Lesson 7: Case studies in Value-added Agriculture: Opportunities and Challenges

Funding was provided by the Agricultural Marketing Resource Center.
OBJECTIVES:

After completion of this lesson, the students will be able to:

1. Describe the value-added businesses that are the topics of this lesson by business structure, business origin and business profile: customers, competitors and the business’s market share or niche.

2. Describe how value-added agricultural enterprises have overcome the challenges they faced when starting their value-added agriculture enterprise.

3. Identify and describe opportunities that exist for these value-added businesses in the future.

MATERIALS/REFERENCES NEEDED:

Value-added, Marketing Cooperative, Whole Farm Cooperative – Long Prairie, MN
http://www.und.edu/misc/ndrural/case%20study%2012.whole%20farm%20co-op.pdf
Case study by Ramona Danielson and Dukbyeong Park, North Dakota State University, January 2001.

Value-added, On-farm Processing Summer’s Harvest – Hope, ND
http://www.und.edu/misc/ndrural/case%20study%2011.summer's%20harvest.pdf
Case study by Ramona Danielson and Dukbyeong Park, North Dakota State University, January 2001.

Walton Bean Growers’ Cooperative
Case study prepared for the North Central Initiative for Small Farm Profitability by the University of Wisconsin Center for Cooperatives.

VISUAL MASTERS (VM):

See VA Lesson 07.ppt.

INTEREST APPROACH:

What are the challenges facing farmers in value added agriculture? It requires sound marketing savvy. Getting a new product into the highly competitive retail market is very difficult. USDA estimates that at least two out of every three new food products introduced into the market fail due to lack of customer appeal. Only one in five new businesses succeeds for more than five years. Failure to do market research and the lack of a sound business plan are leading causes for failure.

How do real value-added businesses succeed? What support can they find for their ideas? What challenges did they realize once their business was started? What help was a feasibility study or business plan in making their business a success?
Case studies provide for a different kind of learning. It is now documented that students can learn more effectively when actively involved in the learning process (Bonwell and Eison, 1991; Sivan et al, 2001). The case study approach is one way in which such active learning strategies can be implemented in our classrooms.

When student numbers are sufficient, divide students into groups. Students should be instructed to:

- Read the business case study assigned to their group.
- Where appropriate, divide the reading of the assigned cooperative business case study among their group.
- Each member is to provide an overview of his/her assigned reading to the group.
- Review and answer the questions related to their case study.
- Develop a clear, concise profile for the business described in your case study (see objective 1.).
- Develop the profile on notebook paper. Use the backside of this paper to write the final version of the group’s business profile. Write the profile of your business in bullet form.
- A group’s business profile will be evaluated based on how it addresses the following: Objective 1 and Reasons for Success or Failure of Case Studies used as references in the lesson plan.
QUESTIONS:

Dakota Lamb Growers Cooperative

1. What are some important facts outlined in the U.S. sheep industry profile that set the stage for the formation of the value-added cooperative?

Answer: The U.S. sheep industry has experienced negative growth in inventories and revenues over the past several decades, and prices in recent years have been highly unstable.

Several factors are exacerbating recent declines—including increased imports and volatile prices that have been generally decreasing since 1997. The phase out of the National Wool Act (from 1993-1996) resulted in a loss of a guaranteed portion of income for sheep producers. Imports from Australia and New Zealand, which provide 98 percent of all U.S. lamb imports, have increased dramatically since 1994, partially due to the World Trade Organization (WTO) elimination of the tariff rate quota (TRQ) in November 2001 and the strong dollar. Food safety concerns related to scrapie (a degenerative neurological disease in sheep related to Bovine Spongiform Encephalopathy or BSE) may also be contributing to the lower consumer demand for lamb in the U.S. (Jones 2002)

2. Provide an overview of cooperative formation that includes equity drives and grants obtained when cooperative was established, but not fully developed?

Answer: In 1995, the Valley Wool Growers Association, a group of small sheep farmers in east central North Dakota, began to look into creating a producer-owned company to add value to their lamb operations. These farmers realized that they needed to shift to meat because their shearing costs were higher than what they could make for wool. A North Dakota State University feasibility study indicated that capitalizing a slaughter/processing plant was not a good strategy given the small size of the group and their investments. Instead, the group decided to contract with Dakota Country Meats for custom processing of lamb. This partnership allowed Dakota Country Meats to expand their existing facility and allowed the lamb producers to put their equity investment toward developing markets for their products.

In 1999, 126 lamb growers from North Dakota, Minnesota, South Dakota and Montana each contributed $100 seed money to the cooperative, which helped offset organizational costs and market research expenses. The group received an additional grant of $58,000 from North Dakota APUC, which helped identify initial markets and do its first equity drive.

