA) Agriculture and Food Research Institute (AFRI) grants² provide a set of consistently structured descriptions of diverse food supply chains that are contributing to change in the food system. As such, these case studies are a valuable resource for research on supply chain structure and performance. They are also a valuable resource for teaching, since they offer learners detailed descriptions of real-world businesses that illustrate general concepts being introduced and explored in a classroom or extension workshop setting.

The nine case studies are:

1. **Country Natural Beef** <www.countrynaturalbeef.com>, a successful, relatively small cooperative that markets natural beef products for its members.
2. **Organic Valley** <www.organicvalley.coop>, a farmer-owned cooperative that markets organic milk and other dairy products nationwide for its members.

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²Stevenson, G., L. Lev, and S. Smith. “Increasing Prosperity for Small and Medium-Sized Farms/Ranches Through Mid-Scale, Values-Based Food Supply Chains,” USDA NIFA Agriculture and Food Research Institute (AFRI) #2006-55618-17014 (2006-2010) and Stevenson, G., M. Ostrom, R. King, and L. Lev. “Multi-farm Business Strategies and Policy Considerations for ‘the Middle’ of the U.S. Agri-food System,” USDA NIFA Agriculture and Food Research Institute (AFRI) #2010-85211-2057, (October 2009-June 2013).

3. **Red Tomato** <www.redtomato.org>, a dual purpose non-profit organization that (a) markets sustainably grown fruits and vegetables in the Northeast and (b) consults on regional food system development across the country.
4. **Shepherd's Grain** <www.shepherdsgrain.com>, a closed membership limited liability company that markets flour milled from wheat grown in the Pacific Northwest using no-till and direct-seeding sustainable farming practices.
5. **Co-op Partners Warehouse** <www.cooppartners.coop>, a certified organic wholesale distribution warehouse in St. Paul, Minnesota, that is owned and operated by the Wedge Natural Foods Co-op <www.wedge.coop>.
6. **Full Circle** <www.fullcircle.com>, an organic farm-to-table delivery service that grows, sources and distributes fresh produce to West Coast communities on a subscription basis.
7. **Good Earth Farms** <www.goodearthfarms.com>, a family-owned business in central Wisconsin that markets organic grassfed beef and pasture-raised pork and poultry through the internet to customers nationwide.
8. **Home Grown Wisconsin**, a now-disbanded farmer-owned cooperative that distributed fresh produce to upscale restaurants and CSA customers in the Chicago area from 1996 until the spring of 2009.
9. **Idaho's Bounty** <idahosbounty.org>, a multi-stakeholder cooperative that operates an online marketplace for locally produced food in southern Idaho.

The first four case studies were developed under the first NIFA project and recently have been updated. The remaining five case studies were

developed under the second NIFA project. All are available for free download and use at www.cias.wisc.edu/aotm-case-studies.

This instructor guide provides resources for using this series of values-based food supply chain case studies in three types of university courses: agricultural and food marketing, cooperatives, and food systems. The richness of the cases enables instructors to escape the disciplinary confines of their courses and selectively introduce concepts and issues from the other courses.³ The case studies in this series and the teaching materials presented here can also be of great value in other university courses that touch on issues related to food marketing systems and sustainable agriculture and in extension education activities directed toward policy makers, farmers and other values-based food supply chain participants.

The resources include background material on key concepts addressed in the case studies and discussion questions that instructors can use to help students explore those concepts. This document is intended for use by instructors. It is not a ready-to-use set of materials that can be used in class without modification. This is by design, because the courses likely to use these materials will differ considerably across universities and will often reflect the interests and point of view of the instructor. We do, however, believe that these materials can be readily adapted and used for many purposes and in many settings.

In the sections that follow, we first introduce and provide background on key topics, concepts and questions that we believe the case studies can help address. This material is intended for use by instructors as they consider integrating these case studies into their courses and as they prepare for case discussions. We then present a set of introductory, cross-cutting questions on the concept of a values-based food supply chain, discussion questions for each case study and suggested case study groupings that can be especially useful in exploring a single issue from multiple perspectives.

³Often discussion questions listed under a given course type will work well in one or both of the other course types.

Agricultural and food marketing

The contemporary food system is complex, flexible and, by many measures, efficient. While a small but growing share of total food purchases involves direct transactions between food producers and consumers,⁴ most food reaches consumers through a series of collection, processing and distribution processes that may involve many changes in form and ownership. In all cases, food reaches consumers through supply chains, which Boehlje (1999, p. 1032) defines as sets “...of value creating activities in the production-distribution process and the explicit structure of linkages among these activities or processes.” Since the majority of students enter with a focus on production, the demonstration that marketing is a productive activity represents a central course objective that must be presented many times in many ways.

The description, analysis and design of food supply chains are core topics in agricultural and food marketing classes. Supply chain description focuses on identifying the participants in a supply chain and their respective roles and responsibilities as well as the magnitude and timing of product flows. Supply chain analysis focuses on determining the incidence of costs and returns across participants in the chain and the determination of performance metrics such as prices paid by consumers, energy usage and other environmental measures, employment and food safety. Supply chain design focuses on the choice of practices, procedures and institutions that affect patterns of communication among chain participants, and the allocation of property rights and decision authority.

Stevenson and Pirog (2008, p. 120) assert that values-based food supply chains have some important characteristics that differentiate them from supply chains for conventional food:

Since the majority of students enter with a focus on production, the demonstration that marketing is a productive activity represents a central course objective ...

- They deliver differentiated farm products but operate at a scale where they can realize some economies of size.
- They maintain a healthy balance of competition and cooperation and, in doing so, are able to realize benefits from collaboration.
- They emphasize both high levels of performance and high levels of trust.
- They emphasize shared vision, active information sharing and shared decision making.
- They are committed to the welfare of all chain participants and thereby recognize the need for fair profit margins, fair wages and stable business relationships.

In contrast, they note that, at the farm level, supply chains for conventional agricultural commodities are characterized by a lack of product differentiation; relationships between trading partners that are highly competitive and transitory; coordination through price signals rather than through direct communication and trust; and a division of net margins based primarily on power. In effect, values-based food supply chains are distinguished from mainstream food supply chains in the ways they differentiate their products and in the way they operate as strategic partnerships. As Stevenson and Pirog (2013, p. 3) note, “Values-based food supply chains can be smart from both business and ethical perspectives.”

Agricultural marketing textbooks present farmers and ranchers as input suppliers and leave additional processing, marketing and distribution tasks to others. The nine case studies provide instructors with diverse opportunities for demonstrating how farmers and ranchers can do things differently, take on other roles and earn greater rewards. It is possible, for example, to apply Michael Porter’s strategies for developing competitive enterprises that produce and market

⁴In 2007 direct sales represented 0.4% of producer receipts and 0.1% of consumer food expenditures. See: USDA ERS. 2010. *Local Food Systems: Concepts, Impacts and Issues*. Economic Research Report Number 97, p. 5. <www.ers.usda.gov/media/122868/err97_1_.pdf>; and USDA ERS. 2012. *Food Expenditure Series* (online resource), Table 1. <www.ers.usda.gov/data-products/food-expenditures.aspx#26636>.

products that have “unique and superior value” such as the growing demand for high-quality, organic and/or sustainably produced products (Porter, 1985 and 1990) as well as strategies for using collaborative business partnerships and “fair trade” business models to distribute value equitably among business partners (Handfield and Nichols 2002; Jaffee et al. 2004).

Supply chain description and analysis

Food supply chains encompass activities that extend from the provision of farm inputs and agricultural production technology through primary production, aggregation of production from multiple farms, processing, wholesale and retail distribution, consumption and post-consumption waste disposal. For most food products, production occurs on many farms and consumption occurs in many households, but flows of products are more concentrated in the intermediate segments of the supply chain. This can result in a concentration of market power in those intermediate segments.

Descriptions of food supply chains typically focus on identifying the relevant chain segments and the number of participants in each. They may also focus on the degree to which firms choose to extend their activities across several segments of the chain. For example, it is common for larger fruit and vegetable producers to become grower-packer-shippers who not only produce product but also purchase, pack and ship the product of other farmers. This makes sense because the minimum efficient scale for packing and shipping operations may require larger volumes of product than can be produced on a single farm. Similarly, large retail chains often find it advantageous to have upstream distribution facilities. In some cases vertical integration—control of more than one major segment of the food supply chain by a single firm—may be motivated by a desire to “right size” product flows in order to take advantage of size economies. In other cases,

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it may be driven by a desire to enhance or offset market power.

Williamson’s (1975, 1986) work on transaction cost economics is useful for understanding supply chain structure—especially whether transactions along a supply chain are governed by market relationships between distinct firms or are internalized within a single firm. Vertical integration can be a response to high transaction costs, especially those associated with hold-up problems related to asset specificity—a situation in which a firm has specialized assets that can only be used efficiently when reliably linked to other segments of a supply chain.

Williamson’s work also suggests that stable, long-term relationships with trading partners or service providers are another structural response to asset specificity. In such relationships, trading partners are willing to forego short run price opportunities offered by other firms and may base transaction prices on shared perceptions of long term production costs rather than on competitive market prices. They do this because they derive significant benefits—either enhanced product differentiation or significant logistics or transaction cost savings—from their long-term association.

Focal businesses in the nine case studies play a key role in aggregating product from multiple farms while creating and maintaining a unique product identity or story that can be conveyed all the way through the supply chain and communicated to consumers. Supply chain roles for focal businesses differ across case studies, as do the scope and nature of their relationships with other supply chain partners. Key roles and relationships are summarized in Table 1 on page 5. There are especially noteworthy differences (i) in the degree to which focal firms control packing and processing and provide in-house logistics services and (ii) in the strength and durability of long-term relationships with chain partners.

Table 1. Supply chain roles and key supply chain relationships for focal businesses in values-based food supply chain case studies

Focal business	Supply chain roles	Key supply chain relationships
Country Natural Beef	Set production and quality standards; coordinate product flow; aggregation at the time of placement in the feedlot; establish brand; market-branded product.	Owned by cow-calf producers; long-term relationships with feedlot, processor and retailers.
Organic Valley	Coordinate and aggregate flow of milk; establish brand identity and some production standards; market-branded product.	Owned by milk producers; long-term relationships with processing plants and retailers.
Red Tomato	Coordinate and aggregate flow of produce; establish brand; provide consistent packaging; manage logistics.	Long-term relationships with growers, logistics providers and retailers.
Shepherd's Grain	Set production standards; aggregate grain prior to milling; establish brand; market-branded product.	Long-term relationships with growers, flour mill and wholesale customers.
Co-op Partners Warehouse	Aggregate and manage outbound logistics for a full line of produce.	Long-term relationships with growers and retailers.
Full Circle	Grow produce; aggregate produce from other growers; pack standard and customized multi-product boxes; market boxes online; manage delivery to consumers.	Long-term relationships with core growers, organic distributors, logistics providers and final consumers.
Good Earth Farms	Produce livestock; aggregate meat from other producers; market meat and cheese online; manage delivery to consumers.	Long-term relationships with producers, logistics providers and retail customers.
Home Grown Wisconsin	Aggregate a diverse assortment of produce; market to restaurant and CSA customers; deliver product by truck to customers.	Owned by vegetable growers; season-long relationships with restaurants and CSA customers.
Idaho's Bounty	Operate drop-off points and distribution hubs for a diverse assortment of produce and livestock products; operate internet-based buying club site.	Owned by farmer, consumer, restaurant and food store members

Supply chain performance metrics are indicators of economic value creation, resource use efficiency and environmental impacts. They can also provide insights on the incidence of costs and benefits across chain partners. A recent study by King et al. (2010) offers a consistent comparison of performance metrics across direct-market, intermediated and mainstream supply chains for five food products: apples, blueberries, spring mix, beef and fluid milk. Metrics include total volume of product sales, allocation of retail value across supply chain segments and transportation fuel use per 100 pounds of product. These food product case studies also provide some consistent information on production costs, especially at the farm level.

