

# Making Value Chains Work: Best Practices for Success – Workshop Proceedings April 3, 2008 – Ames, Iowa

## Value Chain Partners

*foster value chains that provide economic, social, and ecological benefits to Iowa farmers, communities, and landscapes.*



For more information on Value Chain Partnerships, go to:

[www.valuechains.org](http://www.valuechains.org)

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Special thanks to Beth Larabee, Andy Larson, Mary Adams, and Rich Pirog for coordinating the writing, editing, and formatting of this document. For paper copies of this document, please contact Beth Larabee of the Leopold Center at [blarabee@iastate.edu](mailto:blarabee@iastate.edu)

Value Chains Partnerships is supported in part by the Wallace Center for Sustainable Agriculture, the Leopold Center for Sustainable Agriculture, and several other funding sources.

# Workshop Proceedings for Value Chain Partnerships

## Making Value Chains Work: Best Practices for Success

The mission of the Value Chain Partnerships (VCP) project is to foster value chains that provide economic, social and ecological benefits to Iowa farms, communities, and landscapes. VCP is a collaborative effort of the Leopold Center for Sustainable Agriculture, Iowa State University (ISU) and ISU Extension, and Practical Farmers of Iowa that began in 2002. VCP uses a community of practice approach to achieve its mission. [A Community of Practice (CoP) is a group of people who share a concern, a set of problems, or a passion about a topic and who deepen their knowledge and expertise in the area by interacting on an ongoing basis (Wenger, McDermott and Snyder (2002)]. Currently, there are four VCP CoPs: the Pork Niche Marketing Working Group (PNMWG), the Regional Food Systems Working Group (RFSWG), the Small Meat Processors Working Group (SMPWG), and the Fruit and Vegetable Working Group (FVWG). A Grass-Based Livestock Working Group (GBLWG) will be launched in summer 2008.

Experiences within each Value Chains Partnerships (VCP) Community of Practice (CoP) have elicited many hard questions and produced some hard-won answers. The Best Practices Workshop, held April 3, 2008, allowed key stakeholders from each CoP to share the know-how, lessons learned, and successfully-demonstrated practices innate to other citizens and supporters of VCP. It was intended not so much as a conference but more as a town meeting for a community of practitioners dedicated to the success of values-based food and agriculture businesses.

Objectives of the Best Practices Workshop included:

- Making intrinsic knowledge of VCP stakeholders apparent and accessible to others,
- Facilitating problem-solving and profitable successes within VCP-affiliated businesses,
- Promoting sustainability and upward scaling of values-based agricultural supply chains, and
- Showing the effectiveness of the value chain and CoP approaches to problem-solving.

Individual workshops encouraged discussion focused on real-life business scenarios that exemplified actual obstacles and solutions encountered within CoPs. The topics for the breakout sessions were identified by the members of the various VCP working groups as particularly important to their businesses and organizations. Overall, participants found the discussion among working group participants to be quite valuable. This proceedings document will attempt to capture and synthesize what transpired in these workshops in order to communicate accrued knowledge to the VCP community at large.

## **Workshop A: *Financing an Unconventional Ag Business***

Where can an unconventional food/agriculture business go for financing? What should you bring to a banker or potential investor in order to demonstrate careful planning, manageable risk, and likelihood for future success? Also, how do you build social capital to help increase access to financial capital? Explore, discuss, and discover ways to get your banker and your community behind your venture.

*Scenario:* Pat Garrity – [Floyd Boulevard Local Foods Market](#)

*Consultant:* Deb Houghtaling – [Grow Iowa Foundation](#)

*Facilitator:* Margaret Smith – ISU Extension [Value-Added Ag Program](#)

*Recorder:* Beth Larabee – [Leopold Center for Sustainable Agriculture](#)

### Background

In 2003, a group of Sioux City, Iowa consumers looking for better access to local, transparently sourced foods launched a non-profit organization called Sustainable Food for Siouxland. This organization soon begat a for-profit arm to pursue food business opportunities, the Floyd Boulevard Local Foods Market (FBLFM) located just off Floyd Boulevard in an old firehouse purchased from Sioux City. Executive Director Pat Garrity described the four ventures that comprise the operations of FBLFM:

- 1) The Firehouse Market is a cooperative-based food store where a large portion of the groceries are sourced through United Natural Foods, but local products receive priority and they sell as much local product as possible. This venture represents about 53 percent of FBLFM's gross revenue.
- 2) The food brokerage buys produce wholesale from local growers to supply large markets which include restaurants, other food co-ops, Whole Foods in Omaha, and county institutions like schools and prisons. This venture represents about 3 percent of FBLFM's gross revenue.
- 3) The farmers market in the parking lot of the fire station rents stalls to local growers to sell their products. This venture represents a very small portion of FBLFM's gross revenue.
- 4) The commercially-certified processing kitchen adds value to local produce by canning tomato- and fruit-based products for sale year-round at the Firehouse Market, and other retail venues in Iowa, Nebraska, South Dakota, and Minnesota. Using the brand name Sioux City Sue, this venture represents about 10 percent of FBLFM's gross revenue.
- 5) Grants, donations, and memberships comprise about 34 percent of FBLFM's gross revenue.

The last venture, the processing kitchen, was the focus of the discussion as Pat would like to grow the processing business to the facility's capacity over the next five years. How should the Sioux City Sue brand be expanded beyond the Firehouse Market and likely beyond the local area? Where will they find the funding to make it happen?

Sioux City is located in Woodbury County, Iowa. The county, in partnership with their department of rural economic development and Floyd Boulevard Local Foods Market, commissioned the artwork for a new food products brand called Sioux City Sue. The name was not copyrighted and is now held as a registered trademark belonging to the county, although the food products cannot be associated with the song or the movie of the same name. Sioux City

Sue was created as a regional branding scheme and food products labeled as such must have been grown and processed within 100 miles of Sioux City. The brand is licensed to FBLFM for labeling of their value-added products.

