



Developing Values Based Distribution Networks to Enhance the Prosperity of Small and Medium Sized Producers: Summary and Key Findings

October 2011

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This project was funded through a Rural Business Enterprise grant from the USDA Rural Development and support from Western SARE



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This research was partially supported by the National Research Initiative of the National Institute of Food and Agriculture, USDA, grant number 2009-55618-05093 and by Western SARE grant number SW10-810



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Agriculture &
Natural Resources



Summary

This project examines the financial, government regulations, industry business practices and entrepreneurial factors that influence the development of emerging distribution networks embedded in values-based supply chains. We study five values-based supply chains in the California produce industry to draw out insights, best practices and conclusions. We define values-based supply chains as those that “enhance small and mid-scale farmers’ financial viability by capturing price premiums in the marketplace for the environmental and social benefits (values) embedded in the products. They require that all partners in the chain work together to optimize value for everyone...Finally, in this system, partners maintain transparency throughout the supply chain by sharing information at each stage of the chain.”¹ This project is structured around the premise that enhancing the viability of small- and mid-sized farms involves not just producers of fruit and vegetables in California, but rather an entire value chain. Four chains are studied with endpoints in the foodservice/institutional sector, and one with endpoints in the retail sector. Each chain is identified by a fulcrum organization that largely defines its character.

In the analysis we identify common features among the five cases and make comparisons across two dimensions. The first is related to the three factors affecting the development of values based supply chains—financial issues, regulatory climate, and entrepreneurial expertise. The second is related to the perspectives of the three classes of businesses that make up the chain—farmers, distributors, and foodservice/institutional, restaurant or retail buyers.

Key Findings

- Values-based supply chains are not arranged in neat linear relationships, but are networks that interact with one another in complex ways.
- While there are real differences among the supply chains in how values are connected to the product as it moves, the values themselves are the same—restaurant chefs, institutional buyers, grocers and retail customers want to know the story of the farm, its scale, how far away it is, and whether the production practice is sustainable or organic.
- “Aggregation hubs” or “regional food hubs” are emerging in various forms for small and mid-scale producers to aggregate and consolidate product.
- It may be more important to success in this market niche to tell an authentic story than simply claim to be “local.”

¹ Feenstra, G., P. Allen, S. Hardesty, J. Ohmart and J. Perez. 2011. Using a supply chain analysis to assess the sustainability of farm-to-institution programs. *Journal of Agriculture, Food Systems and Community Development*, Vol 1(4). Online: <http://dx.doi.org/10.5304/jafscd.2011.014.009>.

1. Finance

- a. The people that manage the traditional sources of capital for agriculture are not familiar with the alternative farming and marketing enterprises, including values based marketing that these producers are building.
- b. The “right balance” of small, mid-scale and large producers in distribution networks is important for financial viability of distributors.
- c. Non-profits allied with distributors will probably need to continue relying on outside funding (grants, etc.) to support their marketing and branding. Distributors who rely entirely on the values added product line, (as opposed to a “line” among several), are unlikely to succeed without a subsidy.

2. Policy and Regulations

- a. The participants in this study roughly divided into two groups: those who proactively identify the applicable regulations and develop a plan to comply with them, and those who prefer to wait for some external pressure that forces them to both become aware of a new policy and comply with it.
- b. Until recently, retailers and institutional buyers, rather than government, have been largely responsible for imposing food safety standards (GAP, HAACP, etc.)
- c. Both the producers and the foodservice retail/buyers tend to place the main burden on the distributor for identifying, complying, and making sure that marketing and food safety regulations are obeyed along the entire chain.
- d. Regulatory and food safety issues are more of a challenge for institutional and retail buyers who are under contract with a particular produce distributor and want to buy directly from local growers. These buyers may want to buy directly from a local grower, but cannot because institutional food service policy requires that they buy from the contracted distributor.
- e. The debate about food safety standards, responsible agencies, and application to different scale farms is murky. Most small farmers are waiting to see what will emerge and will then decide if and how to comply.

3. Entrepreneurship

- a. The distributor and the buyers help to carry the farmer’s story forward, but they don’t generate it. The producers who effectively access the values based supply chains are building their own brand, story, and position. They have taken responsibility to tell their own story.

- b. The ability to communicate authentic stories of producers is critical. This may trump “local.”
- c. Distributors are looking for small local farms with good stories. They need these relationships to access the values based market niche. However, it is expensive for the individual distributor to buy from very small farmers and they prefer using a formal or informal hub.
- d. Retailers who are adapting a values based strategy want the farmers in the store to educate their customers and to authenticate the retailer’s position.
- e. All the managers in our cases understand that they are building a brand or at least a branded line among their other offerings. They are trying to help the organization position itself and build a reputation as a supplier of values-based products.
- f. Each case we studied is a thread in the network of produce distribution. Innovation and business skill are widespread in the industry. Margins are so thin and price information so ubiquitous that in many cases, business acumen is the only factor that separates those who will succeed from those who won’t.