



Developing Values Based Distribution Networks to Enhance the Prosperity of Small and Medium Sized Producers: Full Study

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California Case Studies

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Acknowledgements

We wish to thank all the California farmers, distributors, food service, retail and restaurant produce buyers who willingly gave their time for interviews with us about the values-based supply chains in which they participate. Their experience and insights are reflected in these five cases. We applaud their efforts to create transparent supply chains that are contributing to a more sustainable food system throughout the state.

Introduction

This project examines the financial, policy and entrepreneurial factors that influence the development of emerging distribution networks embedded in food-based value chains. Such networks can enhance the sustainability of small- and medium-scale producers, in the broadest sense, by addressing their environmental, economic and social concerns through a focus on cooperation, to gain economies of scale in marketing services, efficiencies in common distribution activities and building food system communities.

To assess the success of various distribution networks, we created a two-phased research process. In the first phase, we conducted case studies of distribution networks. The distribution networks we considered aggregate growers in some fashion and are responsible for bringing product to the retail and foodservice sector. They are part of supply chains in which buyers give a high priority to supporting small- to medium-scale growers. In this study, we adopted the term, “values-based supply chains” to refer to supply chains that include fair pricing for producers, distributors and consumers; that identify the source and production system throughout the chain and which include small and mid-scale growers. In the second phase of the project, we will incorporate the insights from these case studies to survey the three institutional segments that we hypothesize affect the development of distribution networks within value chains: (1) lenders and other funders of agribusiness and food ventures; (2) local, state and federal industry associations that seek to influence agencies with regulatory authority over these agribusiness and food ventures; and (3) agribusiness and small business/community development consultants and agencies providing technical assistance. This report addresses the California component of the first phase of the study.

The project is structured around the premise that enhancing the viability of small- and midsize farms involves not just producers, but rather an entire value chain made up of many entities involved in the food system; lenders and other funders, distributors, food service operations, grocers, nongovernmental organizations and government entities. In California, we decided to focus on values-based supply chains in the fresh produce industry since fruits and vegetables are one of the economic drivers of California’s agriculture.

Methodology

While case studies traditionally focus on individual firms, our case studies examine established or emerging relationships between producers and other firms involved in the distribution networks of a value chain. Each case study includes interviews

with people along the entire chain; however our focus was on the distribution network as a whole.

Research protocol

Team leaders created a common interview protocol so we can compare data across the regions. In each case study, we paid particular attention to: (1) the financial organization/structure, capitalization and access to financial capital; we noted what financial costs were necessary in order to maintain “transparency,” and source verification that these value chains promote; (2) policy/regulatory/industry requirements that represent challenges to the organization (e.g., processing, food safety, insurance, marketing orders) or those that helped the organization; and (3) entrepreneurial (or business acumen) skills and job functions that have contributed to the overall development of the distribution network, strategic partnerships and to its success.

Data were gathered through phone interviews and personal visits with distribution network and value chain leaders to assess the three broad factors and how these factors have affected vertical coordination in the distribution network.

For each case study, we addressed the following elements of the distribution network:

- How the distribution network is structured and how it functions, including how it engages small to medium-scale family farmers, financially and if/how producers’ “values” of environmental, economic and social sustainability are maintained, audited and communicated throughout the distribution network;
- If/how producers and foodservice / retail buyers work together to create value propositions for consumers;
- How the financial and organizational structure of the individual firms within the distribution network is developed;
- How the influence of external policies or other incentives support or impact these distribution networks or not, and;
- How particular practices or policies influence the success of these networks, including processing and food safety requirements, and procurement policies.

We used a questionnaire as a tool to guide the interviews. It proved difficult to hold the subjects on topic, but the tool was nonetheless a useful guide to the interviewer. The interviews were recorded and transcribed. The interviewer then edited and inserted the responses under the appropriate questions. A database was constructed that allowed all of the answers to be compiled and sorted in a variety of ways to aid analysis.

Supply chain interviewee selection

Our original research plan called for three cases that represent three distinct supply chains. We were able to add two additional cases so that we completed four institutional/food service cases (with a focus on the institutional buyers) and one retail case (with a focus on the retail buyer) for a total of five cases. Each chain contains three categories of participants that we labeled somewhat arbitrarily: the farmer, the distributor, and the foodservice / retail buyer. The distributor and the foodservice / retail buyer labels apply to a range of different kinds of businesses. The interviewees usually define themselves differently and they often operate in more than one sector. A further division is between those players who actually handle or take title to produce and those who influence the flow. Figure 1 below shows some more specific names for the business entities in the supply chain:

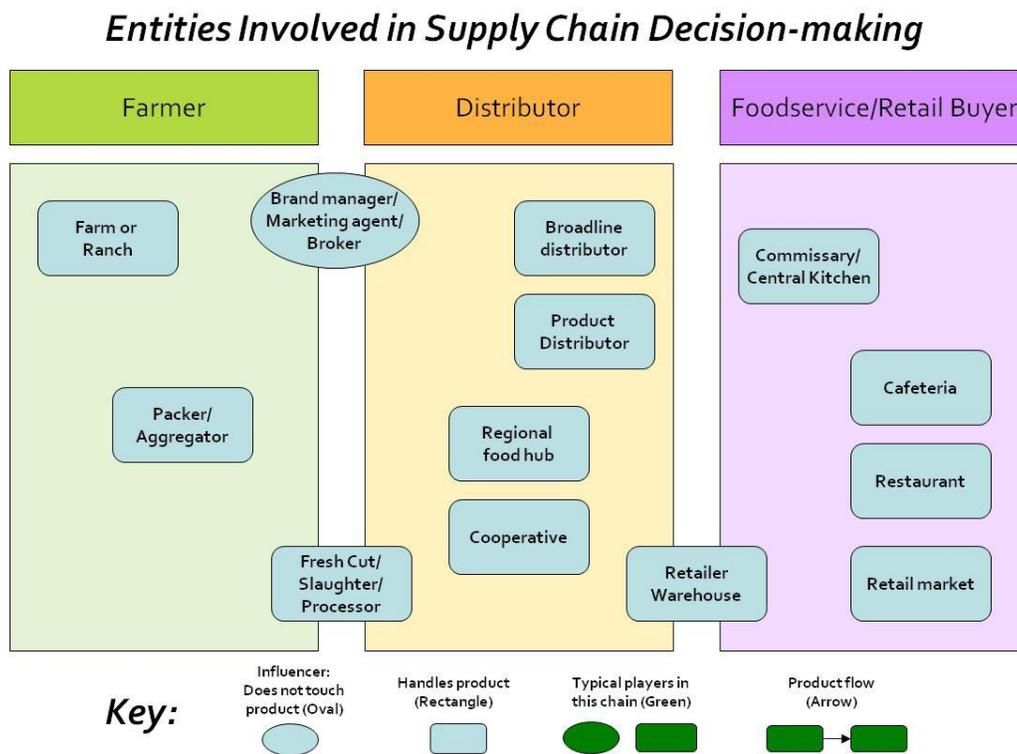
Figure 1. Different descriptions of supply chain links

Farmer	Grower, Producer, Rancher
Distributor	Receiver, Handler, Broker, Produce distributor, Broad line distributor, Foodservice jobber, Aggregator, Hub ¹ , Marketer, Brand manager, Buying club, Retail chain warehouse, Co-operative
Foodservice/retail buyer	Institutional contractor, Institutional commissary, Central kitchen, Fresh cut distributor, Foodservice company, Cafeteria site, Restaurant, Retail market, Direct markets

Figure 2 shows how the various supply chain actors are loosely positioned in relation to our general “Farmer-Distributor-Buyer” framework.

James Barham, USDA Agricultural Marketing Service defines a hub as, “A business or organization that is actively coordinating the aggregation, distribution, and marketing of source-identified locally or regionally produced food products from small to midsize producers.”

Figure 2. Entities involved in supply chain decision-making



We planned to interview three or four farmers, three or four distributor employees and three or four foodservice / retail buyers totaling eight or nine interviews for each case. However, our early assumption about the nature of these values-based supply chains as distinct entities, was simplistic. The produce marketing universe does not resemble a series of distinct value chains but rather a network of connections. Therefore one farmer often sells through multiple chains, and a distributor likewise connects to many sources of supply as well as different kinds of customers. An interview with a single farmer often gave us information about several chains we were investigating; conversely a chef might be buying from the same farmer directly at a farmers market and through their food-service purveyor. It proved more useful to spend additional time with one farmer or one foodservice / retail buyer exploring the interaction and decision making about their interaction with multiple participants in the chain. We interviewed within each supply chain until a full picture emerged.

Once the distributor who anchored each chain was selected and contacted, we asked a key manager to identify appropriate upstream farmers and downstream foodservice / retail buyers to interview. We conducted a total of 32 interviews (11 farmers, 10 distributors and 11 buyers) between May 2009 and September 2011, and entered them into a database that allowed us to evaluate the information from

several dimensions. See Appendix 1 for more detailed information about the interview grid we used.

Case selection criteria

The emerging demand for values-based product by a well-defined market segment is creating a lucrative opportunity for many in the produce industry. Businesses are responding to this market with varying degrees of authenticity ranging from simply using words like "local" or "participation of small and mid-scale family farmers" to constructing entire produce distribution chains built on these values. We chose just four representative value chains in California, based on the following criteria;

1. The chain must have a "fulcrum business" at the distribution position that is apparently committed to marketing produce with the values attached.
2. The management of the "fulcrum business" must be willing and able to participate in the research.
3. The business model for each chain must be distinct from the others and show some evidence of success.
4. The cases must be geographically diverse.
5. The cases must represent a range of scale (sales), type of organization, time in business, and scope of offerings.
6. The chain must include farm to retail or institutional buyer

Figure 3. Locations of Cases



Organization of findings

The findings are organized under each of the five values-based supply chains. Each chain is identified by the distributor, which typically anchors the chain. In the retail case, the retail buyer is the anchor. Each section starts with a description of the chain and a review of its unique characteristics. A figure illustrates how produce flows through the different links. Next, the three different constraining variables (e.g. access to financial capital, regulations/policies and entrepreneurship/business acumen) are evaluated from the different perspectives of the farmer, the distributor, and the foodservice / retail buyer or customer.

The analysis section pulls together emerging principles and insights that appear common to all cases. First we look at the financial issues that face all the cases followed by regulation and policy issues. Then we combine these issues and look at them from the perspectives of the farmer, the distributor, and the foodservice / retail buyer.