### Building Success from a Failure

Floyd Boulevard Local Foods Market's processing facility is an artifact of an earlier unsuccessful venture. Originally it was the commercial kitchen for a restaurant emphasizing local foods, which also was operated by FBLFM, but the restaurant had to be abandoned when it was not meeting financial expectations and the board could not remedy the problems. The restaurant had been an important part of the vision of FBLFM's board of directors, which then was made up entirely of farmer-suppliers. Its termination created many hard feelings, which are still not entirely healed. The chamber of commerce stepped in and the board of directors was reorganized to include two producers, three experienced businesspersons interested in local foods and community development, and four people from the county and the chamber of commerce. The former restaurant space now houses the Firehouse Market.

Floyd Boulevard Local Foods Market's processing facility currently has the capacity to put out 75,000 units (jars) of product per year. The breakeven point for the processing venture is at about 37,000 units of output, and, even at this early stage, FBLFM has sufficient demand from existing customers to move about 20,000 units. FBLFM currently has enough product available from 12 cooperating local growers to produce at least 35,000 units. Pat, along with his board and his growers, has produced a business plan to take the first step in scaling up the processing venture and they estimate that it will take about \$330,000 in capital and other expenditures to get to the point where they are producing 47,000 units annually. They anticipate that this production level would generate \$376,000 in annual gross revenue, providing \$130,000 to the growers.

### The Limits of Sioux City Sue

Because the brand requires that products be processed within 100 miles of Sioux City, opportunities for co-packing or private label production are limited. It could be argued that such practices may dilute the brand. Sioux City Sue foods are differentiated in the marketplace, first and foremost, as local products, which also have a high degree of supply chain transparency. The Sioux City Sue line of tomato sauce is comparable in price point to a larger specialty brand like Muir Glen, but Sioux City Sue is still being produced in very small batches of around 24 gallons. To increase distribution scale and product consistency, FBLFM would need to document government mandated safe food practices, develop a HACCP (Hazard Analysis and Critical Control Points) plan, and standardize their commercial recipes.

Securing an adequate supply of consistent, quality produce from local growers is one potential limitation to expanding the Floyd Boulevard Local Foods Market processing venture. The 12 growers range in size from one-half of an acre to more than 30 acres, and presently the majority of them are growing for the fresh market. Although the three largest growers would likely be able to provide all the produce he needs, Pat feels that the production risk ought to be spread over a larger group of suppliers. Prices the farmers will receive are set at the beginning of the growing season, but because FBLFM is a producer cooperative, it pays a premium to insure a sustainable income for its suppliers, and supplier-members should begin to receive dividends as the business matures. However, there are barriers in communication and education that must be overcome before the growers are inclined to boost their production. First and foremost, growers must be convinced that there is a dependable, expanding market for their produce and that

FBLFM would commit to buying from them in larger amounts. Also, growers must be willing to communicate openly about the varieties they intend to grow, how they plan to diversify their marketing stream, their costs of production, and any conditions that change their ability to deliver contracted amounts.

### The Financing Challenge

Although supply is a significant concern, Pat feels that the true bottleneck for the processing venture is money, and that many such enterprises fail because they are inadequately financed. Floyd Boulevard Local Foods Market already has debt financing on approximately 35 percent of its assets and will have to decide whether to accumulate any more. Thus far, grants, donations, and membership dues have made up a substantial portion of FBLFM revenue. Pat and the cooperative's farmer-owners have applied to the USDA's Value-Added Producer Grant (VAPG) program for half of the \$330,000 required to achieve annual output of 47,000 units. They also are actively pursuing a more significant level of community-oriented financing. In addition to fund-raising events such as barbeques and charity auctions, the Sioux City Sue brand has started to attract potential investors interested in community development. Other ideas that have been discussed include a selling scheme modeled after the community-supported agriculture model, in which members pay up-front for a share and receive a jar of tomato sauce each week, or allowing farmers to supply produce for an ownership interest in the FBLFM cooperative.

There also have been numerous considerations centered upon debt financing of the processing enterprise. FBLFM is currently in discussion with Whole Foods' Local Producer Loan Program for a \$90,000 loan with an attractive interest rate; a program from which they could not attract attention until they reorganized their board of directors to include members with experience in business and development. FBLFM also has attracted attention from numerous banks. But, even though their business plan projects that the processing venture will begin to pay for itself within three years, banks seem reluctant to offer loan products with more than 25 percent matching funds, or they request that FBLFM organizers return when they are several years into the plan and can demonstrate some level of success. Also, the majority of FBLFM's farmer-suppliers are smaller operations, with fewer assets upon which banks can base loan products.

Several other ideas regarding debt financing were brought to the table. For instance, Wheatsfield Grocery is a cooperative grocery in Ames, Iowa that has solicited loans from its membership, promising a higher rate of return to members who loan larger sums. Such member involvement could provide leverage when approaching loan officers at banks, but this strategy requires the underpinning of a dedicated local food culture that exists to different degrees in different locations. Also, the Small Business Administration and the Iowa Department of Economic Development have loan guarantee programs that could be applied to a food processing enterprise, again helping to convince bankers of sufficient risk mitigation, but applicants would do well to thoroughly investigate the fee structure and know how to pitch their venture appropriately to the program.

### Growing Iowa's Entrepreneurs

Deb Houghtaling, Executive Director of the Grow Iowa Foundation, a Community Development Financial Institution with \$4 million in assets, added that there is a tremendous amount of revolving loan fund capital in Iowa, even though much of it is aimed at enticing large

enterprises to the state. However, she cautioned that organizations which have relied heavily upon grant funding must carefully assess whether they are ready for substantial debt financing. Loans cannot be approached the same way as grants. Organizations must be alert to the risks a particular venture faces, have plans in place to mitigate or overcome those risks, and be fully aware of the financial consequences if the venture fails. She also noted that only a very small portion of the value-added agriculture enterprises that she has encountered were ready for substantial debt financing. Management structure is a huge consideration for lenders, so the skills and experience within a board of directors make a very big difference.

Finally, Pat mentioned a few indicators that would make him feel like the Floyd Boulevard Local Foods Market was successful five to 10 years down the road. First, they would be achieving their financial projections. Second, they would have a solid base of successful producers to whom the cooperative was paying dividends. And third, FBLFM would be turning first-time buyers into repeat customers.