The values-based food supply chain case studies considered here provide some consistent information on production costs, especially at the farm level, but they also illustrate the difficulty of developing, compiling and reporting a consistent set of performance metrics across supply chains. The accounting data needed to construct many financial performance measures are often confidential and product flows and logistics processes can be complex and highly variable. Each of the nine case studies does have some information on sales and/or product volume over time and some provide qualitative information on the incidence of costs and benefits across the chain and on logistics efficiency. Few quantitative measures of environmental performance are reported in the case studies.

Supply chain design

Procedures and processes that foster sharing information and decision responsibilities as well as pricing and allocation mechanisms that ensure the equitable distribution of gains among chain participants are key supply chain elements that can have significant impacts on overall performance. King and Venturini (2005) note that information sharing helps smooth the flow of product through the chain and can help supply chain participants identify sources of inefficiency that

might otherwise be missed. Decision transfer—the practice of allowing a trading partner to make a decision that would normally be made within a firm—and decision sharing—the practice of making key strategic decisions jointly using shared information—both rely on information sharing to promote efficiency. Sharing sensitive information and decision-making authority with trading partners requires trust that is difficult to maintain when transactions are conducted through competitive markets, but that can be fostered by stable long-term relationships that have already been discussed.

Equitable allocation of costs and returns across supply chain participants can be a difficult problem.

Equitable allocation of costs and returns across supply chain participants can be a difficult problem. Often an investment or costly change in practices may improve the overall profitability and performance of a supply chain, but the benefits may not accrue to the participant who bears the cost. For example, smoothing out the flow of product may increase sales and improve profitability in a supply chain for a perishable product, but it may be difficult to adequately compensate all producers if some must make extra investments in order to have product prior to or after the period of peak production. Stevenson and Pirog (2008, p. 131) note that in successful values-based food supply chains, “... strategic partners are rewarded based on agreed-on formulas for adequate margins above production costs and adequate returns on investment.” This differs markedly from low-cost bidding mechanisms “... that govern most transactions in the conventional commodity supply chains.”

Focal businesses in the nine case studies developed for this project illustrate a range of supply chain design strategies for dealing with the problems of coordination, supply management and the equitable distribution of net returns across distinct organizations. Table 2 on page 7 highlights key features of these design strategies. Coordination strategies range from centralization of decision authority with the owner of the focal business in Good Earth Farms to complete decentralization of supply and pricing decisions in Idaho’s Bounty. All nine enterprises strive

Table 2. Information/decision sharing and mechanisms for equitable allocation of returns for focal businesses in values-based food supply chain case studies

Focal business	Information/decision sharing	Mechanisms for equitable allocation of returns
Country Natural Beef	Strategic partnerships with feedlot and processor. Coordination of flow of animals to feedlot coordinated by the Production Internal Partner.	Pricing based on cost of production and a reasonable rate of return; emphasis on stable prices; premiums for difficult calving windows.
Organic Valley	Regional milk pools decentralize decisions about production, processing and delivery.	Stable pricing through supply control; price reflects producer expenses and profit needs.
Red Tomato	As a non-profit unable to capture returns, Red Tomato is an information and coordination hub.	“Dignity price” that ensures an acceptable minimum price for each grower.
Shepherd’s Grain	Strategic partnerships with ADM and key distributors; coordination of logistics by Shepherd’s Grain leadership.	“Cost of production plus reasonable rate of return” pricing philosophy; stable prices; new procedures to respond to volatility.
Co-op Partners Warehouse	Drop-ship program gives growers greater freedom to work directly with customers.	Emphasis on pricing structure that ensures profitability for growers.
Full Circle	Adapted CSA model helps ensure a steady demand at a stable price. Long-term relationships with key suppliers.	Farmers set their own prices based on costs of production.
Good Earth Farms	Owner/entrepreneurs maintain decision authority and coordinate all aspects of the business. Strategic partnerships with processors and logistics providers.	“Cost of production plus reasonable rate of return” pricing philosophy for farmer-suppliers and for retail prices.
Home Grown Wisconsin	Sales distributed through a formal allocation system based on history and product quality.	Priority growers set prices based on production costs and required margin.
Idaho’s Bounty	Individual growers retain control of supply and pricing. Need for more coordination in the future.	Strive to achieve size economies in order to offer lower cost distribution services to suppliers.

for stable prices and returns at levels that cover on-farm production costs and a reasonable return.

Cooperatives

Many of the enterprises featured in the values-based food supply chain case studies are organized as cooperatives, and some form of cooperative

organization is at least possible for focal businesses in case studies that do not feature formal cooperative business structures. Barton (1989, p. 1) defines a cooperative as:

... a user-owned and user-controlled business that distributes benefits on the basis of use. More specifically, it is distinguished from other

businesses by three concepts or principles: First, the user-owner principle. Persons who own and finance the cooperative are those who use it. Second, the user-control principle. Control of the cooperative is by those who use the cooperative. Third, the user-benefits principle. Benefits of the cooperative are distributed to its users on the basis of their use.

Under this definition, the cooperative form of food business organization can include ownership and control by producers who supply an unprocessed agricultural product, by customers—be they individuals or businesses—who want to acquire a food product with certain characteristics, or by workers who provide the labor services required to transform an unprocessed agricultural product into a food product that is ready for consumption. Cooperatives can appear at any point along a supply chain, and it is not uncommon for cooperatives to be trading partners.

Courses on cooperative businesses normally include material on:

- basic cooperative principles and types of cooperative businesses
- the history of cooperatives
- the size, structure, and importance of cooperative businesses in various sectors of the economy
- operating principles and practices for cooperative businesses
- financial structure and management for cooperatives
- cooperative governance
- starting a cooperative
- the structural dynamics of cooperative businesses

One key question addressed in almost every course is that of how to select a form of business ownership that is most appropriate for a particular technological, economic and social setting. Another key question is that of how a system of governance can best be designed to facilitate

user control of the business. The values-based food supply chain case studies are well suited for helping students explore both of these questions. These are questions that are also relevant in other courses on business management and organization, and the material presented here can also be used in these courses.

Choosing a form of business organization

Fundamental to the choice of a form of business organization is the choice for a “locus of ownership,” where ownership is the right to make final decisions about how assets are used and to retain the residual returns they generate. In *The Ownership of Enterprise*, Henry Hansmann (1996, p. 22) asserts that the efficient assignment of ownership “... minimizes the sum of (1) the costs of market contracting for those classes of patrons that are not owners and (2) the costs of ownership for the class of patrons who own the firm.” (p. 22). With regard to the first of these, ownership by one class of patrons or stakeholders means that there is no need for market contracts with them. With regard to the second, the patrons who have ownership need to work out governance structures that allow them to resolve internal conflicts of interest and delegate responsibility for some decisions to managers or a board of directors.

Early in his book, Hansmann develops concepts for assessing the costs of contracting and ownership. Costs of contracting include: (i) inefficiencies created by the exercise of market power; (ii) risks of long-term contracts; (iii) misallocation of resources due to asymmetric information, strategic bargaining, difficulty communicating patron preferences and improperly responding to heterogeneous preferences; and (iv) alienation associated with a sense of being unable to control one’s destiny (Hansmann, pp. 24-34). Costs of ownership include (i) the costs of controlling managers—monitoring and managerial opportunism—(ii) the costs of collective decision making—inefficient decisions due to imperfect voting processes, resource use required for participation in decision processes, and the costs of resolving conflicts—and (iii) the costs of risk bearing (Hansmann, pp. 35-49).

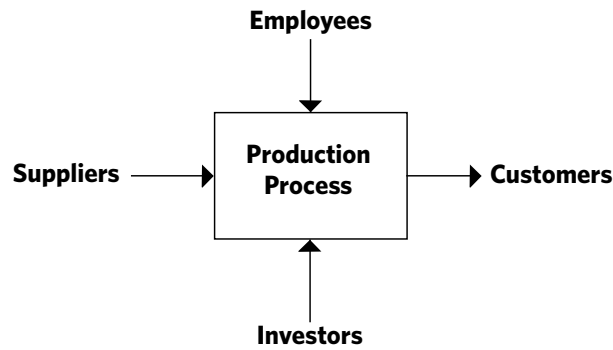


Figure 1. A stylized supply chain

The highly stylized supply chain diagram in Figure 1 above is a useful starting point for discussions of efficient ownership in a wide variety of settings. In many small businesses, an entrepreneur provides most of the capital and labor required to run the business, purchasing additional inputs from various suppliers, perhaps hiring some additional employees, and selling the product from the enterprise to customers. As the business grows, the entrepreneur may find it necessary to hire more employees and one or more managers to supervise them. At the same time, the business may need more capital than the entrepreneur can provide or borrow, and so it becomes necessary to attract additional investors who are willing to provide equity capital. This usually is accomplished by incorporating the business, with ownership and control of the business now being shared by the equity investors. This is the investor ownership model that is familiar to many and is considered by Hansmann to be the baseline form of business organization against which other forms are compared. Among the businesses featured in the case studies developed for this project, Shepherd's Grain, Full Circle and Good Earth Farms are examples of entrepreneurial businesses. Shepherd's Grain has added new owners by organizing as a limited liability company (LLC), and Full Circle has grown to the point where it can be considered a closely held, investor-owned business.

Moving clockwise around Figure 1, it is also possible for an enterprise to be owned by its suppliers. For example, this is the case for marketing cooperatives that are owned by the

farmers who supply unprocessed agricultural product that is transformed through storage, transportation and/or processing before it is sold either directly to consumers or to downstream wholesale or retail businesses that then sell to consumers. Country Natural Beef, Organic Valley and Home Grown Wisconsin are examples of supplier-owned businesses that are organized as cooperatives, and Shepherd's Grain is a supplier-owned business that is organized as a limited liability company (LLC).

