



July 2008

Overview:

Value Added Products (VAP) Cooperative was started in 2000 with “the idea and a group of 25 wheat farmers who were looking for ways to increase the value of the wheat they grow” The co-op began with a “vision to increase the revenue stream to agricultural producers and stimulate rural economic development activities,” according to its website, www.vapcoop.com. The co-op has several objectives including “producing the highest quality of food products utilizing raw agricultural commodities and state-of-the-art technology and responding to consumer’s desires for high quality time efficient food products.” The first product developed by VAP was consumer ready frozen dough products. Although 99% of the raw dough is used for pizzas, some of it also finds its way into cinnamon rolls, bread and croissants. All of the work required to prepare preproof products is completed at the factory and all the consumer has to do is to take the frozen product out of the box, put it in the oven and in 20 minutes, the consumer has a product which is ready to eat.

The plant which is located in a renovated Wal-Mart Store in Alva, Oklahoma, which has a population of around 5,000 people. The plant was opened in January of 2000. It has 48,000 square feet and state-of-the-art, high tech equipment from Europe. If there are issues with the manufacturing equipment, engineers in France or Denmark can interface with the production facility in Alva to diagnose the problem.

Beginnings of the Firm

The co-op began in January of 2000. CEO, Mike Dunker, was an independent engineer with experience building bakery operations in Illinois, Minnesota and North Dakota and got into the operations. In three months they had raised \$7.2 million and then determined they would need additional funding. The board of directors went back to the co-op members and tried to raise money to make the production line wider and faster which they were successful in doing. In 2000 the co-op secured a USDA guaranteed loan for \$9 million. Today the co-op has 913 members and producers hold share of stock in \$5000 increments or 5000 bushels. Each member of the co-op had (and still has to) to qualify to be an agriculture producer. The goal was to start to market to food services such as Schwan's, National's Pizzas and others. The firm also has a strong market with grocery stores that manufacture their own pizzas.

Challenges:

According to Dunker, June is the slowest month for the co-op and the fact that the food service and the general economy are slowing down make it harder on the co-op. However, Dunker noted, pizza is one of the food products less affected by the slow economy. It is perceived as a product that is economical because compared to many entrees on the menu; a whole family can eat a pizza for a reasonable amount. Dunker also noted that starting in the fall and late summer up until the Super Bowl is known as the "pizza season." During these months is when they see pizza sales go up and the co-op gets busier.

Another struggle of the coop is the issues of finding employees. Although a plus of the co-op is that it is located near a four year university, finding employees has been difficult and it's harder to get the college kids as they used to.

Another difficulty is that of duplicating products. VAP has a small production area where they try to duplicate a specific taste or texture that a customer is looking for. They first try to achieve the specifics the customer wants in the test area and then vamp up the production line. However as Dunker acknowledges it's hard to put a generic pizza out and while there is no standard, some customers do want something a little different. The difficult position is how to please both sides of the spectrum.

Successes:

The co-op has also seen many successes since their opening in 2000. For the co-op, they are seeing the pizza industry grow. They find that when the economy slows down, pizza sales tend to rise.

The co-op was also able to introduce an ADM line of white wheat dough which resulted in interest from several school districts. The VAP dough was sold to schools in Texas, thereby introducing a healthier crust for pizzas but still allowing kids to enjoy a favorite food.

One of the biggest successes of the co-op is that they are bringing people into the city and are also able to “pump a lot of money in the technology center (nearby technical college)” The co-op is also becoming more progressive and helping in regional economical development.

Future Plans:

One of the goals of the co-op is eliminating the step of the customer topping the pizza. The co-op is looking to top the pizza themselves and therefore save the customer time and energy of doing so themselves. They are hoping that this may also help them push through the summer when they see their slowest months. Dunker says that a major goal of the coop would be to run 330 days a year.

They are also looking to put in an oven. This would help to expand the production line and give the co-op extra business when it gets slow in June and July.

Lastly, the co-op is looking to expand mainly with a topping plant that would guarantee a “one stop shopping” for the customer.

How they used their VAPG Fund

The co-op received a Value Added Ag Producer Grant (VAPG) in 2001. The funding from the grant was used in honing the quality control. They are also using the grant to help pay for the expenses that go into paying for the compressors and the refrigeration system.