The second equity drive attained its 12,000 share minimum to break escrow, and the co-op currently has 180 members and 20,000 shares subscribed. Co-op leaders hope to add another 8,000 subscriptions by the end of 2002 for a total of about 28,000. (Pates 2002)

3. What were some of the financial struggles of the cooperative?

Answer: Unfortunately, the Cooperative incurred losses from the beginning. The second equity drive’s offering circular reported losses of $136,745 for the nine months ending Sept. 30, 2001. Cooperative leaders attribute losses to three main factors: (1) too much product went into frozen storage; (2) the co-op had high production costs because of low volumes; and (3) processing costs were high.
Inconsistent consumer demand and lamb breeding cycles create challenges for marketers and producers. Lamb is most popular on the East and West coasts and in bigger cities, where certain ethnic and religious groups eat lamb as a regular part of their diets.

4. How did cooperative marketing strategies evolve? What does the new marketing strategy entail?

Answer: The co-op’s new marketing strategies include: (1) increasing sales to allow for more efficient operating; (2) marketing primal or full carcasses to get more revenue from each lamb; and (3) using grant funds to develop processed and value-added products to use the cuts not sold to customers.

Co-op leaders estimate that “whole carcass” sales, which leave no remaining edible products to sell or process, will account for 30 percent of its revenues. Lamb leftover from boxed products will be marketed as fresh or sausage, lamb bratwurst, ground lamb, lamb sausage and Merquez (an hors d’oeuvre). In addition, to deal with the challenges of the fluctuating nature of the market and breeding cycles, the co-op is shifting from a seasonal strategy to getting lambs to market year round basis—timed in two-week periods. Lastly, the cooperative is developing direct marketing strategies, including an Internet website (www.dakotalamb.com), which will be used for direct marketing to consumers.

5. What are the DLGC’s future challenges and potentials?

Answer: Merwin says, “The coop will find permanence by being consistent in the quality and size of our product, these goals will be accomplished through better genetics, management and incentives.”

Because they provide natural lamb year-round, Merwin believes, DLGC is unique. “We’re doing something that nobody’s ever been able to do before. If it was easy, they’d already have done it. We’re pioneers.”

Case Study #11 – Summer’s Harvest, Hope, North Dakota

1. What other value-added ventures have the Kubischta’s attempted?

Answer: His first efforts about a dozen years ago centered on expanding and diversifying his operations with 200 head of sheep. He purchased a cleaning mill to clean grain and feed the screenings to the sheep, which was another way to add value to the grain. He currently dedicates a portion of his cropland to raise certified seed for sale. However, Dennis was aware that these ventures did not solve the problem of being dependent on volatile commodity markets. The true opportunity lay in entering the portion of the food market in which prices were more fixed.

2. How do the Kubischta’s divide the responsibilities for their Summer’s Harvest business?

Answer: Dennis’ and Mary’s roles evolved over time. Dennis is now responsible for the milling processes that range from cleaning, milling and packaging to delivering flour to their customers. Mary covers the administrative functions, which include purchasing, bookkeeping and writing business plans.
3. What is the proposed costs of their second business plan? How much does the business plan expect to expand production?

**Answer:** This proposal, which asks for $76,000, remains in the stages of approval but has every indication of being successful. The expansion would increase current production from 100 to 900 bushels per week. To be prepared for increased production within the next year, Dennis has begun the necessary improvements in infrastructure and has ordered the new, stone-ground mill from New River Mills, North Carolina.

4. How does Dennis market, package and deliver summer’s Harvest flour?

**Answer:** He notes, “My best marketing tool has been to take a bag of flour to somebody and say, ‘It’s yours, try it.’ And they all like it.” Dennis delivers fresh flour that is never more than one week old. Every detail is important, as Dennis points out that the packaging for his two-pound and five-pound retail bags are of clear plastic so customers can see the product they are buying.

5. What agencies have provided grants to the Kubischta’s?

**Answer:** Dennis received several grants to do market research, hire engineering consultants and develop a business plan. The USDA Sustainable Agriculture Research and Education Program (SARE), the North Dakota Agricultural Products Utilization Commission (APUC), the Steele County Jobs Development Authority and the Otter Tail Power Company have all provided grants to assist in the development of the business.

6. Why can’t Summer's Harvest compete against Pillsbury, etc. for the retail share of the flour business?

**Answer:** Although his prices are very competitive at the wholesale level, his milling scale causes retail prices to be slightly higher than similar products offered by large corporations such as Pillsbury and the North Dakota Mill and Elevator. Even if he could produce in larger quantities, Dennis does not have an advertising budget that could compete with the larger corporations. Dennis participates in the two Pride of Dakota shows held annually, and his retail products have sold successfully at the Cash Wise and Hornbacher’s stores in Fargo-Moorhead.

7. What are the major challenges and opportunities that Summer’s Harvest face in the future?

**Answer:** Although past market analyses have been very useful, Dennis has not necessarily had sales from them because he does not have the production capability to sell more. Perhaps the greatest challenge is that of securing sufficient capital for expansion.