Law, business consulting and architectural firms, and physician-owned medical practices are classic examples of employee-owned firms. But employee ownership is also a possibility in values-based food supply chains. Roots and Fruits, one of the produce distribution businesses that preceded Co-op Partners Warehouse in the Twin Cities metropolitan area, was an employee-owned cooperative owned and managed by the people who worked in the warehouse. Organically Grown Company (OGC), a wholesale produce distributor that both supplies and buys from Full Circle, is an employee- and grower-owned firm. Employee ownership can also emerge when the entrepreneur-founder of a business wants to retire and does not have willing investors who want to purchase the business. This is not uncommon, for example, in the case of family-owned grocery stores. In such cases, employees sometimes purchase the business as a way of ensuring that their employment will continue.

A business can also be owned by its customers. Farm supply cooperatives, through which farmers purchase inputs they use in producing agricultural products, are one familiar type of customer-owned enterprise. Food cooperatives and buying clubs are another familiar example. Among the businesses featured in the case studies developed for this project, the Wedge is a consumer-owned natural food cooperative that owns Co-op Partners Warehouse. This arrangement gives consumers a greater voice in determining the types of products that are available to them.

Ownership by multiple types of patrons is also possible. For example, Idaho's Bounty is orga-

nized as a producer-consumer cooperative, and its governance structure also allows for significant input from employees. One important long-term challenge in such a setting, however, is in managing conflicts between distinct groups of patrons.

Finally, it is possible for a business to be without owners. This is the model for non-profit organizations such as many community hospitals, arts organizations and non-governmental organizations. Non-profit status can be effective in situations where trust among stakeholders is important yet would be difficult to maintain if one stakeholder or group of stakeholders had the decision rights and claim on residual returns that comes with ownership. Among the case studies developed for this project, Red Tomato is the only non-profit organization.

Ownership structures for the nine case studies developed for this project are summarized in Table 3 below. From a “cost of contracting” perspective, one can ask how each of these organizational forms will affect the ability of supply chain participants to exert market power, the risks of long-term contracts, misallocation of resources due to a lack of information sharing, and the sense of alienation due to lack of control. Looking at an

existing supply chain, one can ask if the patterns of ownership and control are efficient and stable. Looking at an emerging supply chain, one can take a design perspective and ask which pattern of ownership and control would be most effective.

Designing the governance structure for a cooperative business

In a small entrepreneurial business, a single person may be the key decision maker and the only source of labor. As an entrepreneurial business grows, the owner/founder usually delegates some duties and responsibilities to hired employees, who often have some specialized skills. Often formal job descriptions are developed to define the scope of duties and responsibilities for each employee, and the owner/founder begins to spend more time coordinating employees.

A similar process is observed in supplier-, employee- and customer-owned business enterprises. At the time they are established, one key stakeholder may do much of the work and make many of the decisions required to operate the business. As employees are hired, the need for formal managerial coordination emerges, and a key stakeholder may assume that role.

Table 3. Ownership structures for focal businesses in values-based supply chain case studies

Focal business	Locus of ownership	Organizational form
Country Natural Beef	Producer-suppliers	Cooperative
Organic Valley	Producer-suppliers	Cooperative
Red Tomato	No ownership	Nonprofit
Shepherd’s Grain	Producer-entrepreneurs	Limited liability company
Co-op Partners Warehouse	Consumers	Cooperative
Full Circle	Producer-entrepreneurs	Privately held corporation
Good Earth Farms	Producer-entrepreneurs	Limited liability company
Home Grown Wisconsin	Producer-suppliers	Cooperative
Idaho’s Bounty	Producer-suppliers and consumers	Cooperative

In both of these settings, it often becomes necessary to hire expert managers as the business grows—managers who do not have an ownership stake in the business. This creates a separation between those who own the business and those who exercise day-to-day control over the business operations. When the business is owned by a single individual or just a few people, the newly hired managers can be directed by the owners. When there are many owners, however, a common response to the separation of ownership and control is to establish a board of directors who represent all the owners and assume the task of directing hired managers.

Fama and Jensen (1983, pp. 303-304) identify four basic steps in any decision process—*initiation* of proposals and projects, *ratification* of initiatives to be implemented, *implementation* of decisions that have been ratified and *monitoring* of the implementation process. They note that larger organizations generally allocate responsibility for initiation and implementation to hired managers, while assigning responsibility for ratification and monitoring to a board of directors who represent all the owners of the business. This separation of ownership and control creates two problems that any large organization must address.

First, the delegation of responsibility for initiation and implementation to hired managers creates an agency problem because the objectives for the manager who carries out these functions may not coincide with those of the business owners. In an investor-owned firm, this problem can be addressed, in part, by giving the manager an ownership stake in the business. In businesses owned by other types of patrons—suppliers, employees or customers—it is more difficult to address because the manager may not qualify to have an ownership stake.

Second, when there are many owners of a business, each of whom has only a small stake, individual owners may not be motivated to exert the effort needed to effectively perform the ratification and monitoring tasks that are not delegated to managers. When this is the case, the costs of controlling managers are high. Other problems that can arise are difficulties in developing voting procedures that ensure effective collective deci-

sions and challenges in selecting a level of risk in the business that is appropriate, given differences in owners' willingness and ability to bear risk.

The case studies in this series provide useful insights on the design of organizations and governance structures. Key governance challenges for each case are summarized in Table 4 on page 12. Rapid growth at Country Natural Beef has led to challenges in maintaining member/owner involvement in decision making while recognizing that some specialized management functions are needed in order to manage the business and respond quickly to changes in the marketplace. Similarly, Full Circle's dramatic expansion in both size and geographic scope has necessitated the development of more formal management structures, even though the company continues to be owned by its founders. Organic Valley has explicitly recognized the need to consider hired managers and others as key stakeholders in the business and to develop explicit mechanisms that allow them to share in the success of the business. Organic Valley has also developed regional boards to increase responsiveness to regional differences in member interests and characteristics, and has a dairy executive committee that consists of one farmer representative from each milk pool. Management control of Shepherd's Grain remains with its two founders, but adoption of an LLC structure has helped strengthen the commitment of key suppliers. The evolving board structure at Idaho's Bounty is addressing the challenge of having ownership shared by suppliers and customers, and Red Tomato's board structure illustrates how diverse perspectives can be taken into account when there is no formal "owner" of the enterprise. Finally, the experience of Home



Photo credit: Shepherd's Grain

Management control of Shepherd's Grain remains with its two founders; but adoption of an LLC structure helped strengthen suppliers' commitments.

Table 4. Governance structures and challenges for focal businesses in values-based food supply chain case studies

Focal business	Governance structure	Governance challenges
Country Natural Beef	“Circle of Commitment” with day-to-day decisions made by officers and team leaders, all of whom are members	Maintaining participation by all members as the business has grown; leadership transitions
Organic Valley	Board of directors; regional producer pools; representative dairy executive committee; professional management team	Adapting governance to growth in membership; expansion to new regions
Red Tomato	Board of trustees and a professional director who founded the organization	Need for staff reductions; mechanisms for stakeholder input
Shepherd’s Grain	Grower board with controlling interest held by two founders: one serves on the farmer board, one is the general manager	Mechanisms for stakeholder input; leadership transitions
Co-op Partners Warehouse	Wholly owned subsidiary of consumer cooperative with a board of directors and a general manager	Relationships with stakeholders; linkages with a farm owned by the parent cooperative
Full Circle	Board of directors made up of two founders and three investors, one founder is board chair and CEO, directing professional management team	Implementation of more formal management structure in response to rapid growth
Good Earth Farms	Owned and managed by founding family	Need to hire employees as the business expands
Home Grown Wisconsin	Board of directors; hired general manager	Managers and sales persons did not have authority to negotiate prices; board did not have clear understanding of finances
Idaho’s Bounty	Board of directors, hired management staff	Difficulty accessing capital

Grown Wisconsin illustrates the challenges of operating a collectively owned business with diverse, sometimes conflicting owner interests in difficult times. Ownership of this business eventually was transferred to the general manager.

Food systems

The food system is complex and multifaceted. It encompasses input and labor supply, agricultural production, processing, distribution, marketing and consumption systems, and affects human

health, the environment, international relations and the economy. It is also closely associated with deep-seated cultural and social values rooted in food traditions, identity and a sense of community and place. Recent years have seen rapid growth in activities organized specifically to address perceived problems with the mainstream food system such as globalization, economic concentration, corporate consolidation, environmental degradation and food insecurity. Food system debates are highly politicized. In the U.S. and internationally, various movements

and organizations have emerged to develop and promote alternative sets of farming, distribution and marketing practices, and changes in food and farming policies that protect local agriculture, the environment, farm labor and community access to healthy foods. The public has also become increasingly concerned with the nutritional and safety attributes of foods.

In response to this newfound public interest in food systems, increasing numbers of colleges and universities are offering or developing “food systems” or “food studies” courses and degree programs. These differ widely in their focus, scope and disciplinary orientation. An investigation of values-based food supply chains represents an opportunity to learn about both the current food system and the role of emerging movements for change within that larger system. It also offers a window through which to view alternative values-based organizational strategies and market mechanisms as they are being employed at a practical level. These supply chains are, in themselves, systems with complex structures that link independent entities. As such, the case studies can be especially useful tools for introducing and illustrating systems concepts in a food system course.

King et al. (2012, p. 4) define the food system as:

... an interconnected set of biological, technological, economic, and social activities and processes that nourish human populations and provide livelihood and satisfaction to the people who participate in it. It encompasses activities that extend from the provision of inputs for primary food production through farming, food processing and manufacturing, food distribution and retailing, food consumption, and post-consumption food waste. It extends across community, state and national borders.

While we often approach study of the food system from the perspective of a particular discipline or with a focus on a particular component of the overall system, it is also critical to recognize that it is a large, complex system with multiple and contested purposes. Material, information

and financial flows connect its elements, and a change in one component of the system may have unexpected impacts on other components. A systems thinking perspective can help students gain a better understanding of the food system, and study of the food system can help students develop system thinking skills that can be readily applied in other contexts.

Thinking in Systems: A Primer by Donella Meadows (2008) offers an insightful and accessible general introduction to systems concepts and thinking. She (2008, p. 11) defines a system as:

... an interconnected set of elements that is coherently organized in a way that achieves something. If you look at that definition for a minute, you can see that a system must consist of three kinds of things: *elements, interconnections and a function or purpose.*

As defined above the major elements of the food system are biological, technological, economic and social activities. Interconnections among these elements are realized through material, informational and financial flows. From a societal perspective, the function or purpose of the system is the provision of nourishment, livelihood and satisfaction.

The following are four observations that Meadows makes about systems that are especially useful in studying values-based food supply chains from a food systems perspective:

- “Systems can be nested within systems” (Meadows 2008, p. 15). The notion of a subsystem or system within a system is an important one. The values-based food supply chains that are the focus for this series of case studies are, at once, small subsystems within the larger food system and complex systems made up of subsystems (production, processing, transport, distribution, etc.) that have distinct elements, interconnections and purposes. Viewing them from both perspectives is important for understanding them and their relation to the food system. Considering their relationships with the

... study of the food system can help students develop system thinking skills that can be readily applied in other contexts.

larger systems within which they operate can be especially useful within a food systems course, since it often helps to explain the motivations for establishing these chains and yields insights on their potential for changing those larger systems.