Five Values-based Supply Chain Cases

Growers Collaborative

Growers Collaborative is a program of the Community Alliance with Family Farmers that works with existing distributors to aggregate product from small and mid-scale family farmers, branding items using the Buy Fresh - Buy Local label.

Size

The Community Alliance with Family Farmers (CAFF) devotes about three FTE to the Growers Collaborative initiative. At this writing one hub is in place in the San Francisco Bay Area.

Each hub will vary in size and in the form of its agreement with CAFF. Thumbs Up dba Growers Collaborative Bay Area, (called henceforth Growers Collaborative Bay Area), is less than a year old. This hub is the focus of the case.

No meaningful sales figures are yet available.

Type

CAFF with its Food Systems project is a non-profit. Growers Collaborative Bay Area is a for-profit partnership. Other potential hubs may be non-profits or for profits.

Time in business

CAFF was founded in 1978. Growers Collaborative was created in 2006 and re-organized and contracted with first Growers Collaborative hub in late 2009.

Scope of Offerings; who they work with (suppliers and buyers)

Growers Collaborative sells exclusively to produce distributors selling to institutional buyers and directly to retailer outlets within the reach of its hub system.

The Story

The Community Alliance with Family Farmers (CAFF) created the Growers Collaborative as a project in its Food Systems program in 2006. It has reorganized in 2009 as described below.

CAFF started Growers Collaborative to address a fundamental challenge faced by their small farm members: access to profitable markets. Some advice from agricultural lending institutions, government, and Cooperative Extension told growers to start out selling in high margin direct markets, (Farmers Market and Community Supported Agriculture CSA, restaurant direct, etc.). Then, as production increased, they could switch to conventional market channels controlled by distributors and characterized by commodity pricing. In fact, this model of moving from direct to conventional market channels is profitable for few small farmers. Most quickly adopt multiple channels both direct and conventional in order to get

all of their product sold. Unfortunately the margins are low for undifferentiated product sold in conventional ways. Growers Collaborative was an alternative distribution system designed by CAFF to keep the values of locality, scale, family, sustainable, and story intact while providing a distribution mechanism to access institutional buyers. These added values would permit the farmer more control of the price and profit on all of their smaller volume sales.

The other purpose of Growers Collaborative was to create a source of supply that complemented CAFF's other Food System program goals. These included a Farm to School program, a mission to get good food into underserved urban neighborhoods, and an educational program to urban consumers about the importance of supporting local, sustainable farmers.

CAFF's efforts to make the Growers Collaborative distribution business succeed are well documented. In its first incarnation, Growers Collaborative (GC) was a for-profit business LLC owned by CAFF. It functioned as a small produce distributor, but the initial business model was unable to break even, and the recession and other forces caused most grant funding for support of the new model to cease. In both 2007 and 2008 Growers Collaborative lost roughly \$250,000 on \$1,000,000 in sales. It was purchasing from about 100 farmers. In 2009, CAFF hired Bob Corshen as program manager with extensive industry experience to manage the food system program. He re-opened Growers Collaborative in late 2009 using a new and innovative model that we will focus on here. It is not clear yet if it will work; however, it builds on the foundation of the "old" Growers Collaborative. We will look at both the "old" and "new" GC models to draw our conclusions.

Today, the "new" Growers Collaborative Bay Area is a for-profit, privately held, enterprise of Thumbs Up Produce that aggregates product using the Buy Fresh Buy Local brand and delivers it to produce purveyors. It is important to distinguish between *Growers Collaborative*, which is the name of the overall program of CAFF and *Growers Collaborative Bay Area* which is a business owned by Thumbs Up Produce. It is the first of four or five such aggregation hubs that CAFF plans to put in place by contracting with existing distribution or other businesses. For instance there may be a *Growers Collaborative Los Angeles* or a *Growers Collaborative Fresno* in the future.

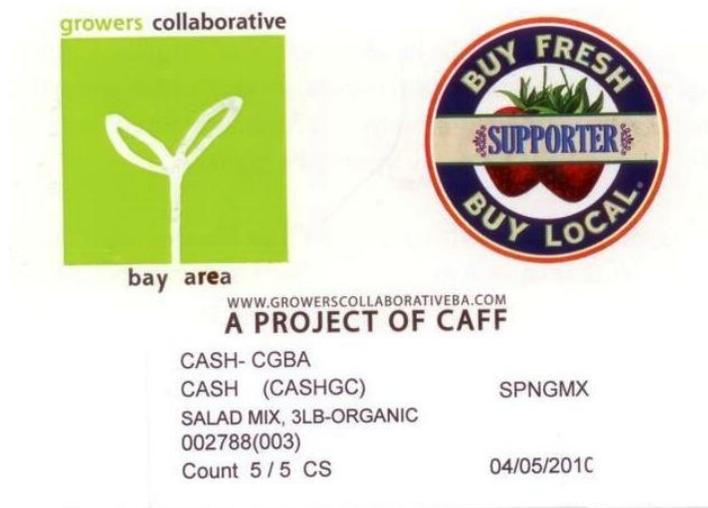
Growers Collaborative Bay Area buys and aggregates produce from Growers Collaborative producers, sets prices and maintains a price and availability list. It keeps information about each producer (provided by CAFF). It can take orders directly from institutional buyers for delivery by their normal purveyor, or it can take orders directly from the purveyor.

Thumbs Up (dba Growers Collaborative Bay Area) trucks can deliver Buy Fresh Buy Local brand product directly to the institution but cannot enter into an independent relationship with the customer. Since Thumbs Up’s main business is sales to retail stores, foodservice purveyors who buy from Growers Collaborative Bay Area won’t find themselves competing with Thumbs Up for their institutional business. The only source of Growers Collaborative product in the region is through Growers Collaborative Bay Area.

CAFF (a non-profit) is the brand manager for Buy Fresh Buy Local in California. FoodRoutes.org is a national NGO (originally funded by the W.K. Kellogg Foundation) that owns and promotes the Buy Fresh Buy Local campaign nationally. CAFF is the Regional Chapter Affiliate Coordinator in California for FoodRoutes.org. CAFF staff works with 10 local chapters of BFBL to promote local food systems and support smaller farms. The BFBL campaigns all over the state complement the Growers Collaborative distribution system.

All of the product sold through the Growers Collaborative distribution system is branded as Buy Fresh Buy Local and Growers Collaborative (See Figure 4). It also carries the grower’s own label. GC finds institutional buyers and locates producers. It provides marketing collateral and an authentic story that adds the values of local, small, etc. Eventually CAFF plans to provide food safety, industry pack standards and similar training to producers, but for now, Growers Collaborative Bay Area is doing most of the informal training.

Figure 4. The label applied by the hub to each box of Growers Collaborative Product



Size, reach, and customers

CAFF has one aggregator contracted to be a Growers Collaborative company in the Bay Area and is negotiating for at least two more hubs in order to re-establish coverage from Los Angeles north to Sacramento.

The “old” Growers Collaborative had institutional buyers and relationships throughout this region. The most important are Kaiser Permanente, two University of California dining services, and Bon Appétit cafeterias. The “new” Growers Collaborative must re-establish coverage for these accounts.

Value Proposition

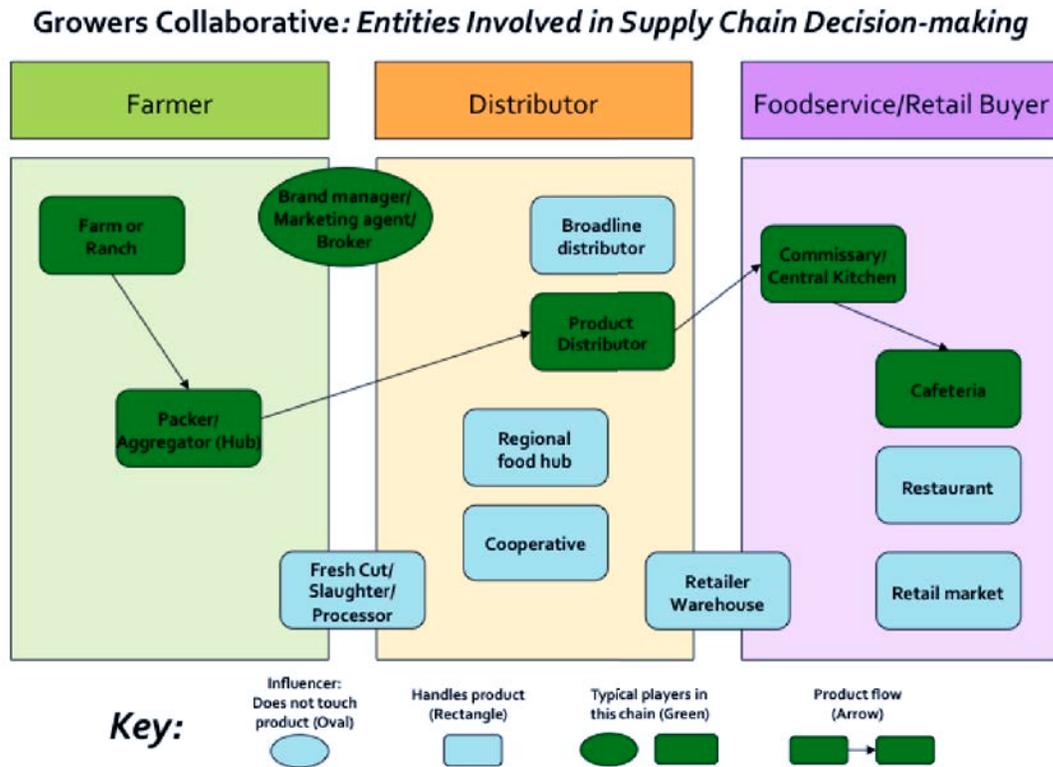
Growers Collaborative represents small, local, and sustainable farmers exclusively. The Buy Fresh Buy Local brand is guaranteed to include these values. Growers Collaborative farmers attempt to negotiate a fair price.² The CAFF / Growers Collaborative strives to make their product accessible to schools and other institutions with a special need for healthful produce.

Competitive Advantage

Growers Collaborative is a unique partnership between a non-profit farm activist organization, mission driven produce companies, and interested institutional buyers. CAFF staffers approach potential institutional customers with a values message, instead of as profit driven sales representatives of a produce purveyor. The interests of the farmer are the first priority.

² It is not clear what a “fair price” is. The old Growers Collaborative rarely negotiated prices with farmers and was often unable to move the product. The price of the product sold by the hub management is the farmer’s asking price plus a fair handling price arrived at by negotiation between the two.