#### BEST PRACTICES:

- Do not pursue a business venture until you have a board of directors in place with the right balance of personality, vision, business management and financial experience, and the dogged determination to make the enterprise succeed.
- Know and fully understand your options and be creative when capitalizing a business venture. In addition to offering an airtight business plan, an unconventional agriculture venture should approach a banker with sound backing, risk mitigation strategies, and a thorough understanding of the ramifications of debt financing.

## **Workshop B: *Evaluating Potential Partners and Buyers***

Businesses must choose partners and form relationships to achieve their goals. What steps can you take to ensure that potential business partners – especially buyers of your products – will live up to expectations? Explore, discuss, and discover what kind of information you need to evaluate potential partners and how to put systems in place that will assure these partners perform up to your expectations.

*Scenario:* Kelly Biensen – [Eden Natural Pork](#)

*Consultant:* Sue Futrell – One Backyard Consulting

*Facilitator:* Gary Huber – Pork Niche Market Working Group, [Practical Farmers of Iowa](#)

*Recorder:* Malcolm Robertson – [Leopold Center for Sustainable Agriculture](#)

### Background

As a pork producer and a businessman, Kelly Biensen has two overarching goals: 1) to consistently provide products of outstanding quality and 2) to make his farmer-suppliers profitable. When Kelly started Eden Farms, he was mainly selling Berkshire pork to the Japanese market, but in 1998, a weakening Japanese economy caused about half of his demand to disappear. In December 1998, American commodity hog prices bottomed out at about \$.08/lb, and Kelly decided he had better find a new way to sell his product. He began knocking on restaurant doors with product samples, telling buyers this was the best pork they could get and it came from small family farms.

Kelly gained intimate knowledge of his product through this process. For the sake of product quality and consistency, he moved from animals with a minimum of 50 percent Berkshire genetics to a 100 percent certified Berkshire program. Even though purebred Berkshire hogs farrow smaller litters and have lower feed conversion rates, Kelly became an outspoken representative for purebred Berkshire pork as a gourmet product. He hired a broker, earned a positive reputation with commodity associations, and built a web presence that emphasized connecting consumers with the farmers who raise their food.

### Happy Customers and Profitable Farmers

Today, Eden Natural LLC is owned by 27 farmers in Iowa, Illinois, Wisconsin, and Kansas. Farmers consistently receive a stable pay price (currently \$0.63/lb live weight) even when the commodity market dips significantly. Kelly and his staff have worked hard to improve their carcass utilization; that is, selling the whole hog at a premium rather than having to unload less sought-after cuts on the commodity market. All revenues not used for paying for live hogs and operating expenses are placed in individual producer savings accounts, with these funds distributed back to farmers at the end of each fiscal year based on Eden's financial situation.

Eden Natural uses hand inspection to assure that its products are high quality. Every Thursday, Kelly and his staff travel to Des Moines to personally inspect the Berkshire hogs that have been slaughtered at the Pine Ridge Farms plant the previous morning. Program-quality product is then shipped to distributors so that it is in the hands of high-end retail and restaurant customers in different regions of the United States the following week. Most of Kelly's business is with about a dozen major customers, and he works to develop lasting relationships. He also works to spread risks by making sure that no one customer represents more than about 30 percent of Eden Natural's revenues. Eden Natural works primarily with smaller specialty distributors that tend to be good partners because they understand the unique attributes of Eden's products.

Over the last few years, Kelly has found that he has to do less and less “selling” as demand for his products becomes well-established.

### The Dilemma

Several times since its inception Eden Natural has experienced situations when buyers have failed to pay for product they received. Since then Eden Natural has tightened up its credit policy by requiring payment within 30 days and refusing to send second orders to new customers until they have paid for the first and proved their creditworthiness. Even so, Eden Natural would like to know how to best identify good customers to reduce risks while continuing to grow the business.

### Picking Proper Partners

So, how does one evaluate the quality and dependability of potential partners in the supply chain? It’s never easy, and it requires a serious commitment to open and timely communication. First, it is useful to understand the goals and values that guide a potential partner’s operations. For instance, a representative of another niche pork company said that he conducted interviews with potential farmer-suppliers to make sure that the grower’s practices meet the company’s requirements and to get a better sense of that farmer’s motivation to meet a higher production standard (e.g., humane husbandry, land stewardship, premium prices, etc.). The Wheatsfield Grocery cooperative expects to collect a similar amount of background information from potential grower-suppliers for marketing purposes so that consumers can become familiar with the stories of their producers. If a partner’s goals and values do not align with the guiding principles of your company, it is not likely to be a successful business relationship.

Second, it is often beneficial to be well-matched to the size and scale of a potential partner. Eden Natural once backed out of a pending relationship with a distributor because Kelly Biensen visited their facility and realized that the distributor was servicing a much larger market than that in which Eden Natural could compete. Eden Natural was not trying to market large volumes of product at industry-standard prices, and therefore stepped away from the relationship. Besides, when working with large partners, especially those that are publicly-owned, it is a common cash management policy to push the limits of vendor credit and extend repayment terms as long as possible. For smaller, cash-strapped or start-up sellers, this could add a serious element of tension and an uncomfortable power dynamic to the relationship.

When you do decide to form a business relationship with a buyer or seller, be sure that you know the conventions of the industry within which you are working. For instance, the repayment terms may be very different when working with a produce supplier than when working with a supplier of meat products. If you don’t know the already agreed-upon rules of the game, it is easy to make unreasonable requests that may alienate partners. Once you know the rules, be sure to carefully outline the terms and expectations of a business transaction because, as Cornelia Flora of the North Central Regional Center for Rural Development pointed out, residual rights which are not explicitly outlined tend to reside with the buyer, not the seller, and sellers can wind up feeling cheated or betrayed.