- “The least obvious part of the system, its function or purpose, is often the most crucial determinant of the system’s behavior” (Meadows 2008, p. 16). Our understanding of system purpose shapes the way we define and describe a system. The core values that underlie the values-based food supply chains described in the case studies are the starting point for understanding them and how they interact with the broader food system. This leads to the consideration of when/if these supply chains complement the broader system, whether they can provide added stability or safeguards for farmers and/or consumers within the broader system, and when/if they may challenge the larger system.
- “Many of the interconnections in systems operate through flows of information” (Meadows 2008, p. 14). Information about the state of a system or about conditions in its environment often triggers decision and actions that are critical determinants of system behavior. Information flows can be difficult to observe. Price signals are critical information flows in commodity based food supply chains. Many of the values-based food supply chains in this series of case studies use product differentiation, brand and customer loyalty, and personal relationships based on trust to insulate themselves from commodity market signals, but sometimes this insulation is not perfect.
- “... stocks act as delays or buffers or shock absorbers in systems. ... Stocks allow inflows and outflows to be decoupled and to be independent and temporarily out of balance with each other” (Meadows 2008, pp. 23-24). One of the biggest challenges in managing supply chains is that of matching the seasonal flow of production with the more constant flow of consumer demand. The values-based

food supply chains profiled here address this recurring challenge in different ways. Some use traditional buffering methods, such as processing and preservation, distributed storage and assembly, and careful planning processes that synchronize the mix of products produced with expected demand. Some have attempted to influence the consumer demand side through education on seasonal eating. They may also use the larger commodity market as a safety valve that may be a source or sink for extra product.

Table 5 on pages 16- 17 summarizes some of the ways the case studies in this series illustrate each of these general systems principles, which are discussed more fully in the sections that follow.

Relationship to mainstream markets

Each of the supply chains featured in this series of case studies can be viewed as being part of a variety of larger systems including an ecosystem, a social network system, a political system and, of course, a broader, more comprehensive food system. Each also operates within a larger market context, and it is especially useful to think about these intertwined markets as a way of understanding both the structure and the dynamics of the current food system. For all nine case studies, key questions center around the issues of how successful these chains can be within the larger market context and, in the longer term, how they might affect larger markets and the entire food system.



Photo credit: Organic Valley

Organic Valley has a strong brand identity.

The first five supply chains—Country Natural Beef, Organic Valley, Red Tomato, Shepherd’s Grain and Co-op Partners Warehouse—all operate in wholesale markets. Each is small relative to its relevant wholesale market. Organic Valley has a strong brand identity that helps it convey information about how and by whom the milk is produced through wholesale intermediaries. The other chains have varying success in conveying information all the way to consumers, but each has strong relationships with their wholesale customers. When using these case studies in a food systems course, it may be helpful to introduce some information on the size and structure of the larger wholesale market. The USDA’s Economic Research Service website has excellent, up-to-date information on the beef sector <www.ers.usda.gov/topics/animal-products/cattle-beef/readings.aspx#.UXwo3cpvCjJ> and the dairy sector <www.ers.usda.gov/topics/animal-products/dairy.aspx#.UXw2NspvCjI>, as well as a more general overview of the wholesale and retail sectors <www.ers.usda.gov/topics/food-markets-prices/retailing-wholesaling.aspx#.UXw3ZMpvCjJ>. Cook (2011) provides a useful overview of the fresh produce sector, and Boland’s (2010) description of the plant product processing sector offers useful insights on the flour milling industry.

The remaining four supply chains—Full Circle, Good Earth Farms, Home Grown Wisconsin and Idaho’s Bounty—all operate in retail markets, selling at least some product directly to consumers. The section of the Economic Research Service website on the wholesale and retail sectors <www.ers.usda.gov/topics/food-markets-prices/retailing-wholesaling.aspx#.UXw3ZMpvCjJ> provides useful background insights here, as does the report by King et al. (2010) that describes findings from a series of case studies on local food supply chains.

One clear distinction across case studies is between those values/missions that are producer-centric and those that are consumer-centric or have a system-wide focus.

Function or purpose

The core values/missions listed in Table 5 are drawn from the case studies and from the focal firm websites. One clear distinction across case studies is between those values/missions that are producer-centric and those that are consumer-centric or have a system-wide focus. Country Natural Beef, Organic Valley, Shepherd’s Grain, Good Earth Farms and Home Grown Wisconsin all have primarily producer-centric values/missions. This does not mean that they ignore consumers and other aspects of the food system, but each has a primary purpose of improving the viability of associated farm operations. It is noteworthy that the focal firm in each of these supply chains is owned by a farmer or by a group of farmers. In contrast, the values/missions of Red Tomato, Co-op Partners Warehouse, Full Circle and Idaho’s Bounty are more consumer-centric. Two of these focal firms, Co-op Partners Warehouse and Idaho’s Bounty, are owned entirely or in part by consumers; Red Tomato is a non-profit; and Full Circle is a highly entrepreneurial form that is owned by a farm couple but owes its remarkable growth to a focus on its customers. Nearly all of these supply chain organizations also have values/missions that are concerned with larger food system issues, such as the environment, fair trade and health.

In a food systems course, it can be interesting to explore the viability and sustainability of these values/missions in a larger system where profitability and relatively narrow measures of efficiency are the core values held by other participants within the system. Comparing core values/missions for focal firms that operate within similar markets—e.g., Red Tomato and Co-op Partners Warehouse or Full Circle, Home Grown Wisconsin and Idaho’s Bounty—can also be a useful exercise.

Table 5. System characteristics illustrated by focal businesses in values-based food supply chain case studies

Focal business	Larger market context	Core values/mission	Key coordination mechanisms	Safety valve mechanisms
Country Natural Beef	Wholesale beef market	Healthy animals, healthy environment, healthy families	Annual cost of production calculations, feedlot placement schedule	Animal sale-meat buyback arrangement with processor
Organic Valley	Wholesale dairy market	Regional farm diversity and economic stability through organic production and sale of organic products	Supply control through controlled growth of membership; regional pools; quotas during recession	Mix of fluid milk and “hard products”; potential to divert milk to conventional market
Red Tomato	Wholesale produce market	Eco/sustainable farming, fresh produce, connect farmers and consumers, fair trade	Role as a trusted broker; “dignity price” for growers	Farmer partners with adequate enterprise capacity; growers and buyer participation in larger fresh produce market; third party logistics
Shepherd’s Grain	Wholesale, artisan baking ingredient market	Direct-seed sustainable farming, high quality product, connect farmer and consumer	Supply control through “closed” LLC; production commitments; pricing model to ensure sustainability and transparency	Producers participate in larger commodity markets; on-farm storage; focus on value-sensitive customers; purchase in commodity market to cover shortages
Co-op Partners Warehouse	Wholesale produce market	Organic products, partnerships with local growers	Season-long, cost-of-production pricing; organizational integration with largest supplier and largest customer	Warehouse inventory; non-local suppliers; participation in larger organic produce market

Table 5 (continued). System characteristics illustrated by focal businesses in values-based food supply chain case studies

Focal business	Larger market context	Core values/mission	Key coordination mechanisms	Safety valve mechanisms
Full Circle	Retail produce market	Organic and sustainable farming; transparency; access to healthy food for everyone; mission is to change the food system	Adapted CSA model ensures stable demand; organizational integration with farming operation; long-term relationships with key partner farms	Flexible relationships with multiple farm suppliers (who also sell into other fresh produce markets); business relationships with organic produce distributors; third party logistics; wholesale market sales; farmers' market sales
Good Earth Farms	Retail meat market	Production of organic grass-fed beef and pasture-raised pork and poultry	Integration with farming operation; long-term relationships with a few key suppliers; cost of production pricing	Frozen meat products; third party logistics
Home Grown Wisconsin	Food service and retail produce markets	Expand the market for fresh, local, organic produce	Grower priority status; prices set by growers with standard markup	Producer-members also participate in other fresh produce markets
Idaho's Bounty	Wholesale, food service and retail produce markets	Ensure integrity of local foodshed by focusing on relationships between producers and consumer	Shared ownership—growers, staff, wholesale and retail customers; prices set by growers with standard markup	Producers also participate in other fresh produce markets; wholesale and retail customers

Coordination through information flows

As noted earlier, price is a key mechanism for coordination in the broader food system, and price signals can be remarkably effective in providing strong incentives for efficient resource use and in allocating supplies among competing demands. Some of the broader effects of price-coordinated markets may, however, be problematic, and the focal firms in these case studies have adopted alternate coordination mechanisms to address perceived or actual market failures. Country Natural Beef, Organic Valley and Shepherd's Grain all have developed effective mechanisms for production planning and supply control that circumvent regular market forces. Full Circle and Good Earth Farms accomplish the same thing by having the primary production enterprise be part of the focal firm and establishing long-term relationships with other suppliers. Cost of production pricing, in some cases supported by formal cost calculation processes, is common in these supply chains, especially in cases where the supply chain can protect farmers and their trading partners from the more volatile prices often seen in larger commodity markets.

These non-market coordination mechanisms come at a cost, but they also yield benefits. Identifying and assessing these costs and benefits can be another useful exercise in a food systems course. The discussion on mechanisms for equitable allocation of returns provided in the section on agricultural and food marketing can also help structure discussion on this topic.

Safety valve mechanisms

Agricultural production and consumer demand are both highly variable due to random shocks from sources that range from adverse weather to general economic downturns. The supply chains in each of these case studies have safety

valve mechanisms that allow them to withstand unexpected shocks. Inventories can be a valuable shock absorber in food supply chains for storable products, and they are used effectively by Shepherds Grain and Good Earth Farms, and by Organic Valley when it converts fluid milk to hard products. Country Natural Beef and Co-op Partners Warehouse also use inventories, but the storage time for their products is much shorter. Nearly all the case study supply chains make some use of larger commodity markets as a safety valve. Usually commodity markets are only used for excess product, but the case study on Shepherd's Grain describes an instance where they sourced grain in the larger commodity market. Finally, many of the focal firms in these supply chains rely on third party sources for the processing and transportation infrastructure that they require.

Discussion centered around this topic in a food systems course can help students develop their understanding of a basic systems concept. It also can be linked to much broader questions ranging from the role of stocks in ensuring food security at the national or international level to the impact of home food storage appliances such as refrigerators

and freezers on shopping patterns and the structure of food retailing.

Cost of production pricing, in some cases supported by formal cost calculation processes, is common in these supply chains, especially in cases where the supply chain can protect farmers and their trading partners from the more volatile prices often seen in larger commodity markets.

Introductory cross-cutting questions

The concept of a values-based food supply chain may not be familiar to students. Before using the case studies in any university course, we encourage students to read two introductory documents that are available for free download at www.cias.wisc.edu/aotm-case-studies. The first (Lev and Stevenson 2013) is a general introduction to the case studies that provides background on why the challenges facing small and medium-sized farms are an issue of concern, offers brief descriptions of all the case studies, and discusses some of

the lessons and insights that can be learned from them. The second (Stevenson and Pirog 2013) is a brief overview of key definitions and concepts related to values-based food supply chains. This document draws on their seminal book chapter (Stevenson and Pirog 2008) that appeared in *Food and the Mid-Level Farm: Renewing an Agriculture of the Middle*.