Figure 5. *Growers Collaborative; typical supply chain*



Findings from different perspectives

Distributor

Finance

While the entrepreneurial skills of the “new” Growers Collaborative staff are more grounded in practical experience in the industry than the “old” Growers Collaborative, it is too early to tell whether this new model will work over the long-term.³ Moreover, the Buy Fresh Buy Local branded product line that is by definition coming from small, sustainable, local farms is the only product Growers Collaborative represents.

All of Growers Collaborative’s capitalization before the recent reorientation came from institutional customers, foundations, federal grants, and interagency loans from CAFF. None has come from the usual bank, SBA, and venture capital sources.

³ As of this writing the Growers Collaborative model is being implemented in the San Francisco Bay area only. CAFF is not extending it into other regions, however it retains control of the Buy Fresh Buy Local brand in California.

While the amount of capitalization has been significant, exceeding \$300,000, it was not enough to both capitalize the business and cover the losses in operating revenue of about \$250,000 per year.

The new Growers Collaborative model neatly separates the functions of branding from distribution. The former is supported partly by fees, (.15 cent a box) and by the government grantors and foundations. The latter (distribution function) is supported through the partner distribution company; in this case, Thumbs Up dba Growers Collaborative Bay Area.

Even with the help of a partial subsidy from the non-profit to add brand value, the private hubs will, and are, having difficulty finding financing for the new venture since it is a new and unproven idea. (DGC1, 2010). The Buy Fresh Buy Local branded product is expensive to aggregate because the product is coming from many small and mid-scale farms requiring time and attention to communicate, organize deliveries, etc. The new model for Growers Collaborative allows for Thumbs Up to have other lines and other customers who can help spread the costs of the trucks and other fixed costs of operating a distribution business year-round.

The great challenge that Growers Collaborative faces is how to cover its marketing costs. Small farmers need a higher price per unit sold. The hub system that moves product from the farm, to the hub, (Growers Collaborative Bay Area), to the foodservice distributor, to the commissary or kitchen, and finally to the cafeteria is expensive. Growers Collaborative has to add the values to the product so that the values-conscious buyer is willing to pay more for it and absorb the higher costs, but this cost can't exceed the buyers' limit.

CAFF's new model for growing and funding the new Growers Collaborative program has one huge advantage in the competition for financing. It is a non-profit with a reputation as an authentic advocate for the family farmer. Passionate activists staff it who have broad connections in the food and farming world. The new Growers Collaborative model allows CAFF to seek funds from the same sources that funded the old Growers Collaborative, but with a new, more compelling story.

Policy and Regulations

One hypothesis of our research is that business and government policies and regulations affect the successful development of values-based supply chains. CAFF and Growers Collaborative Bay Area share the same concerns about regulations as the distributor link in the other chains we studied, but in its new incarnation, the exposure for CAFF through the Growers Collaborative program is much less than before. Growers Collaborative is not an agent, a broker, or a handler of any product. That responsibility is passed to Growers Collaborative Bay Area. The majority of

regulatory or any other legal risk is born by the partner aggregator (Thumbs Up) that actually handles or takes title to product.

The overwhelming concern in the produce industry right now is food safety risk management. This is true for all the cases we studied. There are different responses to this issue. The first is the regulatory response rooted in government policy and enforcement. The second is the response by the produce industry led by the biggest growers and the biggest buyers. The small producers and the values-based supply chains that supports them are caught in the middle. Our original assumption that emphasized government regulation as the primary driver of change was simplistic. We discovered that it has proven impossible to study just the regulatory response without looking at the buyer's demands for audits, standards, and transparency. Growers Collaborative and any values-based chain has to address both regulatory requirements and buyers' demands. From the distributor or grower perspective there is little difference between the two. Most actors in the Growers Collaborative value chain are waiting for clarity on new food safety regulations. However everyone clearly asserts that they are following all current regulations and requirements.

Most big producers and handlers are following a version of GAP (Good Agricultural Practices), and undergo third party audits for food safety and other practices. They usually have a trace back system that tracks product down to the box level. With these measures, they can apply directly to buyers of any size in order to become an authorized vendor. These options are not always within the financial reach of the producers that Growers Collaborative is formed to serve because of economies of scale. Most costs associated with GAP and traceback are fixed. The smaller producer has fewer boxes of product across which to spread these costs.

Growers Collaborative Bay Area is responsible for making sure that growers are meeting the standards of the buyer. It is Thumbs Up Produce, however, who is the authorized vendor⁴ to sell to the foodservice jobbers and other entities that in turn supply the institutional buyers who have asked for the Buy Fresh Buy Local brand. Thumbs Up also holds the state-issued broker's permit and carries a four million dollar insurance policy with the distributors that carry the line, listed as additionally insured entities.

⁴ An authorized vendor is a seller who has been issued a permit, a license, or a vendor number by the buyer that proves that the seller has completed the buyer's particular vetting process. In produce this may include handler certifications, affidavits that the growers have been certified for food safety or other requirements, proof of insurance, proof that the seller has a sound human resource plan, etc.

Almost all growers carry liability insurance, but the smaller ones rarely carry the millions of dollar policies that foodservice companies like Sodexo require. (DGC2, 2009) Therefore, small producers need an organization like Growers Collaborative to access institutional markets.

There is consensus all along the Growers Collaborative values-based supply chain that stronger and more specific regulations and standards supported by some sort of audit is a future likely possibility for even the small growers. It is not clear what they will be and everyone is waiting for the rules to be clarified.

Part of the Growers Collaborative value proposition is that the product is grown by a small, local, farmer in a sustainable manner. Therefore the definition of “local”, “small”, and “sustainable” is significant. However these words become difficult to pin down the closer we get to them. Their meaning is not clear enough to be amalgamated into a marketing campaign. Nor is it possible for a group like Growers Collaborative to establish standards independently that are then imposed on the small Growers Collaborative growers. Growers Collaborative Bay Area’s solution is the same as with the other cases. They don’t define the terms; instead, they provide the story of each farmer, tightly attached to the product, through to the final buyer. Then, they leave it up to the buyer to decide if the farm’s products meet the buyers’ criteria.

Traceability is an important element of GC’s supply chain. Buy Fresh Buy Local branded product is packed in legal containers and labeled for delivery through the chain. However, in foodservice, the chain can be long. Often re-packing is necessary. Some buyers have expressed concern that on occasions when products they order from a specific farm were sold out or not available, Growers Collaborative Bay Area would fill the order from a different farm. (BGC1, 2010) If the buyer had created menus or Point of Purchase (POP) displays describing the one farm they would be rendered dishonest. At Growers Collaborative Bay Area, everything gets a lot number and products from multiple farms are rarely co-mingled.

Entrepreneurship

While it is the mission of Growers Collaborative to help the emerging small farmer, the demand cannot be met without relationships with midsize producers. Growers Collaborative must strive to build an appropriate range and proportion of different size farms. It will have to make it worthwhile for all these producers to engage with the Growers Collaborative. This will take unusual incentives. Price always incentivizes but there is a limit to how high a price the segment can absorb. CAFF may need to provide training services to the small producers in packing, grading, post harvest handling, and food safety protocols. The larger producers may respond to forward contracts and more secure future sales.

Growers Collaborative never created the sort of business plan that could serve as both a road map and a plan that would impress a banker. (DGC4, 2009) It did create plans that could impress a foundation or granting agency. This was a challenge for the development of the first Growers Collaborative.

The new Growers Collaborative combines knowledge and experience with small scale family farmers and the values they represent with solid produce industry experience from Thumbs Up in addition to more enthusiastic support of some existing purveyors. They still don't have a fully developed business plan. The produce distribution system is complex, efficient, and well capitalized. Anyone creating a new business model must understand how and why the industry acts the way it does before reinventing it. Growers Collaborative now has a manager who understands produce distribution.

Growers Collaborative has built good relationships with large institutions that have a mission to support small farmers, regional food systems, sustainability, taste, and health. These relationships have been strained during the demise of the old Growers Collaborative. However sufficient good will remains to lead the new Growers Collaborative toward success if it can address some of the challenges it faces.

Farmer

Finance

The value of the Growers Collaborative program to the farmer depends on the size and sophistication of the farmer. As we pointed out earlier, Growers Collaborative hubs like the one in the Bay Area need both smaller and mid-size producers to succeed. (DGC2, 2009) The midsize farmer who has been in business for awhile already has market systems in place to sell the crops they grow. She is not likely to increase acreage or production based on a short term relationship with a buyer like Growers Collaborative Bay Area. Therefore a decision to sell to Growers Collaborative Bay Area is a decision to not sell that product through one of the other channels. Growers Collaborative Bay Area has to offer a better price, a way to reduce expense, or there must be some other tangible or intangible reason for the midsize farmer to act. While Growers Collaborative's mission is to find new small farmers who need access to market, they need midsize farmers in the supply chain for stability.

Policy and Regulations

All farmers face regulatory and business practices risks. Those risks increase as the farm moves from direct marketing channels to more conventional ones. Conventional channels place larger orders with specific quality and pack requirements that demand that the farmer produce more consistently, plan accurately, and carry accounts receivable longer. Moreover, conventional buyers are less tolerant of variation than buyers in direct channels. The California Direct

Marketing regulations mitigate regulatory risk by specifically exempting direct marketing farmers from certain pack and grade requirements. The farmer leaves these protections behind when they enter the conventional distribution system. To date, many smaller direct marketing farmers have not been required to create a formal compliance plan for food safety. To the extent that Growers Collaborative trains and assists small producers through the transition, it will need to teach farmers how to mitigate that risk and comply with regulations. If Growers Collaborative or a Growers Collaborative hub like the one in the Bay Area press these farmers to meet the emerging GAP standard, the Leafy Green Marketing Agreement protocols, or any industry standard or affidavit that larger buyers demand, they will need economic and human resources to support education. Even such basic requirements as labeling, packing and grading, in addition to post harvest handling and maintaining a cold chain, are new territory for many small producers who have sold only at farmers markets.

So far this issue has not come up often because most, but not all, of the farmers growing for the Growers Collaborative Buy Fresh Buy Local branded product are experienced enough to understand and implement good basic practices or already have a food safety program with audit in place. However, the regulatory landscape is changing and most industry people agree that certification by a specific audit system will be unavoidable by any producer selling into wholesale conventional channels.