### Breaking Up Is Hard To Do

Darlene Knipe, Marketing and Business Development specialist for the University of Illinois Extension, compares a business relationship to a marriage. Open communication is

essential and you should not simply walk away from the relationship at the first sign of disagreement; it generally is better for both parties to try to work things out amicably. Further, partners need to trust each other enough to grow together as their needs change and evolve, and this is much easier if each partner knows what benefit the other is getting out of the relationship. Sue Futrell, former executive with a major natural foods distributor and currently with One Backyard Consulting in Iowa City, described a situation in which a third-generation produce grower whose family had been selling to a grocery chain at the same price point for decades finally approached his buyer and said he needed to receive higher prices to remain profitable. While the buyer was sympathetic, he would not raise the pay price. Even though that buyer liked being able to tell people his store had been dealing with the same family for generations, he did not feel it was enough of a benefit to raise the pay price when he could easily buy from a larger-scale vendor. The buyer was not getting the same level of benefit out of the relationship, so there was no sense of interdependence or mutual gain.

It likely is easier to establish and maintain trusting business relationships in the “high-touch” arena of local and regional foods, but it is still possible to develop trusting business relationships on a national scale by working to keep lines of communication open, informative, and timely. At this point, niche food is a seller’s market and there is no reason for sellers with brand equity to shortchange themselves by dealing with unsatisfactory supply chain partners when there are others clamoring for their business. Although there is no simple way to catalog participants’ satisfaction with a transaction as is commonly done on e-commerce websites like eBay.com, a business eventually is likely to develop a reputation (for better or worse) in its industry. Be selective in choosing partners and deal with those partners openly and professionally, making sure that the relationship is a win-win for all parties involved.

#### BEST PRACTICES:

- Make sure that the scale interests and guiding principles of a potential supply chain partner are complementary to your own.
- Know the conventions/norms of the industry within which you are dealing, and articulate your expectations of a relationship or transaction as precisely as possible.
- Interdependence begets successful relationships; make sure your business dealings are mutually beneficial.
- Successful relationships are built on three things – loyalty, transparency, and integrity – and maintained by three things – communication, communication, communication.
- Under-promise, then over-deliver

## **Workshop C: Addressing Logistics and Infrastructure Challenges**

For innovative businesses, getting product to market is not always as simple as it sounds. Established supply chains can be inflexible, and managers can be inexperienced. What can you do when systems are not in place to efficiently coordinate production, pickup, and delivery? Explore, discuss, and discover ways to bridge these gaps and forge useful links in your value chain.

*Scenario:* Steve Williams – [Naturally Iowa](#)

*Consultant:* Sue Futrell – One Backyard Consulting

*Facilitator:* Rich Pirog – [Leopold Center for Sustainable Agriculture](#)

*Recorder:* Malcolm Robertson – [Leopold Center for Sustainable Agriculture](#)

### Background

Steve Williams is a southwest Iowa farmer who likes to add value to the products that leave his operation. So, in 2002, he co-founded Naturally Iowa, a dairy company that processes organic and all-natural milk into minimally-processed, non-homogenized fluid milk, ice cream, and drinkable yogurt. Naturally Iowa sources its milk from organic and all-natural farms, as well as a partner processor in east-central Iowa, and is the only dairy company to package its products in unique, biodegradable plastic bottles made from corn. Naturally Iowa is learning about the seasonal cycles of demand for dairy products, and ice cream is proving to have the best margins so far, due in part to its longer shelf life. They do a fair amount of private labeling, and soon expect to have national distribution through partnerships with co-packers. They have experimented with several major partnerships, including a stint selling three truckloads of 1 percent milk per week to Costco in the Chicago suburbs, but the arrangement left Naturally Iowa with excess cream for which they did not have a viable market.

### Log(istics) Jam

Logistics tends to be an important, yet almost invisible bottleneck for players in regional and specialty food systems, and Naturally Iowa is no exception. Recently, Naturally Iowa has formed a relationship with Good Natured Family Farms, a farm-to-market coordination group which deals with local, farm-raised food products from within a 200-mile radius into the Hen House Market in Kansas City. Diana Endicott, the leader of this effort, made an arrangement with Steve Williams and Naturally Iowa to produce a private label fluid milk line for Good Natured Family Farms and deliver product to Kansas City once per week. This is a win-win situation because Diana gets a high-quality, regionally-based milk product popular with her consumers, while Steve gets a reliable account that requires very little brand-building effort.

Because demand for Steve's product is growing through Good Natured Family Farms, and because Diana has noticed a real customer sensitivity to expiration date (non-homogenized milk has a shorter shelf life), she has asked Naturally Iowa to begin shipping milk twice each week, rather than once. Transportation is expensive and this will double Steve's shipping costs, despite the fact that it may not result in a significant increase in the amount of product sold, at least not immediately. However, Steve also sees some of the longer-term benefits of this arrangement, including increasing the number of stores into which his products go, broadening the product line in those stores beyond fluid milk, and, potentially, increasing income by a substantial amount. This brings up a whole host of questions. Can Steve raise product prices to cover the extra transport costs? Is there milk going to waste in the store because it is nearing its

expiration? What would happen if Steve did not fulfill this request? Is this really a good opportunity for Naturally Iowa?

### Not Every “Opportunity” is an Opportunity

Steve must consider the importance of the Kansas City market to Naturally Iowa, the importance of Good Natured Family Farms as an avenue into that market, and whether this arrangement will move his company toward its ultimate goals. If this is a good way to continue building a strong relationship with a healthy market, Steve may want to approach this increased level of service like a startup venture that he knows will not be profitable immediately, but will be so eventually, as the demand catches up with the supply. Steve should talk with his CFO to determine how long they are willing to subsidize such an endeavor out of other funds, and what volume they need to move to break even with twice-weekly delivery. Then, he could sit down with Diana Endicott and make a deal for a trial period after which the venture must be profitable for Naturally Iowa, or the commitment can be rolled back or modified. Plus, Naturally Iowa should have contingency and/or exit plans in case there is a major change in the situation (e.g., if Diana leaves for a new job and takes her industry contacts with her).