The following questions are designed to help students explore the concept of a values-based food supply chain:

1. What distinguishes “values-based food supply chains” from conventional commodity food chains? How are they different from typical direct marketing strategies
2. Why have there been concerns about small and mid-sized farms in the U.S. in recent decades? Do you believe that maintaining these farms is important for society? Please explain. Do you think that the development of values-based food supply chains can help small and mid-sized farms survive? Why or why not? How should the success of any one of these chains be judged?
3. From a farmer perspective, how are values-based food supply chains employed in their marketing mix? Do most of the farmers sell everything that they produce through the values-based food supply chain or do they employ a combination of marketing strategies? What would be the costs and benefits of selling everything through the values-based food supply chain as compared to employing a mixed marketing strategy? How do the case studies differ in this respect?
4. From the consumer perspective, do you think that values-based food supply chains make it easier for consumers to obtain food that meets their purchasing priorities? Do you think they provide an effective way to communicate the values of the farmers to the consumers so that they can make informed choices in the marketplace?
5. Several of the case study organizations have

expressed values around the principles of fair trade and labor practices. The Food Alliance certification system employed by Country Natural Beef and Shepherd’s Grain includes labor standards. Red Tomato had its origins in fair trade principles. How well do you think the other values-based food supply chains featured here address fair labor issues? Do you believe they have made a contribution towards improving the working conditions and economic returns of farmer and farm workers in our food system?

6. Consider the roles of the values-based food supply chains described here in relation to the broader food system in which they operate. Which of the case study examples seem to work in a complementary fashion with the mainstream food system? Do you see examples of values-based food supply chains that succeed to any degree in protecting farmers, labor, consumers and/or the environment from the volatility and risks associated with the broader food system? Do you see any examples that may provide a challenge or a threat to the larger market system or food system in which they operate?

Discussion questions for values-based food supply chain case studies

This section presents discussion questions for each of the nine case studies. These can be used simply as guides for in-class discussion, or they can be the basis for short written assignments that students prepare prior to discussion of the case or as short essay exam questions. The questions are grouped by course topic—agricultural and food marketing, cooperatives and food systems—but often a single question may be applicable in more than one course.

Comparisons across the cases can yield interesting insights for students. A series of cross-case discussion questions is included in the next section, after presentation of the discussion questions for all the case studies. Once again, these cross-case questions are grouped by course type.



Photo credit: Country Natural Beef

Country Natural Beef

This case study describes the history and current structure of Country Natural Beef <www.countrynaturalbeef.com>, a successful, relatively small cooperative that markets natural beef products for its members.

A. Agricultural and food marketing

1. Describe the Country Natural Beef supply chain. Country Natural Beef plays a critical coordinating role in this chain. What are the critical activities that it coordinates? When does Country Natural Beef actually take ownership of animals and/or meat within the supply chain? Does the absence of ownership lessen its ability to coordinate? Why or why not?
2. Country Natural Beef has critical long-term relationships with its feedlot, Beef Northwest Feeders <www.beefnw.com>, and its processor, AB Foods <www.abfoodsusa.com>. What are key mutual expectations and commitments in each of these relationships? What role do these relationships play in ensuring product quality and in helping Country Natural Beef maintain stable prices for its rancher-members and its customers?
3. Managing the flow of animals being placed in the feedlot is critical for success of the entire supply chain. How is this managed within Country Natural Beef? What conflicts does this cause, and what mechanisms has Country Natural Beef developed to lessen those conflicts?
4. How does Country Natural Beef determine pay prices for its rancher-members? How

effectively does this insulate them from the volatility of cattle prices?

5. Discuss how the products that Country Natural Beef markets differ from mainstream products and why some consumers are willing to devote additional time and money to purchase them.

B. Cooperatives

It may be helpful for students to compare Country Natural Beef to investor-owned firms (IOFs) that also operate somewhat outside of the mainstream in the beef sector. Two interesting firms are Creekstone Farms Premium Beef <www.creekstonefarms.com>, which distributes nationally, and Thousand Hills Cattle Company <www.thousandhillscattleco.com>, a smaller Minnesota company based in Cannon Falls that markets grass-fed beef regionally.

1. Direct rancher contact with customers and relatively expensive efforts (through affidavits and third party certification) to assure customers that strict production, animal welfare and environmental standards are being met are important parts of the Country Natural Beef strategy for marketing their product. Assuming these are indeed important, would it be more costly for an IOF that purchased cattle from ranchers at the time of placement in a feedlot to achieve the same level of rancher-customer contact and quality assurance? Explain your reasoning.
2. Country Natural Beef has a unique, rather time-consuming collective decision-making process that emphasizes participation by all and consensus. Until 2012, all members participated in semi-annual meetings that employ a "...sophisticated 'circle' meeting format ... that is designed to facilitate egalitarian participation, active listening, and the honoring of others whose work has been supportive of the cooperative's goals." In 2012, the number of full-membership meetings was reduced to one per year. For many years,

all members were also encouraged to participate in weekly conference calls that included reports on cattle shipments and updates on sales and promotions, freight and feedlot costs, etc. (Campbell 2006, p. 8)

- a. Relative to an IOF, what benefits does Country Natural Beef derive from its focus on participation and consensus?
 - b. What do you see as the costs of Country Natural Beef's collective decision-making process? What steps have they taken since 2007 to reduce these costs? Do you think these measures go far enough or too far in addressing the problem? Why?
 - c. The internal partners (IPs) are both cooperative members and managers. What mechanisms are in place to monitor and control their actions?
 - d. Are there limits to the size of an organization that can maintain this kind of collective decision process? How does this influence the choice between internal growth and replication of the organization in new locations in future expansion strategies for Country Natural Beef? How would an IOF grow?
3. Country Natural Beef had several highly effective, charismatic leaders in its early years. They had a remarkable influence on the internal culture of Country Natural Beef, and they were very effective representatives for the organization to supply chain partners and the general public. By 2008, Country Natural Beef had begun to implement a succession strategy that emphasized "... a commitment to activate leadership and management skills within the rancher base, with particular attention to recruiting younger ranchers who will carry on the cooperative's culture." How did this strategy, in combination with changes in market conditions, help shape the changes in organizational structure described in the case update? How do the leadership transition challenges faced by a cooperative differ from those faced by those of a business

owned and operated by a founding entrepreneur?

C. Food systems

1. Country Natural Beef is a small part of the overall U.S. beef sector. Use statistics for the beef sector from the USDA/ERS website <www.ers.usda.gov/topics/animal-products/cattle-beef/readings.aspx#.UXwo3cpvCjJ> to determine Country Natural Beef's share of the overall market. How effectively has Country Natural Beef insulated its members from adverse trends in the beef market?
2. The tag line on the Country Natural Beef website—"healthy animals, healthy environment, healthy families"—expresses the core values for the cooperative. How have in-store tastings by rancher-members helped Country Natural Beef to encapsulate these core values into its brand image and convey them to consumers? What other benefits does Country Natural Beef realize as a result of these in-store tastings?
3. Once known as "Oregon Country Beef," as the cooperative expanded to include ranchers from multiple states beyond Oregon, their name was changed to Country Natural Beef. Given the consumer demand for locally raised products and identifiable regions of product origin, do you think this name change has helped or hurt the cooperative's efforts to tell their story and connect with consumers? Has the cooperative found other ways to link its products to a concept of "place"?
4. Describe Country Natural Beef's arrangement with AB Foods for the sale of animals at slaughter and the buy-back of meat. How does this arrangement benefit both Country Natural Beef and AB Foods? How does it serve as a safety valve for Country Natural Beef when demand for its product declines?
5. Do the ranchers who supply Country Natural Beef also use other market channels for their cattle and how does this affect their relationship with the cooperative?





Photo credit: Organic Valley

Organic Valley

This case study describes the history and current operations of Organic Valley <www.organicvalley.coop>, a highly successful cooperative that markets organic dairy products, as well as some other products, for its members.

A. Agricultural and food marketing

1. Until recently, Organic Valley has not invested in processing facilities but has instead contracted for processing services. Drawing on insights from transaction cost economics, what might be some of the reasons for this strategy? Do you believe the more recent change in strategy reflected in the construction of the distribution center in Cashton, Wisconsin, is appropriate?
2. Organic certification is required for all of Organic Valley's supply chain partners. How do organic standards affect Organic Valley's many processing and distribution partnerships around the country? How do they affect identity preservation and traceability?
3. In pricing its dairy products, Organic Valley "... starts with the price paid to farmers and adds on layers of costs associated with processing and distribution of the product, including a reasonable profit margin." How sustainable is this practice in a highly competitive industry? How does this practice contribute to the maintenance of stable, long-term relationships with supply chain partners?

4. Discuss how the products marketed by Organic Valley are differentiated from conventional dairy products and from organic dairy products marketed by their competitors.
5. The Cornucopia Institute <www.cornucopia.org/dairysurvey> has rated more than sixty organic dairy producers including Organic Valley on the "integrity" of their production practices. Discuss the factors that go into the rankings and how well Organic Valley does.

B. Cooperatives

It may be helpful for students to compare Organic Valley to investor-owned firms (IOFs) that also market organic dairy products. One interesting firm is Horizon Organic <www.horizondairy.com>, which is owned by White-Wave Foods <www.whitewave.com>.

1. As a cooperative, what advantages and disadvantages does Organic Valley have over an IOF in terms of *costs of contracting* and *costs of ownership*?
2. What benefits does Organic Valley derive from farmer involvement in decision making? What mechanisms does Organic Valley use to lessen the costs of collective decision making? What adaptations are being made in the use of these mechanisms as Organic Valley grows?
3. Horizon Organic is an IOF that markets organic dairy products. In the long run, which organizational form—cooperative or investor owned—do you believe will dominate? Explain your reasoning.
4. Access to capital is a common problem for cooperatives. How does Organic Valley's preferred stock program help address this problem?

C. Food systems

1. Organic Valley views organic production as the base of a pyramid for an “evolving organic food lifestyle.” From looking at their promotional materials, how has Organic Valley’s marketing approach evolved to correspond with changes in consumer priorities and awareness? Do you think their efforts to identify their farmers and the locations of their farmers would satisfy consumers looking for local products? Has Organic Valley been able to communicate their story to consumers in a way that differentiates their organizational structure and philosophy from other organic milk companies?
2. Organic Valley’s stable prices for farmers are achieved through supply control. What safety valve mechanisms does Organic Valley use when there is an oversupply of organic milk? It takes three years for conventional farmers to transition land to organic production and one year to transition dairy cows. Given these delays, what mechanisms can Organic Valley use to respond quickly when there is excess demand for organic milk?
3. Organic Valley has decentralized its fluid milk operations to regional pools. How does this decentralization of their production, processing and distribution system into semi-autonomous subsystems add to their flexibility in responding to market conditions? What problems and challenges does it create?
4. In recent years, rising costs for organic feed have become a significant problem as growth in the number of certified organic cows exceeds growth in the certified organic crop acreage. How is the establishment of the organic feed grain grower pool addressing this problem? What challenges might this create when both suppliers and users of organic feed grains are members of the same cooperative?
5. How have the actions of this single company influenced the broader development of the organic food industry and been associated with changes in the mainstream food system?