Entrepreneurship

A high level of entrepreneurial zeal marked all the farmers we interviewed. They are rational risk takers, internally motivated, disciplined and hard working. The midsize farmers in particular who are selling into the Growers Collaborative organization appear to be among the most creative with a higher than normal business acumen. These growers think about their final customers and what they want. The growers tailor their value proposition and the mix of marketing channels to uniquely meet the needs of this customer segment. One midsize farmer said about buyers, “We attach *values* only at CSA and Farmers market. (Growers Collaborative) has the connections with their buyers and they spin our yarn for us...” (FGC2, 2010)

Foodservice / retail buyer

Finance

Foodservice /retail buyers must have real commitment to incorporate Buy Fresh Buy Local product into their daily or mainstream offerings because of the higher price. They are hopeful that the new model will be at a price point that allows for larger, and more regular purchasing.

Policy and Regulations

Thumbs Up dba Growers Collaborative is the authorized vendor for some larger customers, (Cal Dining, Guggenheim, etc.) Others require that Buy Fresh Buy Local product go through their existing purveyor (e.g., Growers Collaborative Bay Area to FreshPoint SF to University of California Davis Dining Services). Thumbs Up will hold the vendor permit. Growers Collaborative expects that most sales in future will follow the latter pattern.

Entrepreneurship

All the institutional buyers interviewed agreed that the new model for Growers Collaborative shows promise. FreshPoint SF was particularly enthusiastic about the prospect of working with Growers Collaborative Bay Area in order to serve the University of California Davis Dining (Sodexo) because it gave them a way to serve the specific needs of that client without having to manage separate relationships with many small producers. (DGC5, 2010) Both the University of California Davis Dining staff and the FreshPoint SF people see this model as a pilot for other regions in which their parent companies work (BGC1, 2010).

It is important to note that not all the people ordering Buy Fresh Buy Local brand or other values laden products are enthusiastic about having to do so. In many cases the mandate to buy a certain percentage or to meet specific goals is built into the contract that the vendor has made with the institution, or that the institution has demanded of its chef. (BGC4, 2010) Usually there is a well-articulated mission statement that is championed by an influential manager that drives a mandate to source from the kind of growers that Growers Collaborative represents.⁵ Independent restaurant chefs, on the other hand, that support the values of “local,” “sustainable,” “family farmed,” are often enthusiastic supporters of the whole idea.

⁵ The University of California Davis Dining has written a mission statement about buying locally grown. <http://dining.ucdavis.edu/sustainability.html>

GreenLeaf Produce

GreenLeaf Produce is a for-profit, (LLC) privately held foodservice purveyor that has historically focused on high-end produce but also sells specialty cheese dairy, bread, and other processed food.

Size

GreenLeaf operates 30 trucks and delivers to markets in the San Francisco Bay and Sacramento regions of California with gross sales of 60 million dollars.

Type

The chain anchored by GreenLeaf is well established and fairly conventional. They are a foodservice purveyor selling to white tablecloth restaurants and some retail. They buy directly from producers and a variety of other handlers.

Time in business

30 years

Scope of Offerings; who they work with (suppliers and buyers)

GreenLeaf sells produce and some artisan dairy, cheese, bakery, and other processed food. They source directly from dozens of farmers and buy from an array of growers and shippers in order to offer a full line of high quality specialty products.

The Story

GreenLeaf has a long history of more than 30 years of sourcing directly from specialty producers, but also buys from more conventional sources. The company pioneered the idea of buying from many small producers using technology to keep track of them, and it was among the first to understand the market value of unique products with a story; then, using that story to create excitement among chefs and farmers.

Size, reach, and customers

Like most purveyors, GreenLeaf normally takes delivery FOB at their dock at the San Francisco Produce Market, but they sometimes pick up produce from farmers. The firm delivers directly to restaurants and a few institutions.

Value Proposition

GreenLeaf has a competitive advantage in the marketplace by having consistent quality and broad selection with products that no one else has. They offer personalized service from very experienced and trained staff.

Competitive Advantage

GreenLeaf has 30 years of solid reputation in the marketplace. The company is among the first to develop the specialty niche with new growers and the best chefs

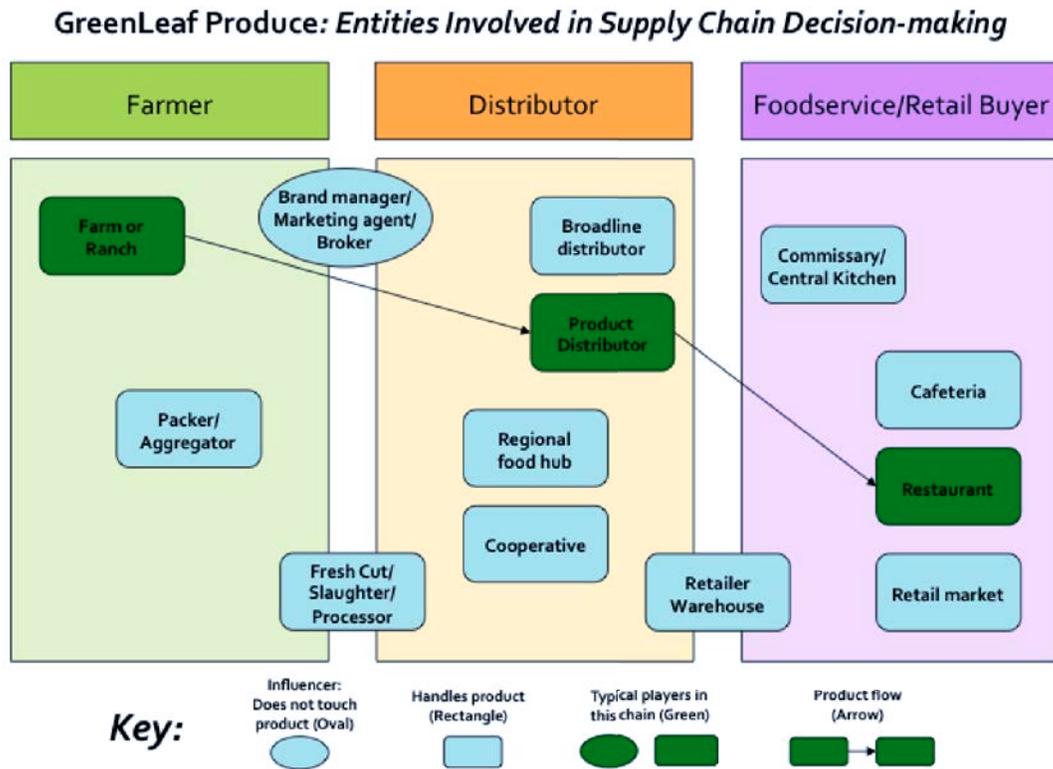
in the Bay Area. They work closely with even the smallest farmer to plan for their future market. However they don't track the scale of the farms from whom they purchase.

They claim to have the best technology in the market for managing sales and purchasing. The company's positioning strategy is consistent, with an emphasis on quality, not price.

The values-based chain anchored by GreenLeaf is different from other chains primarily because of the relationships they establish and nurture with suppliers and customers. They partner with small farms to help them develop new products with market potential and help them plan how to adjust their current offerings to meet fluctuating market demand. The company then supports the farmers' efforts with an unusual level of communication to customers, promoting the farms and their products. GreenLeaf works with customers in making informed decisions about which products will work best for them and provide ideas and inspiration for using those products.

This chain is the most "high touch" or high on personal interaction of the supply chains we studied. There is certainly technological support for customer interaction and efficient logistics; however, both chefs and farmers talked most about their personal relationship to individuals on the GreenLeaf Produce staff.

Figure 6. GreenLeaf Produce; typical supply chain



Findings from different perspectives

Distributor

Finance

GreenLeaf Produce is a produce purveyor with gross sales of 60 million dollars per year. They face no unique financial challenges in their role in the values-based supply chain. They have to deal with an increasing need to finance receivables, but this is no different than any other purveyor in the current economy.

The management does not break out sales numbers according to “values-based” or farm scale criteria. However it spends considerable resources marketing the story of the small-scale farms that it has partnered with.

Policy and Regulations

As the fulcrum of the supply chain, Greenleaf takes seriously its responsibility to comply with regulations, particularly food safety regulations. It is a certified organic handler, and certified for food safety practices by two private firms—AIB

International and NSF International⁶. They request information from suppliers to learn about their food safety program, third party certifications, HACCP programs, or organic-certification and any third-party audit. When buying what they perceive to be high-risk products for food safety, they will conduct their own audit. Management recognizes that meeting the insurance requirement demanded by some customers is difficult for small farmers. The requirement that growers comply with certain aspects of the California Leafy Green Marketing Agreement will be particularly difficult for these farmers.

While there is no regulation governing the definition of “local”, the company understands the importance of transparency about the location and sources of product to many of its buyers. It therefore maintains careful records, maps, and marketing collateral so that it can both prove where the product came from and benefit from the local story attached to specific growers.

Entrepreneurship

GreenLeaf Produce has been working with values-based supply chains and staying competitive for 30 years. The company was founded during a “golden age” for a new kind of restaurant in California supported by boutique farming and specialty produce. The founder of GreenLeaf Produce, Jameson Patton, was among the leaders of the movement along with Alice Waters of Chez Panise, Bu Nygrens of Veritable Vegetable, Sibella Kraus and the Tasting of Summer Produce. These businesses started and grew along with the pioneers in California organic farming such as Full Belly, Coke Farms, Webber Farm, Green Gulch, and Willey Farms. While many farms and distributors failed since those early years, these farms are still in existence, partly because each possessed the business acumen to make the right choices.

It is impossible to know which decision or skill caused this chain to succeed over the years, but the people at Greenleaf, and the farmers who they chose to partner with displayed a sophisticated set of business skills. In this case, it is clear that business acumen and entrepreneurship described during the interviews, and proven by the evident prosperity, is a critical indicator of value chain success.

Farmer

Finance

The farmers that GreenLeaf seeks to partner with tend to be more sophisticated although not always larger (SG1, 2010) than very new farmers; therefore, they tend to be more secure financially. One farmer we interviewed said that he had no debt. (FG1, 2010)

⁶ AIB and NSF conduct a variety of food safety and agricultural audits to certify producers, packer/shippers and processors for compliance with specific food safety programs.

GreenLeaf has no policy to offer special terms to small or local farmers, however they do occasionally adjust according to the specific case by paying more quickly than usual. Normally they pay the farmer within 30 days, the standard in the industry. Farmers who are used to direct selling at markets for cash may have difficulty adjusting to this practice.