### Distribution is Puzzling

Right now, Naturally Iowa is contracting delivery for a flat fee per truckload of product moved to Kansas City, even if that load is not full. Southwest Iowa is typical in that the LTL (less-than-truckload) hauling infrastructure has greatly diminished, if not disappeared completely, and it likely would be difficult to negotiate a per-pallet fee for transportation. Plus, the high price of diesel is causing logistics firms to institute fuel surcharges. With this in mind, Steve might need to find other creative ways to spread his transportation costs. By putting a larger amount of high-margin product, such as ice cream and drinkable yogurt, on each load, Steve could justify transport costs with higher revenues and better overall returns. Or, Steve could try to locate other distributors running LTL routes to Kansas City onto which Naturally Iowa could piggyback. Eden Natural, a producer-led Berkshire pork company in central Iowa, saved \$.08 per mile (which added up to more than \$25,000 in the last fiscal year) in trucking cost to California by sharing transportation with another company. Further, Naturally Iowa may strike a deal with their partner dairy processor to sell complementary products, such as butter or cottage cheese, to Good Natured Family Farms, potentially allowing them to send full truckloads to Kansas City. Still, one has to be careful and strategize when collaborating with someone in the same business.

Sue Futrell, former executive with a major natural foods distributor and currently with One Backyard Consulting in Iowa City, says that logistics is as much an art as it is a science. The difficulty in determining best practices for the challenge facing Naturally Iowa is that efficient and effective distribution is difficult, regardless of scale. There are so many interrelated pieces that she likens logistics to a giant jigsaw puzzle, and, like a puzzle, changing one piece can make a dramatic difference in the attractiveness of the overall picture. She says that individual people and their personalities are unique puzzle pieces, and in an industry built around relationships, like regional and specialty food systems, people are not interchangeable; if one contact changes, it may force you to start that relationship all over again. Therefore, it is wise to diversify your customer base: have *at least* three major customers that make up the majority of your business, so if one falls through for whatever reason, it does not deal your company an

irreparable financial blow. Perhaps you could even work to know the needs of your buyer's end-customers, so you can continue to service those needs even if the buyer changes.

### Further Ideas

On the other hand, current market conditions and the high cost of distribution may actually represent an opportunity for locally- and regionally-produced products if it can be proven that a localized distribution network does more good than harm in terms of carbon footprint, infrastructure conditions, etc., compared to larger, more centralized systems. Although people are paying more than ever for good food, in many cases market conditions are even starting to push commodity price points closer to those of specialty and premium products. One has to wonder whether commodity products are simply responding more quickly to market pressures or, if not, whether producers will still be attracted to value-added and specialty markets without that substantial price differential. At any rate, consumers will not subsidize inefficiency. Niche companies must prove their mettle and cannot use any premium prices they enjoy to allow for sloppy operations.

### **BEST PRACTICES:**

- When starting a new business venture, know what you need to break even, set a time table and deadline for getting to that point, and have a contingency plan in case it doesn't work.
- Diversify your customer base to the point that if one market venue fails or orders shrink significantly, your business will not be dealt an irreparable blow.
- Logistics is the lowest margin piece of the entire value chain. Accept that, plan for it judiciously, and devise creative ways to circumvent distribution inefficiencies.
- Logistics is a jigsaw puzzle; adjusting one piece may vastly improve the overall picture.
- Even small, specialty, and unconventional food companies must be efficient; consumers will not subsidize inefficiency.

## **Workshop D: Continuing to Innovate in a Maturing Market**

What can companies with niche products do when their markets start to fill up with competing products? How can you continue to differentiate your brand and your products in the marketplace? Explore, discuss, and discover strategies for continuing to be unique and profitable as a market matures, niche products become commodity products, and pricing structures change.

*Scenario:* Duane Short – Prime Pork Supply

*Consultant:* Reg Clause – ISU Extension [Value-Added Ag Program](#)

*Facilitator:* Gary Huber – Pork Niche Market Working Group, [Practical Farmers of Iowa](#)

*Recorder:* Corry Bregendahl – [North Central Regional Center for Rural Development](#)

### Background

Small, values-based food companies are no longer the only players in the niche pork arena. All the major meat packers have “natural” and “antibiotic-free” (ABF) programs. Some, such as Smithfield, are growing this capacity by acquiring smaller brands. However, Duane Short, veteran of the premium and natural pork industry and currently with Prime Pork Supply, says that all of the national programs are struggling to be profitable right now. Corn futures are pushing well past \$6.00/bushel, commodity hog prices are low, and companies are paying premiums way over market prices to their farmers. However, smaller, producer-led companies like Niman Ranch, Coleman Natural, and Maverick Ranch, are facing the same market conditions, but are much less able to absorb the same financial hit as Smithfield. How can these smaller players continue to be profitable and successfully differentiate themselves from the large players’ natural and ABF brands that have begun to crowd the market?

### Finding Your Niche

In order to claim a sustainable market differentiation, smaller pork companies have to occupy a niche that large companies would find either impossible to replicate or just plain undesirable. Duane claims that, at the moment, the main differentiation point between the smaller pork companies and the big players is that the small companies’ products are still produced on small family farms. Although “small family farm” is a notoriously inexact concept and many large-scale operations are indeed family farms, it conjures up a particular kind of image in the average consumer’s mind, a mold to which the producers for these small companies can often conform. Using point-of-sale materials to associate the story and imagery of Paul Willis with Niman Ranch or Kelly Biensen with Eden Natural goes a long way to create a sense of authenticity, and the idea of a personal relationship in which people are willing to place their trust. Small companies can further solidify those personal relationships by having their small family farmer-suppliers “press the flesh” at grocery stores or farmers markets. This can help to create the kind of brand equity that is truly a partnership with the consumer.

Local, as a niche, is even more complicated than “produced on small family farms,” but it is still potentially useful for niche pork companies. As consumer sensitivity to concepts like food miles and carbon footprints increases, demand for local food continues to escalate. However, there are as many definitions for “local” food as there are consumers demanding it. Numerous organizations have tried to popularize definitions of “local” based almost arbitrarily on distances or political boundaries, but it also has been more eloquently conceptualized with the phrase “as far as the heart can travel.” Still, a company has to toe the line between staying local and allowing for a larger pool of consumers who are exposed to their brand to act on the

inclination to buy their products. For instance, how much good does it do Niman Ranch to supply product to food vendors at Farm Aid when the vast majority of the concertgoers who liked their product cannot purchase it at their hometown grocery stores? Also, Rich Knipe, Beef Specialist with the University of Illinois Extension, asserts that even products that are local or produced on small family farms still have to deliver on the more fundamental attributes of flavor and eating quality, not to mention adequate supply. Consumers are spoiled by a food culture based on immediate gratification, and you cannot bank on their sympathy for local or family farms to outweigh their desire for consistency and convenience.