Photo credit: ©Diane Stalford, Red Tomato

Red Tomato

Red Tomato <www.redtomato.org> is a dual purpose non-profit organization that (a) markets sustainably grown fruits and vegetables in the Northeast and (b) consults on regional food system development across the country.

A. Agricultural and food marketing

1. Red Tomato serves as a broker, coordinating transactions and the flow of produce from producers to retail outlets without ever taking ownership. Red Tomato also helps establish a brand identity through packaging that may or may not preserve the farmer’s identity. In contrast, other produce distribution businesses typically take ownership of the product they handle. What are the advantages and disadvantages of this broker model for farmers, for supermarket customers and for Red Tomato?
2. Red Tomato facilitates information flows in the supply chain, but it is not always fully transparent. For example, Red Tomato would not reveal a grower’s “dignity price” when it is negotiating with a buyer. How does Red Tomato’s non-profit status facilitate its role as an “information broker”?
3. How does Red Tomato endeavor to ensure an equitable distribution of returns across all parties in the supply chain, including growers, logistics providers such as Organic Renaissance Food Exchange <orfoodex.com> and Sunrise Logistics <sunriselogistics.com>, and retail produce outlets? Now Red Tomato is expanding their focus to include farm workers. Regarding this, Michael Rozyne notes that this is a very sensitive issue that requires trust building. He says, “The slower

we go, the faster we get there.” Why is this such a controversial issue?

4. Discuss how Red Tomato positions its products in the produce marketplace.

B. Cooperatives

As a non-profit enterprise, Red Tomato collects revenue and incurs costs like any other business, but there is no “owner” who has a residual claim to any profits the enterprise may generate. Ultimate control of the organization rests with an appointed board of directors. If you want to compare Red Tomato to an investor-owned firm, Albert’s Organics <albertsorganics.com>, Bix Produce Company <www.bixproduce.com> and J&J Distributing <www.jjdst.com/produce> are investor-owned produce businesses that operate in the Minneapolis-St. Paul, Minnesota, area. Of the case studies in this series, Home Grown Wisconsin was a farmer-owned cooperative distribution business that is no longer in operation and Co-op Partners Warehouse <www.cooppartners.coop> is a produce distribution business owned by a consumer cooperative.

1. Red Tomato focuses on coordinating the supply chain rather than operating it. As part of this strategy, Red Tomato has endeavored to replace capital assets with long-term partnerships with both growers and retailers. How does Red Tomato’s non-profit status facilitate its role as a trusted intermediary?
2. As a non-profit organization, what advantages and disadvantages does Red Tomato have compared to an investor-owned firm in terms of *costs of contracting* and *costs of ownership*?
3. As a non-profit organization, what advantages and disadvantages does Red Tomato have compared to a producer-owned cooperative firm in terms of *costs of contracting* and *costs of ownership*?
4. As a non-profit organization, what advantages and disadvantages does Red Tomato have compared to a consumer-owned coop-

erative firm in terms of *costs of contracting* and *costs of ownership*?

5. What role, if any, do farmer partners play collectively in decision making within Red Tomato? How might their involvement in the organization be expanded? Would this be appropriate?
6. There is interest in many locations around the country in replicating the Red Tomato distribution model. What organizational form do you think such business enterprises should choose? Explain your reasoning.

C. Food systems

1. Red Tomato operates within a much larger fresh produce market in the Northeast, yet it “... seeks to influence and impact far beyond the size of its produce market share. To this end, the organization shares its expertise and thinking via writing, the web, presentations and audio/visual media.” What are the mechanisms through which a small organization can effectively leverage its impact? How does Red Tomato’s website tag line—“Fresh Produce, Fresh Ideas, Fresh People”—communicate its core values?
2. The fresh produce market is highly volatile on both the supply and demand sides. How does Red Tomato use safety valve mechanisms, such as excess capacity for farmer partners and third party logistics, to lessen the impacts of this volatility?
3. Red Tomato grew out of the international fair trade movement (Michael Rozyne was the co-founder of the fair trade coffee company, Equal Exchange) and fair trade will be a strategic focus for Red Tomato in the coming decade. The Domestic Fair Trade Association outlines basic fair trade principles in its statement of Vision, Mission and Principles <www.thedfta.org/about/vision-mission-and-principles>. What are the most important barriers to implementing these principles? Will implementation reduce returns flowing to other supply chain participants? If so, who is most likely to bear the cost?



Photo credit: Shepherd's Grain

Shepherd's Grain

This case study describes the history, structure and operations of Shepherd's Grain <www.shepherdsgrain.com>, "... a values-based food supply chain business in the Pacific Northwest that markets high-end wheat flour grown sustainably by the Columbia Plateau Producers."

A. Agricultural and food marketing

1. This case study highlights the importance of stable long-term relationships in values-based supply chains. Transparency has been a key factor in developing and maintaining these relationships. How has transparency helped hold the Shepherd's Grain supply chain together through volatile market conditions since 2007?
 2. Since its inception, Shepherd's Grain has based pricing decisions on the need for all supply chain partners to cover their "cost of production plus a reasonable rate of return." Shepherd's Grain has also emphasized price stability, both for producers and for customers. What allows Shepherd's Grain to at least partly insulate itself from commodity market forces? How transferable are the Shepherd's Grain practices to crop and livestock products?
 3. Only a very small percentage of Shepherd's Grain flour is sold to final consumers. Discuss the challenges that Shepherd's Grain must overcome and the strategies it uses in finding supply chain partners who select its flour to produce their final products.
4. Would you/your family be willing to pay a premium for Shepherd's Grain flour? Why or why not?
- ### B. Cooperatives
1. A reliable supply of consistently high quality wheat that is linked to a compelling "story" is critical for the success of Shepherd's Grain. This is accomplished through a combination of close farmer affiliation with Shepherd's Grain through Columbia Plateau Producers and third party certification by the Food Alliance. In other settings, companies like Archer Daniels Midland (ADM) have used production contracts to purchase "identity preserved" grain. These contracts can specify crop variety and production practices and can require third party certification.
 - a. From the perspective of farmer suppliers, what are the most significant costs of contracting that are avoided by selling through Shepherd's Grain? (Here the enterprise is flour production and the focus is on the link between the enterprise and its suppliers.)
 - b. From the perspective of the restaurants, baking companies and retailers who ultimately purchase Shepherd's Grain flour through a market transaction, does the fact that wheat moves to the flour mill through Shepherd's Grain rather than through production contracts negotiated by ADM have any impact of cost of contracting? Again, explain your reasoning. (Here, once again, the enterprise is flour production but now the question is whether supplier-enterprise relationships have any significant impact on enterprise-customer contracting costs.)
 2. Shepherd's Grain is organized as a limited liability company (LLC) rather than as a farmer cooperative. The case study cites "tax and flexibility purposes" as the reason for this choice. What are some of the most important non-tax advantages of the LLC form relative to the farmer cooperative form in this situation? Are there any potentially important

advantages that Shepherd's Grain gives up by not being organized as a cooperative?

3. Founders Fred Fleming and Karl Kupers have a controlling ownership interest, and a few other farmer partners have an ownership stake. Shepherd's Grain also has a growing list of farm partners with whom it has long-term relationships. Developing a governance structure that fosters broad stakeholder interest has been a challenge. In 2007 Shepherd's Grain established a nine member Board of Management that included Fleming and Kupers, four producer-owners, and three non-owner stakeholders, but this never functioned as planned due to conflicts of interest. In 2011 Fleming and Kupers began a new management initiative centered around a five to nine member grower board. What would you recommend as a structure for decision making and control in Shepherd's Grain?

C. Food systems

1. Shepherd's Grain operates in the wholesale artisan baking ingredients market, but it also must function within the larger commodity market for wheat. How does Shepherd's Grain differentiate itself on the production side and on the product side? How does Shepherd's Grain benefit from the scale economies of the larger commodity wheat supply chain through its relationship with Archer Daniels Midland (ADM)?
2. Direct seed sustainable farming practices are a core value for Shepherd's Grain. This type of production system may not be as easy to communicate to consumers as more recognizable systems like "organic." What are the environmental advantages of this production system? How effective has Shepherd's Grain been in conveying these environmental benefits through its supply chain to artisan bakers and to the consumers of the baked goods they produce?
3. No Shepherd's Grain producer commits more than 50 percent of expected production to Shepherd's Grain, and most producers commit much less. How does this act as a

safety valve mechanism for both Shepherd's Grain and its farmer suppliers? How might this be a disadvantage for Shepherd's Grain?



Photo credit: Co-op Partners Warehouse

Co-op Partners Warehouse

This case study describes the history and current structure of Co-op Partners Warehouse <www.cooppartners.coop>, a certified organic wholesale distribution warehouse in St. Paul, Minnesota, that is owned and operated by the Wedge Natural Foods Co-op <www.wedge.coop>. If you want to look at investor-owned firms (IOFs) that are alternatives to Co-op Partners Warehouse in the Twin Cities area, three interesting firms are: J&J Distributing <www.jjdst.com/produce> and Bix Produce Company <www.bixproduce.com>, which are locally owned, and Albert's Organics <albertsorganics.com>, which is owned and operated by United Natural Foods. Red Tomato <www.redtomato.org>, a non-profit produce distribution business also featured in this series of case studies, also offers an interesting contrast to Co-op Partners Warehouse.

A. Agricultural and food marketing

1. Though somewhat unique in being owned by a consumer cooperative, Co-op Partners Warehouse is fairly typical of fresh produce warehouse and distribution businesses. It sources produce from multiple suppliers, stores highly perishable product, and assembles and ships orders out to its retail grocery

and food service customers who order one or more times weekly. How does such a market intermediary add value for both suppliers and customers?

2. Co-op Partners Warehouse works with farmers to set prices for their produce, generally season-long prices based on cost of production. In some cases, Co-op Partners Warehouse actually encourages farmers to raise their prices. One major supplier, Jack Hedin, observes that this insistence on a fair price for farmers has helped make the Twin Cities “the best market in the nation.” How does this focus on pricing at the farm level affect returns for downstream grocery and food service customers and, ultimately, prices paid by consumers?
3. What advantages, opportunities and problems did the Wedge’s acquisition of Gardens of Eagan create for Co-op Partners Warehouse?
4. Services similar to Co-op Partners Warehouse’s drop-ship program are being offered by other produce distribution businesses around the country. What financial, environmental and identity preservation benefits does this program offer? Why does it appeal primarily to smaller growers? What information would you need in order to determine whether use of the drop-shipment program is more profitable for a grower than direct sale to Co-op Partners Warehouse?