Policy and Regulations

GreenLeaf requires that its farmers maintain normal liability insurance. When buying directly from a farmer, GreenLeaf staff review any certifications the farm has and checks to see that reasonable food safety protocols are adhered to.

Some farmers in the GreenLeaf supply chain are also in the Growers Collaborative chain and sometimes in FreshPoint Southern California's. All of them understand that some sort of food safety audit is coming from the federal government, and that the California Leafy Green Marketing Agreement in particular, will be difficult to comply with. (FS1, 2010) Organic growers are already used to the audit and certification process and seem less concerned. As pointed out earlier, the GreenLeaf growers are more sophisticated and have incorporated normal best management practices based on GAP into the operation whether or not they are audited and expressed no particular concern.

Entrepreneurship

One farmer (FG1), is a good example of the kind of newer farmer that GreenLeaf partners with. FG1 also sold to the old Growers Collaborative. He is a graduate of the Horticultural Program of the UC Santa Cruz Farm and Garden Program. He says he owes a lot of his success to his community and to one friend in particular, who sold him his first tractor. The friend was a neighboring farmer who mentored FG1 about cultural practices for that particular place and about how to market from a small farm. Today, he is a first rate farmer, growing premier baby greens for foodservice and retail buyers in the Bay Area. He trains new apprentices every year on his farm's 32 acres. His vision for the future includes preserving farmland, finding smarter distribution methods, and inspiring the youth of local ranching families to step confidently into the business. As a renter of farmland in Marin County, he has learned to be flexible in his future plans, open to lots of possibilities and creative in his use of land.

FG1 has developed the right combination of entrepreneurial characteristics it takes to farm successfully. He patiently built one system after another, (the right land and water, cultural practices, equipment set, labor, financial management, and markets); He got the right education before starting to farm, then found the best local mentors; He is flexible but pragmatic, adapting to new crops and new markets but careful to chart his own course and avoid fads. He manages his growth and follows a plan.

Foodservice / retail buyer

Finance

Chefs believe that they pay more to buy from GreenLeaf Produce, yet they show a high degree of loyalty to the purveyor. Greenleaf is associated with high-end restaurants in the region. Chefs typically have more than one produce supplier to cover the risk that one of them can't deliver the service package the chef demands. The mark of loyalty is the proportion of the produce dollar going to the chief purveyor. Greenleaf is the by far the largest supplier to the interviewed chefs.

Policy and Regulations

Chefs tend to place responsibility for compliance with regulations and food safety protocols onto the purveyor, who in turn may place it on the aggregator or other receiver. Institutional buyers may have a contract with the purveyor that requires certain documentation about compliance but this does not usually affect the chef who is ordering and checking the incoming produce.

Entrepreneurship

Many locally owned, white tablecloth restaurants position themselves as supporters of local, sustainable, family farmers, ranchers and fishermen. They seek superior quality, seasonal, specialty products in order to stand out from the 4,000 other restaurants in the Bay Area. This is GreenLeaf's target customer.

One restaurateur (BG1) in Berkeley said, "We are a neighborhood seafood restaurant serving safe and sustainable seafood and produce. We do a lot of education of the customer, so once they hear about sustainable fish they believe it about the produce. We try to buy organic and local whenever possible. We have an open kitchen. We buy only from Greenleaf and from one farmer.

I'm a working chef. We are open all the time and I work the line feeding up to 300 people. I don't have time to go to the farmers market but frankly I shop at 10:30 on my computer with Greenleaf's list. I'm Loyal to Greenleaf. They communicate: I have a monthly bulletin and weekly bulletin.

When we first started I was buying at a farmers market and direct from some farmers, then I found that Greenleaf had the same farmers and it was a lot easier to order the same product through them." (BG1, 2010)

This is the kind of testimony that all the value chains need from their customers. This chef makes the case for an intermediary focused on keeping values intact and attached to the product.

FreshPoint Southern California

FreshPoint Southern California is part of a national company with 31 locations that are collectively the largest produce distributor in the US. It is a wholly owned subsidiary of the Sysco Corporation, a broadline foodservice supplier. The Los Angeles unit is the largest in the group.

Size

FreshPoint Southern California is one of the largest branches of the largest produce distributor in the US with 27 operating companies in 31 locations and 750 million dollars in sales.

Type

FreshPoint Southern California is a Foodservice and retail produce distributor that has a Farmers Market line of product supplied by midsize farmers at the Santa Monica Farmers market and augmented by product delivered directly by farmers to the warehouse in the City of Industry.

Time in business

Sysco acquired FreshPoint in 2000

Scope of Offerings; who they work with (suppliers and buyers)

Sells produce to all kinds of customers and dominates institutional sales in Southern California

The Story

The company began to provide values-added information about smaller farms in 2000 when they began to note on their price sheet, products that are local (L), sustainable (S), and organic (O). The program took off about five years ago driven by university and college food service managers who were getting demands from their student customers. FreshPoint Southern California now employs a vice president in charge of developing their “Farmers Market” line.

Size, reach, and customers

FreshPoint Southern California serves all of Southern California, from Santa Barbara County south to the Mexican border.

FreshPoint Southern California has a “farmers market” line supplied by producers who sell at the Santa Monica Farmers Market and some others who deliver to the warehouse. The line accounts for very roughly 4% of the firm’s sales. They pre-order product from farmers and pick it up at the Santa Monica Farmers Market. FreshPoint Southern California receives about half of its farm direct product delivered directly by growers to their warehouse in the City of Industry. They usually re-pack it for customers, but farm identification remains intact. Most of the

other distributors in the region do this as well as evidenced by the signs on the many trucks parked on streets within hand truck distance all around the Santa Monica Farmers Market early in the morning before it opens.

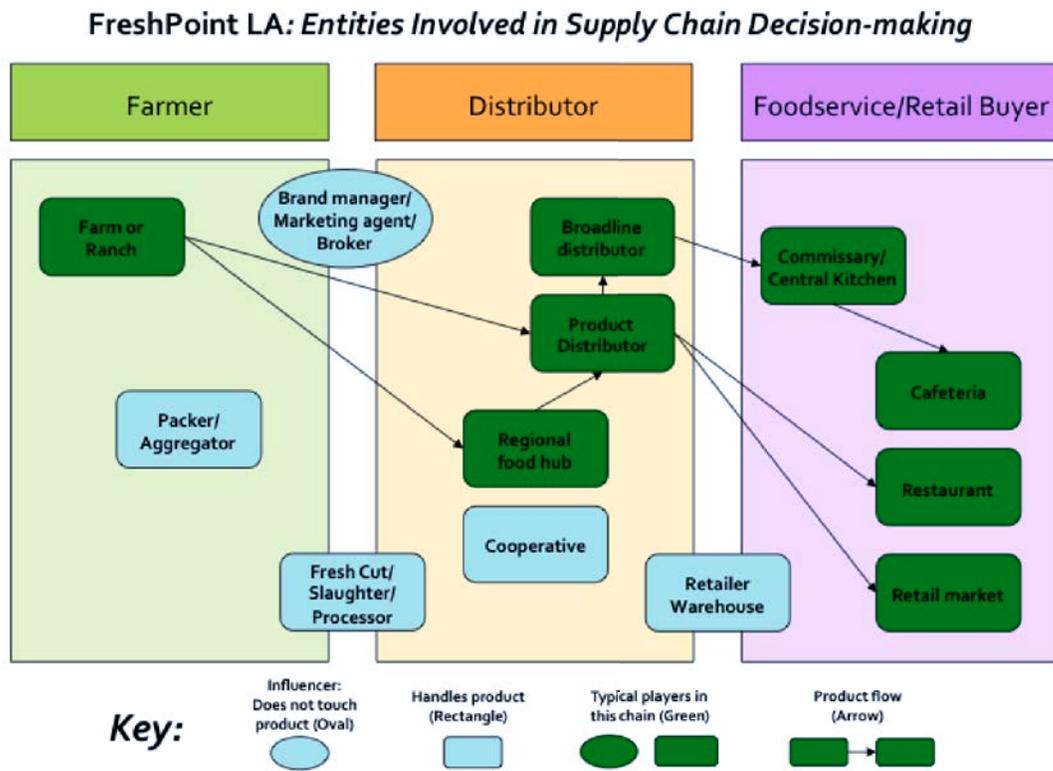
Value Proposition

FreshPoint Southern California consistently has the product for the customer at a reasonable price, delivered with speed and efficiency. They meet the needs of their customers who are asking for values-based product.

Competitive Advantage

FreshPoint Southern California has the scale and financial strength to make their values-based line profitable. They are masters at tracking and trimming costs so that their customers can get the values-based product at the lowest possible price. The farmers for this line are, generally, setting the price.

Figure 7. FreshPoint Southern California; typical supply chain



Findings from different perspectives

Distributor

Finance

The values-based product line from more than 50 growers is an expensive line to support. The president says, “The reason for the effort is to gain market share, not bigger margins. In fact, our margin for locally sourced product is about the same as for conventional. We track our expenses and costs carefully to assure that. Of course this product is more expensive to our customers than our regular product.” (DFP1, DFP2, DFP3, 2009)

Policy and Regulations

The company follows all known regulations.

Entrepreneurship

The company culture of Sysco is to empower its operating units to be independent and entrepreneurial. They are held accountable for the bottom line. FreshPoint LA has been aggressive in creating a values-based line once it perceived the demand, but the company also rarely leads the market. When demand is clear, FreshPoint Southern California will deliver. They have the skills, the capital, the scale, and the history to make the values-based line succeed but they don’t have a reputation as innovators and leaders in the somewhat “politically correct” world they are entering.

Farmer

Finance

The growers who feed the values chain anchored by FreshPoint are almost all midsized farms. They consider farmers markets to be showrooms that distributors visit to learn about what is available. (FFP1, 2010) For one farmer, these distributors account for about 35% of gross sales for this farmer’s family farm, which is representative of other similarly sized operations.

About half of the total amount of values-based, (these values being one or more of, “local, family farm, specialty, small, sustainable or organic”) product that FreshPoint Southern California purchases for its Farmers Market line is delivered directly to its warehouse by about 20% of the farmers. FreshPoint Southern California sends a truck and a buyer to the Santa Monica Farmers Market every Wednesday to make the balance of purchases from growers at the market. (DFP1, DFP2, DFP3, 2009)

Entrepreneurship

Entrepreneurship skills are not a barrier to entry into the established values-based chain anchored by FreshPoint Southern California. The producers we interviewed

understood exactly why they sell to FreshPoint Southern California, how it fits into their other market channels, and the costs and benefits of doing this business. Because the business starts with a place at the Santa Monica farmers market, and because FreshPoint Southern California buys a significant amount of product, the smallest and presumably less established farmers don't gain entry. Like all mature markets the senior, larger, and more consistent farmers are more likely to have a stall than the new small grower on the waiting list. Buyers from distributors will gravitate to the established farmers at the market because the supply is greater and the transaction easier. An exception might be the small producer who has managed to find a place and has something the established grower does not.