### Niche Pork Be Nimble

Smaller companies are fortunate in that they have the ability to be much more nimble than large entities in a dynamic marketplace. If small companies make the effort to truly know their customers' needs, habits, and psychology, those companies can tweak packaging or portion sizes, adapt marketing messages to changing sensibilities, even produce seasonal product lines. If possible, it is beneficial to a small company to know the characteristics of their target consumer before entering a new market. The company then could determine which retail outlets are serving the consumers in whom they are interested, rather than simply choosing to deal with whichever retail partner seems cooperative.

Intimate knowledge of target consumers also may allow small companies to frame their marketing messages in a way that is more appealing to the customer. David Ward of the Association of Family Farms says that consumers distrust popular media and resist the concept of being "owned" by retailers or advertisers. David thinks that niche food companies have an opportunity to create a pull demand through the market by collaborating and educating consumers on the attributes of specialty products, thus helping them to "make an informed buying choice," rather than simply creating a push demand by "selling" them something. He compares it to helping students learn, rather than just teaching them. By being creative with outreach strategies, niche companies are more likely to be able to solidify a brand relationship that is not based solely on a "selling" dynamic.

### Strategic Alignment

In addition to knowing their target market and placing their products in stores that serve their core customers, niche pork companies would do well to be strategically aligned with their partners up and down the supply chain. Reg Clause, business development specialist with ISU Extension's Value-Added Agriculture program, says that niche pork companies must have a very clear vision of their core business model and must work with supply chain partners that allow them to focus on their comparative advantages. After all, the value of a product can be compromised at any step along the supply chain – processing, distribution, retail, etc. – so supply chain partners must be treated more like customers that deserve respect and regular communication than as interchangeable intermediaries. Like any other private enterprise, producer-led niche pork companies must pursue self-interest, but they also must be altruistic enough to accommodate the professional needs of their business partners. They must recognize that retail stores need product turnover, processors need product uniformity, and distributors need consistent scheduling. If these needs are met, niche pork companies can focus on their strengths: raising and selling top-quality specialty pork products from small family farmers.

#### BEST PRACTICES:

- Small, specialty companies must claim a niche that large corporations can't or won't easily replicate.
- Small companies' size allows them to be agile players in the marketplace, but they need the right information on which to base decisions to change course.
- Brand equity is a partnership with a consumer based on authenticity and trust.
- A small company must forge transparent supply chain partnerships that allow that company to maintain a laser-like focus on their core business model.
- Instead of just selling something, tell your story, and help the consumer make informed buying decisions.

## **Workshop E: *Changing Policy and Creating Incentives in Value Chains***

Pioneering businesses sometimes come up against regulations that impose inadvertent restrictions. Other times, policy-based incentives can help to generate greater business interest in a value chain or a local food system. Explore, discuss, and discover ways that you can make local laws and policies work in your favor, rather than seeing them as obstacles to be avoided or overcome.

*Scenario:* Melvyn Houser – [Pottawattamie County Board of Supervisors](#)

*Consultant:* Rob Marqusee – [Woodbury County Rural Economic Development](#)

*Facilitator:* Rich Pirog – [Leopold Center for Sustainable Agriculture](#)

*Recorder:* Corry Bregendahl – [North Central Regional Center for Rural Development](#)

### Background

Melvyn Houser is a farmer and a member of the County Board of Supervisors for Pottawattamie County in western Iowa. Pottawattamie is Iowa's second largest county in area and, as home to Council Bluffs on the east side of the Omaha metropolitan area, it ranks as Iowa's eighth most populous county.

Despite these advantages, Mel considers most of southwest Iowa to be a food desert, i.e., a food-insecure region in which a significant portion of the population does not have sufficient access to affordable, nutritious, culturally-appropriate food. He has not seen evidence of a food culture in southwestern Iowa that could stimulate formation of a local foods movement. Before local food became trendy, he watched his brothers' nearby produce farm discontinue operations after only three or four years of production. Nonetheless, Mel believes that local foods, value-added enterprises, and agricultural entrepreneurship can play a role in economic development. But, he needs some ideas for incentives or policies that can attract these kinds of ventures to his region and convince the other county supervisors that big business and manufacturing are not the only things that can create jobs and build their tax base. Also, Mel still struggles with whether such policies can be instituted top-down from the board of supervisors' level, or whether the support for such programs needs to be grassroots, bubbling up from interested citizens.

Pottawattamie County has assets that might provide building blocks for rural economic development through agricultural entrepreneurship. First, there is an established transportation infrastructure; Interstates 80 and 29 both run through Council Bluffs and five railroad lines converge in the area. Second, western Iowa and the Loess Hills area of Pottawattamie County have a history as an important fruit production area, most notably for apples and grapes. Given this precedent, some of the knowledge and will, as well as the natural resources, necessary to spearhead a produce enterprise still may be present locally. Third, the Council Bluffs area features several casinos that are mandated by the state of Iowa to buy local food. A buyer from one casino and an area Hy-Vee grocery store are actively trying to build their 'buy local' programs. Finally, there are economic development dollars available; large retailers and manufacturers in Pottawattamie County have received millions of dollars in incentives and abatements over the last five years.