B. Cooperatives

1. Co-op Partners Warehouse is a business unit of a natural foods cooperative that is owned by consumers. How does consumer ownership, rather than producer or investor ownership, influence the strategic objectives and day-to-day operations of Co-op Partners Warehouse?
2. In 2005 the Wedge considered converting Co-op Partners Warehouse from a wholly

owned subsidiary to a cooperative owned by the Wedge and other natural foods co-ops in the area. What factors influenced the decision for the Wedge to retain ownership of Co-op Partners Warehouse? How would the strategy and management of Co-op Partners Warehouse have changed if it had been spun off as a stand-alone business cooperatively owned by other natural foods co-ops?

C. Food systems

1. Support for the traceability, transparency and accountability provided by organic certification is a core value for the Wedge and Co-op Partners Warehouse. How does ownership by a consumer cooperative give Co-op Partners Warehouse a unique advantage in promoting this value?
2. As the relationship between Co-op Partners Warehouse and Gardens of Eagan evolved, an increasing share of Gardens of Eagan’s production was committed to flow through Co-op Partners Warehouse. The rationale for this was, in part, that this would simultaneously ensure a market for Gardens of Eagan and a steady supply of high quality produce for Co-op Partners Warehouse. In 2012, however, Gardens of Eagan reverted to having greater independence in deciding how to market its production. What are some possible disadvantages of the tight coordination that had been established?
3. Co-op Partners Warehouse sources produce from multiple suppliers (including local and non-local growers), stores highly perishable product, and assembles and ships orders out to its retail grocery and food service customers who order one or more times weekly. As a market intermediary, how does it help absorb shocks in both supply and demand?





Photo credit: J. Moring

Full Circle

This case study describes the history and current structure of Full Circle <www.fullcircle.com>, a privately owned, farm-to-table delivery service that grows, sources, aggregates and distributes fresh organic produce to West Coast communities. This business has grown from a small, direct market farm serving customers in the Seattle area to an enterprise making deliveries to over 15,000 households from California to Alaska.

A. Agricultural and food marketing

Full Circle started out as a typical Community Supported Agriculture (CSA) farm where an individual farm supplies a diverse array of produce to a group of farm “members.” The farm members pay in advance of the growing season to receive a weekly “share” of whatever the farm produces during the season. As they became more established as a CSA farm, Full Circle set a goal of providing year-round produce deliveries.

1. Why do you think Full Circle planned and designed their farm from the beginning as a direct market farm? What sorts of direct marketing strategies did they employ in their start-up years and how well did they work?
2. Why did the Full Circle founders become interested in providing CSA shares throughout the entire year? What kind of changes did this system entail in their farm

operation? What might be the advantages and disadvantages of a year-round season from the standpoint of a CSA farmer?

3. As Full Circle increased in size, they found it more difficult to establish and maintain personal relationships of trust with individual customers. How did they compensate for a lack of personal contact when seeking to differentiate their products in the marketplace?
4. What do you find most interesting about the historical evolution of the Full Circle marketing model?

B. Cooperatives

Since its introduction to the U.S. in the mid-1980s, the CSA concept has evolved in several different directions. Multifarm CSA programs are becoming increasingly common. In some cases these are legally organized as formal cooperatives of individual CSA farms. In other cases, they consist of a more loosely organized group of farmers who cooperate in some way to create centrally packed and delivered produce shares for a group of common members.

1. In contrast to a more cooperative form of multifarm CSA, in the case of Full Circle, a single grower acts as an aggregator to buy in produce from additional farms to create what is, in effect, a very large CSA. What might be some of the differences in this multifarm CSA model relative to a more cooperative form?
2. Does Full Circle gain any advantages by being organized as a private firm rather than a cooperative of multiple farms? What might be the disadvantages?
3. How well do you think the Full Circle model works from the perspective of the other farmers and value-added businesses who supply them?

C. Food systems

1. Full Circle has grown rapidly from its start as a small farm. What do you see as the advantages and disadvantages of operating at this larger scale? Do you think this firm could succeed at an even larger scale? What might be the challenges encountered in expanding into new regions?
2. Rather than asking their farmers to supply them exclusively, Full Circle encourages farmer suppliers to market through multiple venues. How might this be an advantage or a disadvantage for the individual farmers and Full Circle as a whole?
3. There is growing consumer interest in local foods. How does Full Circle seek to meet this demand and how well does it succeed?
4. Research has shown that consumers are very interested in knowing where their food comes from. As Full Circle expanded their membership and began incorporating produce from other farms into their produce boxes, how did they ensure product integrity and transparency of the different product sources?
5. How well do you think the Full Circle model works from a consumer perspective? Does the business incur any costs from placing a priority on convenience and satisfaction for the customers?
6. The founders of Full Circle place a high value on environmental sustainability in their mission statement and promotional materials. How would you analyze the environmental impacts of the Full Circle model? Do you see any ways that they could make improvements on the environmental footprint of their products?
7. Full Circle has stated goals of wanting to change the larger food system. Do you think that this model can potentially impact the larger food system? If so, how?



Photo credit: Good Earth Farms

Good Earth Farms

Good Earth Farms <goodearthfarms.com> is a family-owned business that sells certified organic meat products, primarily through the internet. It sources product from five operations, including the business owners' own farm.

A. Agricultural and food marketing

1. Describe the Good Earth Farms supply chain. What are the critical activities that Good Earth Farms coordinates?
2. Good Earth Farms has critical long-term relationships with four other farms and several processing facilities. What are key mutual expectations and commitments in each of these relationships? What role do these relationships play in ensuring product quality and in helping Good Earth Farms maintain stable prices for its suppliers and its customers?
3. How does Good Earth Farms determine pay prices for its suppliers? How does it set a "price" for the aggregation and marketing services it provides?
4. Discuss how the products that Good Earth Farms markets and the services it offers differ from mainstream products and why some consumers are willing to devote additional time and money to purchase them.

B. Cooperatives

1. Good Earth Farms is a family business that is owned and operated by Mike and Deb Hansen, yet it has close, durable relationships with the other farms that supply poultry, pork and some beef. Mike Hansen aggregates and transports all animals to meat processing

facilities and all meat from those processing facilities. Hansen family members assemble, weigh, price and pack all the orders. As owners of the business, the Hansens retain full decision control and receive all the residual benefits. What advantages does this organizational structure have over a cooperative business in which all the suppliers would share decision control and residual returns?

2. Good Earth Farms is organized as a limited liability company (LLC) that is separate from Gifts from the Good Earth, the Hansens' farm. What are the advantages and disadvantages of operating these two enterprises as separate businesses?

C. Food systems

1. With annual sales of just over \$324,000 in 2011, Good Earth Farms is a very small part of the overall U.S. beef, pork and poultry sectors. Prices listed on the Good Earth Farms internet order form are well above national average retail prices for beef and pork compiled by the USDA's Economic Research Service <www.ers.usda.gov/topics/animal-products/animal-production-marketing-issues/retail-meat-prices-price-spreads.aspx#.UbjJ3pzhc7U>. Comparable retail price data for poultry are not available. How is Good Earth Farms able to maintain prices so far above retail prices for mainstream meat products?
2. The relatively high prices charged by Good Earth Farms limit the size of the market they serve. How does internet distribution allow them to reach more consumers who are willing and able to pay the prices Good Earth Farms has established?
3. Good Earth Farms sells frozen meat. How does this help them manage seasonal swings in the flow of animals being processed and fluctuations in demand related to holidays and the changing seasons?
4. The tag line on the Good Earth Farms website is "Farming as if everything matters." How does this statement capture the core values of the Hansen family and their farmer partners?



Photo credit: John Hendrickson

Home Grown Wisconsin

Home Grown Wisconsin was a farmer-owned cooperative that distributed fresh produce to upscale restaurants and CSA customers in the Chicago area from 1996 until the spring of 2009. It was organized as a closed cooperative and had up to 25 members in its peak years. If you want to compare Home Grown Wisconsin to an investor-owned firm, Albert's Organics <albertsorganics.com>, Bix Produce Company <www.bixproduce.com> and J&J Distributing <www.jjdst.com/produce> are investor-owned produce businesses that operate in the Minneapolis-St. Paul, Minnesota, area. Of the case studies in this series, Red Tomato <www.redtomato.org> is a non-profit produce distribution enterprise, and Co-op Partners Warehouse <www.cooppartners.coop> is a produce distribution business owned by a consumer cooperative.

A. Agricultural and food marketing

1. Like other produce sector intermediaries, Home Grown Wisconsin sourced produce from multiple suppliers, and assembled and shipped orders out to its restaurant and CSA customers once or twice weekly. It marked up produce by 50 percent to cover overhead expenses. This markup was higher than that usually charged by produce wholesalers, yet Home Grown Wisconsin struggled to cover its overhead expenses. How did this pricing policy affect sales volume, and how did sales volume affect costs?

2. Matching supply to orders can be a major coordination challenge for a business like Home Grown Wisconsin. When supply exceeds demand, there can be conflicts among members when some are given first priority to deliver product. When demand exceeds supply, customers who are forced to go elsewhere for product may never return. How did Home Grown Wisconsin address this problem? Do you have suggestions on how this could have been done more effectively?

B. Cooperatives

1. Home Grown Wisconsin's business flourished in 2005 and 2006. Then several critical problems began to emerge. First, the cooperative was not able to maintain margins at a level that covered operating costs. Growers set their own prices, but feedback from customers indicated that their prices were high relative to other suppliers in the marketplace and Home Grown Wisconsin needed to reduce its margins in order to move perishable product. Second, fluctuations in cash flow made it difficult to cover year-round overhead and personnel costs. To what extent are these problems common to many producer-owned marketing cooperatives? How do other cooperatives overcome these problems?
2. Home Grown Wisconsin's members produced a variety of fruit and vegetable crops and food products. Availability of products fluctuated over the course of a growing season. One week, only one or two growers might be able to supply a particular product; then several weeks later, nearly all members of the cooperative might have that product to sell. How did Home Grown Wisconsin prioritize sales? How might purchase decisions have differed had it not been a farmer-owned cooperative?
3. Board functionality was another challenge for Home Grown Wisconsin. Communication between the board and the manager was sometimes problematic, especially regarding financing, and board member burnout also became a problem. What recommendations would you have made for structuring the

relationship between the board and management?

C. Food systems

1. The core values and mission of Home Grown Wisconsin were to grow the market for fresh, local, organic produce and to increase the prices received by farmers. In contrast with other enterprises featured in this series, Home Grown Wisconsin did not have an overriding core value focused on transforming the food system. How did having such an overriding value create advantages and disadvantages for a business like Home Grown Wisconsin?
2. Two external events contributed significantly to the ultimate closure of Home Grown Wisconsin: record floods in 2007 and 2008 and the recession of 2008. Are there strategies Home Grown Wisconsin could have used to lessen the impact of these shocks?
3. Considered as a whole, in retrospect, what changes in the organizational structure and strategies of Home Grown Wisconsin would have been required for it to succeed as a business?