Foodservice / retail buyer

Finance

FreshPoint sells to all kinds of foodservice customers, but it is particularly strong with large institutional foodservice operations because it has locations all over the country. National firms like Aramark (BFP1, 2010), or Sodexo (BGC1, 2010) can confidently negotiate purchasing agreements and discounts that apply across large regions. This set of corporate agreements makes it straightforward for institutional chefs to bring values-based product onto the menu even though the price is higher. As one chef said, "Price is always an issue but it does not drive us. It is availability and seasonality that constrain our purchases." (BFP1, 2010)

Policy and Regulations

Institutional customers of FreshPoint Southern California are no more concerned about pack and grade or food safety regulations as they apply to their values-based purchases than for any other class of purchases. They are very concerned about all of the product sourced from FreshPoint Southern California and conduct their own audits of the facilities. One buyer (Aramark) takes the extra step of inspecting the FreshPoint Southern California facility himself about once a year. In addition he has visited the farms where much of the product is grown.

Entrepreneurship

The size of the customer does not seem to define their commitment to sourcing values-based product. Small restaurants and large institutions use the same language to explain why they want the product. Management at Aramark's operation at the Anaheim Convention Center, are particularly eloquent. The General Manager was responsible for Aramark's sustainability initiative before coming to his current position. He clearly brands the operation as sustainable. He also noted, "We are very committed to organic product procurement and creating a culture where sustainable cuisine practices are embraced. We believe that providing high-quality dining experiences, as well as being good stewards of our planet, is something that gives our company and our customers great satisfaction" (BFP2, 2010).

Specialty Produce

Specialty Produce is a privately held foodservice purveyor with a focus on specialty produce, however it also sells dairy and other items.

Size

Specialty Produce has 600 restaurant customers and is the largest produce purveyor in the San Diego region.

Type

Foodservice purveyor, and also operates a “CSA” program to consumers.

Time in business

30 years total, 18 years as a tech focused purveyor, six months as a CSA.

Scope of Offerings; who they work with (suppliers and buyers)

Specialty Produce buys directly from 17 local producers and other receivers and delivers to foodservice / retail buyers and self operated institutional customers. They sell an increasingly diverse line of dairy and other non-produce specialty processed foods.

The Story

Three brothers have grown the company for 30 years, starting from a produce stand in La Jolla. One brother (DS1, 2010) made the critical decision 18 years ago to invest in innovative software technologies that, according to this interviewee, may have saved the company and completely changed the business model. They can now use social networking tools and refined communication methods to facilitate communication between the customers, the farmers, Specialty Produce, and consumers all over the world. They have created a community. The management information system that customers have access to adds greatly to the value of service and is a competitive advantage in the San Diego market.

Specialty Produce has started a CSA program recently wherein it packs consumer boxes with product acquired at the Santa Monica Farmers Market and from a network of 17 regional producers. At any given moment they may have product in the CSA box from seven of these.

Size, reach, and customers

Specialty Produce now supplies 600 independent restaurants in the San Diego bay region and dominates this market.

Value Proposition

Specialty Produce builds long-term relationships with retail customers, employees, suppliers, and community residents. They listen and respond to customers’ needs augmented by the best proprietary technology and social networking techniques.

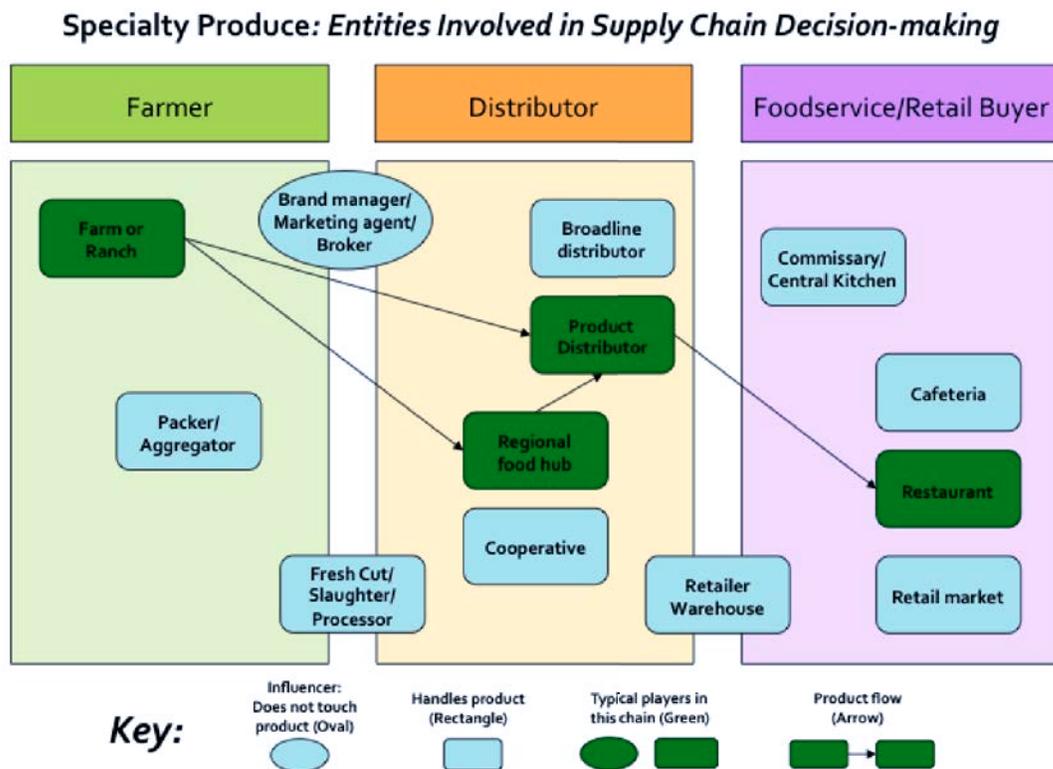
Competitive Advantage

Over the last 18 years the owners have developed a unique and sophisticated technology that provides an unprecedented level of management information to chefs, and now to CSA consumers, about the product, the season, the farmer, historical ordering patterns and prices, etc. This adds value to Specialty Produce's service and products and creates an active and transparent conduit for dialogue that carries the values-based story attached to produce from local farms. In addition they are deeply engaged in social networking to create community among their clients and suppliers.

Specialty Produce truly believes in their mission to connect farmers, fine produce, families and the environment through their business model. While profit matters, it does not appear to rule in the company ethos.

Channel graphic

Figure 8. Specialty Produce; typical supply chain



Findings from different perspectives

Distributor

Finance

Like the other for-profit distributors that anchor the supply chains in this study, Specialty Produce appears to be thriving. It was not always the case. One of the owners explains, “Most of the companies in town disappeared over the last ten years. We decided in the 90’s to build the (web-based information) system because we thought it would be impossible to survive with all the companies coming down from LA. We had to do something they couldn’t do. To develop a system like this now you’d have to write a check for \$2 million dollars.” (DS1, 2009)

With the investment in technology already made and with a majority share of a growing market, access to capital is not an issue for this mature company. Two facts emerged. First, the company’s success is due to an investment in the tools they need to deliver product with the values we are studying. Second, it would be prohibitive for a competing chain to attempt a similar business model in the same market area because of today’s higher costs. (DS1, 2009)

Policy and Regulations

Specialty Produce follows all the usual food handling regulations required of any purveyor. They have few institutional customers so the managers don’t need to meet extraordinary certification requirements required by large accounts like Sodexo. They are not certified Organic handlers, but their product list identifies products that are.

Entrepreneurship

Specialty Produce staff raise the bar on entrepreneurial skills and business acumen to “a new high” (DS2, DS3, 2009). The technological orientation is evident with large flat screen displays both inside the office and out in the warehouse and the best computer technology. One owner believes that the use of technology to translate values from field to fork is Specialty Produce’s competitive edge. The chefs and farmers we interviewed pointed out the sense of mission attached to the company. (BS1, 2009)

One owner explains, “We are out social networking with people who are buying our product. We try to tie everything together as a food culture. We are listening to the consumers and they are listening to us so there is a dialogue between our customers, the foodservice / retail buyers, and us. There is one data source that everyone uses to communicate the most important information and events that have value.

We use the database to give the chef a tool to track crop availability. The chefs can see the average price charged to all *Specialty Produce's* customers in previous seasons. A cool thing is that they can go into a farmers market to see what's going to happen in January or February based on what happened the previous year. This is broken out by farm and by the product. No other service is doing anything close.” (DS1, 2009)

Farmer

Finance

The farmers we interviewed who supply Specialty Produce were a midsize grower, (below a million dollars per year), who sells at Santa Monica Farmers market; and a larger, (one to five million dollars), local farmer who is vertically integrated. Neither expressed any concerns about access to capital now, but one talked about difficulty in the past. (He had to borrow from the Farm Service Agency (FSA), bank the money, and then pay it back in order to qualify for an operating loan from a normal bank.)

Policy and Regulations

The owner of the micro-green, relatively large grower-shipper distribution business we interviewed is a sophisticated and pro-active expert on the current and potential regulations governing producers (FS1, 2010). Since his product is branded and distribution is vertically integrated, the responsibility to manage regulatory risk is his. This grower shipper holds three separate certifications from Primus Labs; Greenhouse, Harvest Crew, as well as conforming to packing house GAP's and GMP's.⁷ He is a signatory on the California Leafy Greens Marketing Agreement. The farm is local to Specialty Produce and he sells there, but the product is also distributed widely throughout the country. This grower and his operation is the most proactive of any farmer interviewed for this research in his approach to government regulation and demands from buyers. His engagement with industry groups and with a variety of distribution firms has sensitized him to the trend towards greater regulation and transparency in the produce industry, and he has implemented management systems accordingly. He does not consider this process to be a particular problem but rather a normal part of his business.