### Would the Real Economic Development Plan Please Stand Up

Mel sees several additional obstacles that Pottawattamie County must work to address. First, economic development based on local food and agriculture must compete with more traditional economic development strategies that court large companies. Scale is an important

issue. When dealing with busy county supervisors who are distracted by more visible development projects which generate immediate jobs and tax funds in the area, it's difficult to get them to direct attention and resources towards the smaller efforts. If growers could unite to create an enterprise that received media attention (e.g., the Western Iowa Wine Trail agritourism venture), the project likely would be more attractive to those controlling the economic development purse strings. This is easier said than done due to the limited number of local food growers in southwest Iowa, but the Southwestern Iowa Food and Farm Initiative (SWIFFI), is working to remedy the situation. In addition, fueling local food systems with economic development dollars becomes tricky because county supervisors must treat all of their constituents fairly. Rural economic development dollars designated for agricultural entrepreneurship could just as easily go to a confined hog feeding operation as to a market gardener, despite the fact that they would likely have very different effects on the local food system. It's a challenge to formulate policy incentives that are broad enough to attract interest, yet targeted well enough to have the desired effect.

Several participants in this session commented that the economic development professionals' focus on goals such as new jobs and an expanded tax base may be short-sighted when their assigned regions are losing people left and right. It is no secret that population growth in Iowa has been stagnant, with many rural counties especially losing a significant part of their population base. Bringing large retailers and manufacturers to an area may provide a short-term increase in jobs and tax base, but those companies often receive significant tax abatements, and both the level of pay and the degree of permanence of those jobs is subject to the whims of the corporation. If the company ownership changes hands or the store does not perform up to corporate standards, those jobs could disappear in a hurry. Also, the jobs frequently pay at minimum wage levels and do not necessarily add to a sense of community among the workers. If there were more focus on maintaining the existing population base in these rural locales and creating a vibrant local culture and food system based on successful agricultural entrepreneurship, more people might be motivated to build homes and work in one place long enough to achieve higher household income, thereby contributing to lasting economic development. Chambers of commerce, cities, and counties could work together, partner with organizations like the Southwest Iowa Food and Farm Initiative (SWIFFI), and build communities with the quality of life that would attract new people and businesses, both in this generation and the next.

### Building Successful Local Foods Policy

In Woodbury County, just three counties to the north of Pottawattamie County, Rob Marqusee became Director of Rural Economic Development and, with the support of his county board of supervisors, instituted a local policy for farmers who made the transition from conventional to organic production that rebates 100 percent of the property taxes on their organic working lands for up to five years. This policy can be specific because it is based on a production system that is regulated by the federal government's National Organic Program, and it has started to attract not only farmers, but also organic food processing companies to the area. An organic soybean processor has recently set up shop in Woodbury County partially because the organic policy indicated that there would be local support for their line of business. Not long after the organic transitions program got started, Rob also helped to enact a local policy that requires public institutions in Woodbury County to source local food for their food service

operations when it is available. Using these types of incentives, Rob feels like he is helping to build the market for all kinds of specialty and value-added food and farm operations.

Rob believes that he was able to enact so much policy so quickly because he had a supportive county board of supervisors. However, the amount of support for local and regional food systems at the board level varies in each county. Several other Iowa supervisors have been waiting for an opportune time to pass a local food policy similar to that of Woodbury County, but they often are lacking in incentives, staff, or support from other supervisors to get the policy implemented. Many county supervisors tend to be more reactive than proactive, so new food policy needs to have a critical mass of supporters pushing for it and motivating supervisors to learn how it could provide long-term economic benefits. Plus, the food policy supporters need to be organized and forward-thinking enough to know exactly what they are asking for when meeting with the supervisors, rather than simply demanding generic food policy reform. If funding is needed, know how much and how it will be directed; if new legislation is the object of the request, have supporting evidence for the effects it will have and what funding streams will pay for it. Still, even if a cohesive vision has not yet been formed, plant the seed with supervisors so they know people are actively discussing food policy, and that it won't be long before you're coming to them with ideas.

### Further Ideas

There are ways to implement policy incentives for local foods and agriculture entrepreneurship; it just takes creativity and a critical mass of organized support. There were a number of additional suggestions to help local food policy on the ground. One was to bundle local food policies with other hot-button issues. For instance, schools could buy local produce for healthy snacks as part of a comprehensive children's wellness policy, or growers could receive tax abatements for land on which they were growing food for local consumption, perhaps as part of land use policy reform. Another idea was (instead of establishing new industrial parks) to designate county lands as agricultural heritage parks, which would be specifically reserved for operations such as farmers markets, community gardens, and agritourism enterprises. Further, a local option sales tax could be used to market local foods, build local infrastructure, or create a place-based brand. Having a group of people committed to the task of building the local food system, such as a food policy council, a local food coordinator, or a director of rural economic development also could help move the local foods program forward.

### **BEST PRACTICES:**

- Show evidence that local food systems and agricultural entrepreneurship can be viable sources of economic development. Invest in economic impact and other studies that can make the case for local investment.
- Identify the resources your region already has in place that will support the development of a local food system and a local foods culture.
- By cooperating, food and farm entrepreneurs could create a more robust enterprise that will have an easier time securing the attention of county boards of supervisors.
- When approaching the county board of supervisors, carefully consider what you are going to ask for, why it should be important to them, and some possibilities for implementation.
- Look at county-level opportunities such as a local-options sales tax, or converting county-owned land, as ways to build a stronger local food network.

## **Workshop F: *Finding and Retaining Good Employees***

Finding willing and capable employees is no easy matter for food/agriculture businesses, and even when you do find them, turnover can be a problem. Simply offering higher pay is rarely enough. Explore, discuss, and discover strategies for creating desirable workplaces, building employee loyalty, and recruiting new employees who will stay with you.

*Scenario:* Ned Skoglund – [Skoglund Meats](#)

*Consultant:* Venus Vendoures Walsh – [New Iowan Center](#)

*Facilitator:* Arion Thiboumery – [North Central Regional Center for Rural Development](#)

*Recorder:* Beth Larabee – [Leopold Center for Sustainable Agriculture](#)

### Background

Skoglund Meats has been operating in West Bend, Iowa since 1978. The state-inspected slaughter plant began exclusively as a custom processor, producing half- and whole carcasses for area farm businesses. A facility upgrade in 1994 led the management to diversify into additional product lines, including retail sales of individual cuts and cured meat products, and the plant continues to expand its offerings. That means the business is growing and changing quickly, and often is in need of additional workers.