Photo credit: Janine McCann; Idaho's Bounty

Idaho's Bounty

Idaho's Bounty <www.idahosbounty.org> is a multi-stakeholder cooperative owned by producers, food retailers, restaurants, institutional food service enterprises and consumers. It started as an internet-based direct-to-consumer buying club but is shifting focus to wholesale distribution.

A. Agricultural and food marketing

1. Idaho's Bounty plays a coordinator/facilitator role in the southern Idaho local food system. As an internet-based buying club it makes one-to-one connections between producers and consumers. In effect, it is a virtual farmers market that is "open" 24-7, with product being delivered once each week. As a wholesale distributor, Idaho's Bounty provides aggregation and delivery services that are valued both by the farmers who supply produce and by grocery store, restaurant and food service customers. These appear to be two distinct supply chains. Can Idaho's Bounty continue to do both? What are key strengths, weaknesses, opportunities and threats in each supply chain?
2. Idaho's Bounty does not take ownership of product but captures revenue by adding a markup on products that flow through it—18 percent on wholesale transactions and 33 percent on retail transactions. What operations and service costs need to be covered by these markups? Why is the markup higher for retail transactions?
3. Idaho's Bounty has relied on grants as an important source of revenue. Do you think the business can be sustainable with grant funding?
4. Under the Idaho's Bounty business model, producers ultimately set prices, with Idaho's Bounty simply adding on its markup to determine the price wholesale and retail customers pay. How does this compare with price determination in other case studies in this series, most notably Co-op Partners Warehouse, Home Grown Wisconsin and Red Tomato?
5. What challenges and opportunities do seasonality of both production and the size of the customer base (many people are part-year residents) create for Idaho's Bounty?

B. Cooperatives

1. As a cooperative, Idaho's Bounty is owned by its members, who include producers, and

wholesale and retail customers. What challenges stem from having owners on both the supply and demand side of the transactions that Idaho's Bounty facilitates?

2. The governance structure of Idaho's Bounty centers around a policy-setting board of directors that includes farmers and area residents who are interested in promoting and maintaining a local food system. The board also works closely with staff. How does this structure facilitate or impede strategic direction setting and conflict resolution?
3. A cooperative business distributes net margins to its members based on their use of the services provided by the cooperative. How would you design a patronage refund system for a multi-stakeholder cooperative like Idaho's Bounty?

C. Food systems

1. Idaho's Bounty operates within a larger mainstream food system. In its relationships with consumers, Idaho's Bounty competes with supermarkets and specialty food stores. In its relationships with wholesale customers, Idaho's Bounty competes with produce, grocery and food service distributors. Ultimately, what do you think will be the sustainable niche in this broader food system for Idaho's Bounty?
2. What are the fundamental values that Idaho's Bounty promotes? How does furtherance of these values represent a win-win solution for producers, wholesale customers and retail customers? Can these values be fulfilled without Idaho's Bounty?
3. As Idaho's Bounty increases sales to grocery stores and restaurants, the cooperative's retail customers may find it more convenient to buy local food in these more traditional outlets rather than from Idaho's Bounty. How does this support or block the long term strategies Idaho's Bounty is developing?

Suggested case study pairings

Many instructors will use only one or two of these case studies in their courses, and we find it hard to imagine a course in which all of these case studies would be used in a single semester or quarter. Our experience in using the case studies in the classroom confirms that they are well suited for stand-alone use in a single assignment or class session. However, using two or three case studies in a coordinated fashion can also be effective, since it gives students opportunities to compare and contrast the features, strengths and weaknesses of different values-based food supply chains. In this final section we present suggested case study pairings for each of the three course types.

A. Agricultural and food marketing

1. **Product differentiation** is a key strategic element in each of the nine values-based food supply chains, and it can be enlightening to compare the product and service characteristics that set these food products apart from those offered through mainstream supply chains. The following are case study pairings that are especially well suited for exploring this issue.
 - a. **Country Natural Beef and Organic Valley:** Both are cooperatives that have been successful in marketing branded livestock products regionally or nationally. What production, economic, environmental and social values does each link to its products? How does each use in-store tastings? How does having a package—a milk carton in the case of Organic Valley—affect the degree to which “value” attributes of products can be conveyed all the way to consumers?
 - b. **Full Circle and Good Earth Farms:** Both businesses market organic and sustainably produced food through internet sales sourced from their own farms and a network of trusted suppliers, but they operate at very different scales. How do they differentiate their product from mainstream retail produce in the case of Full Circle, and from mainstream retail meat in the case of Good Earth Farms? How does each business’s website help convey and reinforce the values-based story of their product?
- c. **Co-op Partners Warehouse and Red Tomato:** Both businesses are in the wholesale produce business. As wholesale intermediaries, they need to differentiate themselves to both suppliers and to supermarket and food service businesses that buy from them. From a fruit or vegetable producer’s standpoint, what are key characteristics that differentiate Co-op Partners Warehouse and Red Tomato from other wholesale produce distributors? From a wholesale customer’s standpoint, what are the characteristics that make it attractive to buy from these values-based businesses? If Co-op Partners Warehouse and Red Tomato operated in the same locale, to which would you sell if you were a producer? From which would you buy if you were a wholesale customer?
2. **Equitable allocation of returns** is a key concern in values-based food supply chains. Many of the supply chains strive to guarantee prices that cover costs of production and operation plus a reasonable rate of profit for all participants. The following case study pairings add perspective on this issue.
 - a. **Country Natural Beef and Shepherd’s Grain:** Both of these businesses use external experts to calculate cost of production. What information does each case study provide on how cost data are collected? Production costs vary across producers due to differences in both environmental conditions and managerial abilities. Should prices also vary across producers? If not, should the price for all be based on the minimum, maximum or average cost among farms?
 - b. **Red Tomato and Idaho’s Bounty:** Both of these businesses are concerned with maintaining an acceptable price for their farm-

er-suppliers. Red Tomato uses the “dignity price” concept, while Idaho’s Bounty allows each producer to post a selling price that all potential customers can see. What are the relative advantages and disadvantages of each approach? If you were a grower who could sell into either supply chain, which would you prefer?

B. Cooperatives

1. **Choice of organizational form** is a key topic in a course on cooperatives, with trade-offs in costs of contracting and costs of ownership being key factors affecting this choice. The values-based supply chains in this series illustrate the advantages and disadvantages of a variety of organizational forms, including several different types of cooperatives. The following case study pairings help focus attention on these trade-offs.

a. **Full Circle and Home Grown Wisconsin:**

Both of these case studies describe multi-farm CSA businesses, one owned by an entrepreneur and the other organized as a producer cooperative. Many factors have affected the relative success of these two businesses, but how has organizational form affected (i) the cost of ensuring a reliable supply of product from multiple farm operations, (ii) business decision-making and (iii) the business’s ability to react quickly to changing market conditions?

b. **Co-op Partners Warehouse and Red Tomato:**

Both of these businesses are wholesale produce distributors. One is owned by a consumer cooperative, the other is a non-profit. What are the relative advantages and disadvantages of each organizational form? How effective can each be in competing against entrepreneur or investor-owned organic produce wholesalers?

c. **Co-op Partner’s Warehouse, Home Grown Wisconsin and Idaho’s Bounty:**

All three of these businesses are cooperatives that distribute produce. One is consumer

owned, one was producer owned, and the other is owned by both producers and consumers. Ownership structure is not the only thing that has affected the success of these businesses, but it is important. Which of these three cooperative forms do you think is the most viable within the produce sector? Explain your reasoning.

2. **Design of governance structures** is another critical aspect of the choice of an organizational form. The collective ownership of cooperative businesses necessitates the establishment of processes for making and implementing decisions. Also, as businesses grow, it often becomes necessary to delegate some decision-making authority to hired managers who are not business owners. The following case study pairings are well suited for exploring these issues.

a. **Country Natural Beef and Organic Valley:**

Both of these businesses are cooperatively owned by producers and are dedicated to the cooperative principle of user control. Both started small, but Organic Valley has grown to be much larger and geographically dispersed. Compare the governance structures within these two cooperatives. What changes in governance have come with growth?

b. **Shepherd’s Grain and Red Tomato:**

Both of these businesses have experimented with different mechanisms for getting broad stakeholder input from both suppliers and customers for key strategic decisions. What options are open for this under their respective ownership structures? How effective have these efforts been?

C. Food systems

1. **Strongly held values** help set the case study supply chains apart from mainstream food supply chains. The following case study pairings give students a chance to explore differences in core values and strategies for communicating those values to customers.

- a. **Country Natural Beef and Shepherd’s Grain:** Both of these businesses represent farmers in a wholesale market—Country Natural Beef sells to retail food stores and Shepherd’s Grain sells to artisan bakers. The two businesses are “neighbors”—Country Natural Beef is based in eastern Oregon and Shepherd’s Grain is based in eastern Washington. Compare and contrast the core values of each organization, as described in the case studies and on their respective websites. How effective is each organization in conveying its values to the consumers who ultimately consume their products? What could each do to be more effective?
 - b. **Full Circle and Idaho’s Bounty:** Both of these businesses have a long-term mission of transforming the food system; both connect with consumers through the internet; both face challenges with physical delivery of fresh product. How are the core values of these two businesses similar and different? What are the prospects for each to radically transform the food system?
2. Given the seasonality of food production and the perishability of fresh food products, **safety valve mechanisms** that help smooth out and extend the duration of product flows through the supply chain are a key design element throughout the food system. The following case study pairings offer insights on contrasting strategies.
 - a. **Country Natural Beef and Good Earth Farms:** Both of these businesses produce meat, but they operate at very different scales and in different markets. Country Natural Beef sells fresh meat, and this necessitates complex planning on calving and animal placements in the feedlot as well as an innovative relationship with their meat processor. In contrast, Good Earth Farms addresses the problem of matching consumer demand with highly seasonal processing of animals by selling frozen meat. Could a business the size of Country Natural Beef shift to a strategy of selling frozen beef? Could a business the size of Good Earth Farms shift to a strategy of selling fresh meat?
 - b. **Red Tomato and Co-op Partners Warehouse:** Both of these businesses operate in the wholesale produce market. Production is highly seasonal and subject to uncertainty due to weather and pest problems. Products are perishable, and demand can be highly variable. Each business buys from a “portfolio” of suppliers, and each is in constant communication with customers about their anticipated orders. As a broker, Red Tomato does not take ownership of product and does not own storage facilities. In contrast, Co-op Partners Warehouse does hold inventories in its own facility. What are the advantages and disadvantages of each model?

Concluding remarks

The series of nine values-based food supply chain case studies featured here offers many learning opportunities. The materials presented are based on our own disciplinary perspectives and teaching experiences. We recognize that other people teaching in other contexts will almost certainly have new perspectives and insights on the issues raised and the lessons learned from these case studies. We invite those who use these materials to share their experiences with us and with others who share an interest in examining the potential for values-based food supply chains to have significant positive impacts on the food system.



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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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