It is difficult for small companies to get started, but says Dennis, “you just gotta do it.” One example of the frustration of being a new, small business relates to the purchase of flour bags. Most bag companies set a large minimum order of bags. However, large orders do not allow a flour company to test out a market before committing to a larger-scale operation. Dennis was persistent and finally located a company willing to make bags in smaller quantities. Other business details, like making sure that all bags are printed with UPC codes, and determining what type of surface the walls of the flour mill must be lined with to pass inspection, were items Dennis found could not be anticipated.
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**Case Study #12 – Whole Farm Cooperative, Long Prairie, Minnesota**

1. What are steps involved in the “food chain”?  
   **Answer:** The food chain begins at the input level and moves through the stages of production, transportation, manufacturing, marketing, wholesaling, and retailing, before reaching the “top,” the consumer.

2. What does a value-added food processing cooperative provide for its members?  
   **Answer:** The food chain, as it is called, begins at the input level, and moves through the stages of production, transportation, manufacturing, marketing, wholesaling, and retailing, before reaching the “top,” the consumer. There are a variety of creative solutions whose foundations rest on this idea of capturing a greater amount of the profit made as an agricultural product moves up the food chain.

3. What is the mission statement of the Whole Farm Cooperative?  
   **Answer:** “We are committed to creating farms that nourish our families spiritually and economically and sustain the environment, and to providing eaters not only with safe wholesome food but with a clear sense of who and where their food came from.” (Whole Farm Co-op, www.alexweb.net/wholefarmcoop).

4. How did the cooperative come into existence?  
   **Answer:** The Whole Farm Co-op was born out of the momentum begun by this first attempt to organize. One of the founding members was involved in other social and economic justice groups, and had a pivotal conversation with an individual who suggested that the members of her church would be interested in becoming the customers of a new cooperative. From that first church in south Minneapolis, the Judson Memorial Baptist Church, the Whole Farm Co-op began to deliver to other churches and advocacy groups, as well as to individuals. The founding members were allowed to apply the unspent SARE grant money to this new cooperative initiative, providing enough resources to get them going on marketing, processing and distributing. The co-op got started out of the basement of one of its members’ homes, collecting the necessary freezers, crates and delivery vehicles one piece at a time and was incorporated in 1997. The business now fills the lower level of a building whose former history as a butcher store is imperceptible amidst the bustle of the cooperative’s operations.

5. What was the strongest boost to the Whole Farm Cooperative’s business?  
   **Answer:** The strongest boost to the co-op’s business came when the Minnesota Food Association community administered Commodity Food Program was funded by the State of Minnesota in 1997. Monies appropriated by the state legislature stipulated that people on state assistance could get vouchers to purchase Minnesota grown food products. Because it is difficult to determine the place of origin of food at most grocery stores, the Whole Farm Co-op was approached because it was determined to have not only locally produced food but an ability to distribute it.
6. How has the Whole Farm cooperative grown in ways other than business?

**Answer:** The Whole Farm Co-op has grown in the last four years through the gradual addition of equipment. The members have donated many of the materials themselves, including a chest freezer, a refrigerator and igloo coolers. Larger equipment, like the walk-in freezer, was acquired when an area grocery store went out of business. Other useful items, like crates, a scale and label printer, and three delivery trucks, have been purchased carefully, as the growing organization could afford.

7. What is the management structure of the cooperative and who is the only compensated management employee?

**Answer:** Management of the Whole Farm Co-op consists of a nine-person board, all of whom are members and producers. The board serves as macro-managers, setting direction, philosophy and principles for the organization. Dave Verdoorn is the operations manager of the co-op. He works on an hourly, full-time basis and is not a member or producer. He fills the customer’s orders and works to make sure the delivery schedule is clear to members and customers.

Most of the activities of the cooperative are handled by members on a volunteer basis. Certain members are designated to be responsible for coordinating the supply of particular products, like the beef or the poultry.

8. What are the challenges and opportunities of the Whole Farm Cooperative?

**Answer:** One prominent area in which improvements need to be made is that of management. The first suggestion involves the co-op’s business plan, which has not been altered since 1999. Herman feels it needs to be updated and made into a “living, growing, changing document.” A greater number of committees would also be useful to better delegate responsibilities and micro-manage tasks. A potentially profitable committee would be one that is dedicated to identifying and applying for available grants.

Another improvement relates to what Herman refers to as “Standard Operating Procedures.” Currently, there are no clear procedures outlining what anyone should do or who should be consulted when there are problems. The group needs to designate who has the authority to handle problems as well as answer day-to-day questions like when an item should be taken off or put on the product list and what needs to be done in the area of physical maintenance.

This relates to a second challenge – the need for a general manager. Because the Whole Farm Co-op was established on a small amount of capital and gets operating capital almost solely through the percentage taken from sales, there has never been enough money to hire a full-time general manager. As a result, a handful of volunteers from the membership at large have taken on many responsibilities and there is a sense that some of these people are getting burned out.
STUDENT ACTIVITY:

When student numbers are sufficient, divide students into groups. Students should be instructed to:

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- A group’s business profile will be evaluated based on how it addresses the following: Objective 1 and Reasons for Success or Failure of Your Case Study

CONCLUSION

The main focus of this lesson is the successes, challenges and opportunities of three value-added businesses. Through examining case studies of value-added business, students can learn through real-life examples about value-added agriculture from the people who took the initiative and monetary risk in an attempt to capture profits at another level in the food chain.