The other farmers who sell at the Santa Monica market are more typical in that they abide by the rules, follow sanitary procedures and keep animals out of their fields, but they are waiting for more clarity about which food safety rules or protocols to

⁷ Current food good manufacturing practices (GMPs) are published in Title 21 of the Code of Federal Regulations, Part 110 (21 CFR 110). GMPs describe the methods, equipment, facilities, and controls for producing processed food. As the minimum sanitary and processing requirements for producing safe and wholesome food, they are an important part of regulatory control over the safety of the nation's food supply. GMPs also serve as one basis for FDA inspections.

comply with before worrying much about it. (FS2, 2009) Every farmer is concerned about the application of the contemplated food safety rules, particularly the impact of the Leafy Greens Marketing Agreement on small farms. However most seem resigned to the fact that audit standards are coming.

Entrepreneurship

The farmers are aware of Specialty Produce's social networking efforts and they understand the importance of "the story" and have practices in place to keep it vital. However, they consider it the distributor's job to tell the story to the chefs. All the farmers interviewed who supply Specialty Produce maintain their own quite sophisticated web pages; one publishes a weekly newsletter online and has regular on-farm events, such as farm tours or harvest celebrations. Another has an active Twitter and Facebook presence. These efforts augment Specialty Produce's marketing efforts but are not specifically targeted to their customers.

Foodservice / retail buyer

Finance

Every chef constantly balances several factors when choosing produce for the restaurant: price, quality, uniqueness, "the story", and how their choices might make the restaurant more distinctive. Here we look at the how price influences the chef's participation in the values-based supply chain anchored by Specialty Produce.

Specialty Produce allows the chef to access farmers market product. One chef said that they spend 46.8% of their total produce dollars on Farmers Market product bought through Specialty Produce. They have a special relationship with one local farm from whom they now buy an additional 25%. (BS1, 2009)

Another chef at a larger restaurant has a similar strategy, but buys directly from two or three farms with the balance coming from Specialty Produce. Both chefs know the names and locations and production methods of all the farms that are part of Specialty's Farmers market program. (BS2, 2010)

Most chefs who are part of this values-based supply chain are buying from either Specialty Produce or from a particular farmer and may need to decide between "values" and price. Their records show that price is not a major barrier to buying the values-based produce if it is something they can showcase on the menu. The same product might be available at a lower price but without the values that make it special. Under these conditions, the chef will often choose the "special" produce despite the higher price.

One chef explained it succinctly, "If a particular ingredient is significant and spectacular even if the commodity is available elsewhere, then it makes sense to buy

it. If I can't showcase the product, I can't pay a lot more for the product than commodity." (BS2, 2010)

Policy and Regulations

Chefs rely entirely on Specialty Produce to assure compliance with food safety and other regulatory requirements.

Entrepreneurship

The chefs we interviewed see their values-based purchases from the Specialty Produce supply chain as part of their fundamental positioning strategy. In their competitive business, they have to be conscious and public about the things that make them unique. Their focus on local and sustainable and "fabulous" ingredients is part of that strategy. (BS2, 2010)

Sacramento Natural Foods Co-op

Sacramento Natural Foods Co-op is a co-operative grocery store near downtown Sacramento, California. It buys directly from local farmers but sources most of its produce from a distributor called Veritable Vegetable in San Francisco. The management and staff are committed to community education about local, sustainable food and farming, and they work closely with the supply chain to support this mission.

Size

Annual sales from the single store are about 24 million dollars with about 2 million dollars coming from produce sales.

Type

Sacramento Natural Foods Co-op is a consumer-owned co-operative.

Time in business

The Co-op has been in business for 38 years. It started as a buying club in 1972 and incorporated as a Co-operative in 1973. It has occupied its current site since 1989.

Scope of Offerings; who they work with (suppliers and buyers)

The store is a full service grocery store that sells only certified organic products and is committed to sourcing from local producers as much possible. While the store buys direct from many growers, the bulk of its produce including that grown within about 200 miles comes from an organic produce distributor in San Francisco called Veritable Vegetable. The management, farmers, and Veritable Vegetable collaborate to coordinate supply and promote the values they share.

The Story

The Sacramento Natural Foods Co-op built relationships with its suppliers and customers as they all grew together since the early 1970's. Veritable Vegetable, Sacramento Natural Foods Co-op, and the farms interviewed for this case were just getting started in the 1970's. Their business relationships have not always been smooth but this supply chain is marked by trust, transparency, and a longevity that is rare in produce distribution. For instance, almost all the local farmers from whom Sacramento Natural Foods Co-op buys directly also sell to Veritable Vegetable). When the sales staff at Veritable Vegetable know a farmer may not be able to meet demand at the store they will make sure that they have an adequate supply from other growers to fill in. Everyone talks to each other. This degree of transparency and communication is unique among the chains we have profiled.

This supply chain ends with a retail store rather than a food service buyer like the other cases in this study. Therefore, the Sacramento Natural Foods Co-op's challenge to deliver education is more complex because of the diverse audiences who need to

understand and value characteristics such as local, organic, sustainable, flavor, and the authentic connection with the farmer. The store staff and leadership have created a store that is also a classroom with visual clues such as color-coded labels indicating the distance the produce traveled, posters and graphics that tell the story, and very often the farmers themselves are at the store, formally meeting staff at luncheons, delivering product, or just shopping. Sacramento Natural Foods Co-op extends this education beyond the grocery store building in ways that we will describe in this report.

While Veritable Vegetable and the farmers support and participate enthusiastically in this education, the primary leader is Sacramento Natural Foods Co-op. Other organizations, including the farmers we interviewed, sell some produce to the store, and also act as critical partners to raise the sense of community and teach about the values attached to the product. One of our interviewees (FSNF2 2010), is a small educational farm, is a small farm that no longer sells much to Sacramento Natural Foods Co-op, but nonetheless is an important partner in the education work.

The links in this supply chain act together to firmly attach values such as “consumer education” or “community” or “regionally grown” to food products. Together they position the Sacramento Natural Foods Co-op as a community centered, high quality, authentic source of food imbued with the values of a growing target market of “sustainability”-conscious consumers. While individual produce items are not usually labeled or specifically branded, the farmers’ identity and story are on prominent display through banners, posters and other means. Of course the store brand is also on display. This collective activity, or cobranding, builds identity, supports the store’s positioning strategy, and pulls value added product quickly through the chain. The proof is in the assertion by all the players that they are making money and growing. One manager at Sacramento Natural Foods Co-op said it well, “We are making money, even during this bad economy. These strategies are working. We are getting more people coming in because in this economy, people want to keep local business supported. Our cooking school is doing well. We attribute our growth to the education programs (delivered) from our heart.” BSNF1 (BSNF1, 2010)

Size, reach, and customers

Annual sales from the Sacramento Natural Foods Co-op are about 24 million dollars with 2 million of that coming from produce. In the summer, about 70% of that comes from local producers. (BSNF2, 2010) Staff at the store, like everyone else in the produce business, are wary of using a hard number to define local, but when pressed, the produce manager considers local to be within 200 miles from the store. All of the produce is color-coded on labels by distance from the farm and by farm name.

The total percentage of local produce purchased directly from farmers averages about 60% year-round; but if local product sourced from Veritable Vegetable is included, the amount of locally sourced product increases to about 90% (BSNF2, 2010). All of the farmers who sell directly to Sacramento Natural Foods Co-op also sell to Veritable Vegetable. This passes the task, but not the responsibility, of checking on certifications and on food safety or other regulations to Veritable Vegetable.

Veritable Vegetable had sales of \$36 million in 2009 (DSNF2, 2010) They have a long tradition of purchasing directly from local farmers and they maintain close relationships with many of California's most respected organic farmers. They bring those connections and credibility into the values-based supply chain anchored by Sacramento Natural Foods Co-op. Veritable Vegetable also directly and financially supports the marketing position of the Co-op. For example, the Co-op has an Anti-Depression Friday promotion where it gives a 20% discount to customers to help them through the current difficult economy. Veritable Vegetable lowers its prices for product ordered that day by 5%.

The Sacramento Natural Foods Co-op is located near downtown Sacramento and draws from a dense population across a wide demographic of race and income. Although organic product is more expensive than conventional, they have many programs to engage lower income customers, including the *Anti Depression Friday*. They recently opened an education center in an adjacent building that teaches consumers about nutrition, sustainable agriculture, and cooking.

All the links acting together over many years have made the Sacramento Natural Foods Co-op store the ideological center for the local food movement in Sacramento and by far the largest single retail store supplier of values-based product in the region.

Value Proposition

A supply chain contains a series of value propositions that each link makes to the others. The farmers make a value proposition to the distributor, who in turn creates a proposition targeted to the retail buyer, who then presents a value proposition tuned to the shoppers' wants, needs, and values. In this case, all of these value propositions are remarkably resonant with one another and find their best common expression at the Co-op. Together they are building a "story" in which all value propositions are synergistic.

The purpose of Sacramento Natural Foods Co-op is, "To be a trusted source of natural foods and products, and a reliable resource for consumer information." The value proposition is richer. The Co-op's website includes additional values: "Born by community need and kept alive by individual participation, we are a consumer-

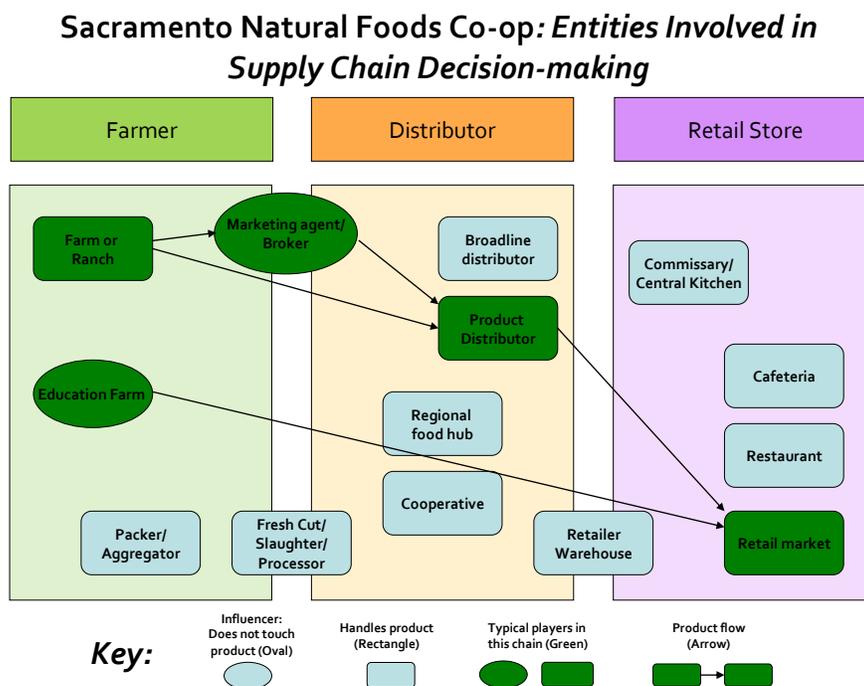
owned natural foods grocery store that places the values of cooperation and sustainability at the forefront. Our focus is to benefit our owners, support our local growers, participate in our community and protect the environment. We look forward to carrying on that tradition with you.” Or as the Marketing Director said, “Sacramento Natural Foods Co-op is community centered. To me it is about love: a love of knowledge, of food, of the environment.” (BSNF1, 2010)

Competitive Advantage

Sacramento Natural Foods Co-op delivers a unique experience to its members and shoppers. It targets a socially aware, health-conscious, and values driven audience then telegraphs its shared values with aggressive education, both in the store and in the community through its partners in the value chain. No other grocery store in the city can compare.⁸ The store’s most significant competitor is Whole Foods Market about 20 minutes away. There is a Trader Joe’s just 10 minutes away, but it is arguable that the two stores compete on produce for the same customers.