### Labor Pains

Ned Skoglund informed workshop participants that labor continues to be Skoglund Meats' foremost concern. The business employs 12 people – six full-time staff and six part-timers, – but turnover can be a problem. Skoglund Meats has regular, eight-hour shifts with built-in flexibility for family matters, no minimum quotas like many large meat processors, and laborers work alongside managers so there is an air of mutual respect and a forum for employees' ideas and suggestions to be heard. Still, from the perspective of an employee, working at a meat plant, especially one in the business of custom slaughter, is labor-intensive and relatively high-risk, especially for a skilled wage of only \$12-13 per hour. Some employees stay on for years, others move on after only a few months. From the perspective of the business, workers' compensation is expensive and there is significant investment in each employee, including four months of knife skills training, as well as food safety training. If an employee leaves in a matter of months, the investment does not pay off.

The key qualities Skoglund Meats seeks in employees are stability, commitment, and willingness to learn. With a population of only about 800 people, West Bend has a very limited labor pool from which to draw. Even those who meet necessary qualifications for employment are seldom willing to put in the time to learn the trade and often are not at a point in their lives where they could be considered stable, long-term prospects. Placing help-wanted ads in local papers has resulted in no lasting hires. So, the business has begun to cultivate relationships with nearby schools. They supply snack sticks and jerky for fund-raisers, simultaneously providing revenue for both the plant and the school, as well as boosting the visibility of Skoglund Meats and its products in the community. They have worked with guidance counselors and vocational education instructors in an attempt to identify youth, especially farm kids, with strong vocational interests who might want to stay in the area. Ned has even suggested that if local high schools and junior colleges added meat-cutting to their curriculum, Skoglund Meats could serve as a vocational learning lab for the students.

### Big Plant, Small Plant

Most of the employees at Skoglund Meats tend to be well past high school age. Some have had experience working at retail meat counters, others even used to operate their own meat plant. Yet, it seems that stability does not necessarily increase concomitantly with age, and many of these employees still seem to be just passing through, leaving within a few months of being hired. In addition, even many seemingly good employees jump ship when a higher-paying job becomes available at one of Iowa's large-scale, industrial meat-packers. So, in some ways, small plants become something of a training ground for the large meat companies, relieving them of their training burden and moving employees significantly along the learning curve. Alternately, temporary plant closings at large meat-packing companies can sometimes push job-seekers in the direction of smaller plants, but these folks tend to stay with the small operation only if they have had some kind of life event (e.g., a recently pregnant spouse, or simply getting too old to keep up with the lines at the big plants) that prompts them to look for more flexibility in their work schedule, or even to cut back to part-time status.

### Changing the Channel to a Social Network

After spending significant time searching through conventional job channels, Ned decided to try tapping local social networks in search of prospective employees. He asked the owner of a nearby farrowing facility, who employs a substantial number of immigrant laborers, if he could let his employees know that Skoglund Meats was hiring. They interviewed a 21-year-old Latino family man, taking him through the plant and clearly outlining expectations. He has now been with the business for six months, proving to be an excellent employee. Ned hopes to keep him on the job and has put considerable effort into insuring his success. Ned has spent time helping the new hire improve his English, has tutored him in reading and writing, and even offered to connect him with adult "learn-to-read" programs at the local library or a nearby community college. He is trying to help the new hire relocate to West Bend and enroll his children in the local school. Ned thinks that the new hire could certainly become a lead worker in the plant, and plans to use the Latino social network again when he needs to hire additional employees.

Iowa has additional ways to help companies connect with laborers who are new to the state. Venus Vendoures-Walsh, from the Iowa Workforce Development's New Iowans Center, has helped to match many immigrant workers with employers like Skoglund Meats. Iowa Workforce Development has 55 offices and multi-lingual employment counselors networked throughout the state. They will work with an employer to get a job posting in front of a receptive audience in a form that the audience will understand, rather than using a curt newspaper want ad written only in English. The New Iowans Center specifically works with non-native Iowans on building a resume and filling out paperwork, as well as teaching many soft skills like interviewing, appropriate dressing, and time management that tend to vary in different cultures. For instance, Venus has noticed that Latino immigrants tend to be much looser with work times than their American employers would like because they come from a culture without rigid work hours that begin and end at the same time every day. Many of them also have never been required to call in if they are sick, or plan weeks in advance if they wish to take a vacation. Employers working with the New Iowans Center would benefit by providing an employee handbook and having a detailed conversation with a counselor about the expectations of the job, in order for the most appropriate employer-employee match to be made.

### Further Ideas

Other employers in the workshop made suggestions about how to attract and retain good employees. If you are planning to open a business, locate it in an area where there is a large pool of people with the skills you will need in an employee. During the hiring process, provide an employee manual, check references, and make sure the person is a good personality match to the position for which they are applying. Document that employee's performance for an initial probationary period and at the end of that time, have a frank discussion with the employee, and reach a mutual decision to continue the relationship or to part ways. Use stair-step pay raises to encourage longevity. If you decide to tap a social network for potential employees, pitch the job honestly, but also in a way that will appeal to the members of that network. For instance, Ned Skoglund should make sure potential Latino employees know that Skoglund Meats is a family-friendly operation with regular hours, substantial employer-employee interaction, and a staff that is willing to assist new hires in becoming established in the community. If another employer was reviewing their teenage son's social network to find someone who could pull weeds in a vegetable operation, the employer might want to mention that it is an open-air job with plenty of opportunity to get a tan and build muscle, plus offering access to all the home-grown food they can eat. Different social networks call for different social ethics and appeals.

### **BEST PRACTICES:**

- When hiring employees, be thorough and transparent in explaining the expectations of the job, and institute policies that will reward desired performance.
- Try to understand the type of people to whom the job you are offering will be most appealing, and promote the job through avenues that will reach those people.
- Tapping the social networks of a good employee may be a way to locate more good employees, but don't forget about the more formalized career placement services that may be available to your business.
- When working with non-native employees, try to identify cultural differences that may be acting as a barrier to performance, and work with the employee to overcome those barriers.