Channel graphic

Figure 9. Sacramento Natural Foods Co-op; typical supply chain



⁸ The Davis Food Co-op is a similar store half an hour drive by freeway from Sacramento Natural Foods Co-op. The two stores collaborate in many areas and buy from many of the same growers however they don’t compete for customers because of the geographical separation.

Findings from different perspectives

Distributor

Veritable Vegetable is, and has been, the sole distributor of fresh produce to Sacramento Natural Foods Co-op since it was incorporated. All the farmers who sell directly to the store also sell to Veritable Vegetable.⁹ It is the oldest and most respected organic produce supplier in California. The produce manager at the Co-op began work at the store, left to become a sales representative at Veritable Vegetable, and then returned to Sacramento Natural Foods Co-op to take up her current position. There is a long history and good relationship between the two businesses.

Finance

Since 1974, Veritable Vegetable has been an industry leader in distributing high-quality, organic produce to the Southwestern States. Though the business has grown from a small collective to a company of over 100 employees (70% of whom are women), and has increased the size of its distribution area, Veritable Vegetable always prioritizes supporting local, small and midsize growers. They have 17 trucks on the road daily picking up and delivering produce. The firm is distinguished by the degree of contact they have with the growers. This is partly due to their unusual practice of picking up much of their product directly from the farm. “Eighty percent of the product that we land on our dock is (picked up from the farm and) on our trucks. It is key to our success; we can control the timing and handling and quality of product, so that we don’t sell what we don’t have. We can sell product that is on the way to the dock.” (DSNF2, 2010)

The model is succeeding, “We are having amazing growth this year [2010]. In 2009 we sold \$36 million and this year \$38 million dollars. In 2004 we did \$26 million.” The interviewee goes on to say that although the growth in sales is not as fast as previous years, it is still robust. “I think people are spending less on things and more on themselves. They want good food” (DSNF2, 2010).

The firm has never had difficulty attracting capital. Recently it has made investments in solar power and more trucks.

Like all distributors they have found that dealing with small and midsize producers is more expensive because inventory management takes more time. However, dealing with these growers is part of the mission of the organization and is demanded by their customers.

⁹ It is unusual for a distributor to tolerate a supplier who also sells directly to a shared customer. In fact Veritable Vegetable supports the practice.

Veritable Vegetable is well known within the sustainable agriculture community as a financial supporter of sustainable agriculture non-profit organizations and businesses. This includes, for example, a monthly donation to Sacramento Natural Foods Co-op to support the Co-op's education programs.

Policy and Regulations

With very minor exceptions, Veritable Vegetable is an almost all (97%) organic distributor. Therefore many of the issues related to transparency and cultural practices are third party certified. The source of all local produce is clearly identified on the price sheets and on boxes. Veritable Vegetable does not itself require a third party food safety audit¹⁰; however, many farms are regularly visited by staff and the purchasing department is in regular contact with growers so their food safety practices are not a concern to Veritable Vegetable. Veritable Vegetable is not terribly concerned by impending regulatory issues. As a long term business they are confident that any barriers caused by regulations can be surmounted.

Entrepreneurship

Veritable Vegetable has proven that their business strategy works to make a profit, but it is clear that profit is not their primary motivation. Their values are contained in their mission statement:

We at Veritable Vegetable are creating and fostering sustainable culture, integrating the environment, the economy, and society as sustainable systems. Sustainable systems are inherently life affirming, balancing input and output, conserving, if not augmenting, energy and resources. Veritable Vegetable has chosen to influence these areas by distributing organic produce and promoting sustainable agriculture.

We are pursuing and applying participatory management systems and sound, ethical business practices. Veritable Vegetable supports diverse communities and businesses. We are committed to providing opportunities for women in the work place.

Their grasp of the role that values play in their success is well articulated on the website:

Logistics and efficient transport of goods are primary services that we provide; yet the information and feedback that we supply to our farmers and our customers is often considered equally valuable. We believe people have the basic right to know how their food was grown and who grew it; we consider such information nearly as important as the physical product itself, and we broadcast it widely.

¹⁰ Veritable Vegetable staff watches the food safety legislation at the state and federal level carefully.

It is the interface and close working relationships within our company that enable us to maintain our high level of service. The conscious integration between all our various departments is highly tuned, and we think, very unusual. We pay attention to details, and our entire staff is trained to participate in quality control. Our integrated custom computer system provides real-time inventory at our fingertips. We provide meaningful work and consider staff development an important service to our employees; providing training in equipment handling, produce knowledge, business and computer skills is only a start.

An important element of entrepreneurship is a drive to innovate. Veritable Vegetable has been a pioneer and innovator since its inception. Many of the practices that define values-based distributors were almost unknown during the company's early years but are common today.

- They were among the first to embrace Organic standards
- They were woman owned and operated when the produce world was totally male dominated
- They encouraged the farmer to form direct relationships with the consumer even to the point of hosting a CSA drop off on their docks for one of their suppliers.
- They have been steady supporters of alternative producers and specialty marketing education and legislation.
- Veritable Vegetable was among the first distributors to pick up from producers rather than simply take delivery on the dock.
- The company has invested in logistics management tools that put product into inventory as soon as it is loaded on the truck rather than when it arrives at the dock. This allows the sales staff to market fresher product than competitors.

The founders of the organization remain the managers. They started the company because of their political and social beliefs, and then made it a success over decades without losing the values they started with.

Farmer

We describe here two kinds of farmers for this case. The first is one who sells a substantial amount of product into the supply chain and participates with the other links in branding, certifying, and in other ways attaching value. The second is one who is part of the supply chain but does not sell a significant amount of product that ends up on the shelves at Sacramento Natural Foods Co-op. This farmer is, however, important to the positioning strategy of Sacramento Natural Foods Co-op. He provides community education opportunities and lends authenticity to the Co-op and to some degree, Veritable Vegetable, showing continuity and story from field to

fork. We call this kind of farm an *Education Farm*. Two of the four farms we interviewed fall into this category.

Finance

The Sacramento Natural Foods Co-op's many relationships with farmers are long and complex. The store has grown with the farms. They continue to work together because it makes financial sense and because of their long history together. All the farms use multiple channels for selling their products ranging from CSAs to the wholesale markets. The midsize farms that deliver directly to the store have trucks that are also servicing other accounts. (FSNF3, 2010) The two small "education farms" deliver directly to the store and also participate in educational events. (DFSN1, 2010) (FSNF2, 2010). The largest producer with more than 600 acres in vegetables did business directly with the store but now uses a broker who works with Veritable Vegetable to get product to the store. He explained, "We used to sell directly to Sacramento Natural Foods Co-op but after 15 years we stopped because of our size. Now they get our product through Veritable Vegetable." (FSNF1, 2010)

Producers all choose a mix of market channels that maximize their profit over the longest period, sell all that they grow, while disappointing as few customers as possible. The importance of the Sacramento Natural Foods Co-op to the farmers appears to be proportional to the scale of the farm. The small and midsize farmers work hard to brand themselves and tell their story because they believe the added value benefits them in all the channels they use. This branding work meshes with the story Sacramento Natural Foods Co-op is telling. Typical are these words from one small farmer: "We are a small, diverse, and local farm. What is important to us now is to establish a relationship with the customer. They need to take personal responsibility for knowing where produce comes from and for a food system that maximizes local investment." (FSNF2, 2010) Another education farm operator says, "We don't sell food. We sell the concept of improving health. We do it by practicing sustainable agriculture, working on innovative food access, and education to the public. We message but we don't have to sell" (DSNF1, 2010)

The ability to access capital is a concern but it is not an issue now for the larger, mature operations and it did not affect their decision to participate in this supply chain. One large producer had some regrets about how he financed the farm and offered some advice for new farmers. "The place was started with self-finance and by my father cosigning. Looking back, the worst business decision we made was trying to farm without adequate capitalization. There was a long learning curve since when we started there was no one to show us how to do it." (FSNF1, 2010)

The very successful mid-sized farm that was begun by four partners has never borrowed money, "Even in the beginning we had no loans, and we never used financing. If we need (cash flow financing) we use our CSA business." (FSNF3, 2010)

The smaller farmer also uses his CSA as a source of cash flow now but he borrowed money when he began. “We borrowed FSA money to buy the land and are still paying now in year 17.” (FSNF2, 2010) Finally the educational farm is a non-profit that has largely been funded by sales and grants. (DFSN1, 2010)

It is not possible to say categorically that the farmers make more money from product sold at the Sacramento Natural Foods Co-op than through their other channels. That single calculation is too simplistic: the role of the Co-op in each farm’s early years and the supportive relationships between the Co-op, Veritable Vegetable and the farmer have contributed significantly to the the farm’s financial performance.

Policy and Regulations

The producers in this values-based supply chain terminating in retail seemed more concerned about regulation and government policy constraints than those in the rest of the cases. These interviews were conducted six months after those in the other cases and issues about the new federal food safety legislation were getting a lot more attention in the press and among grower groups. Conversation around the interviews showed that these regulations were on their minds.

All of the producers that Sacramento Natural Foods Co-op source from also sell to Veritable Vegetable, and they are all certified organic. Sacramento Natural Foods Co-op relies on Veritable Vegetable to check all of their vendors for these certifications and other paperwork. However other regulations are of concern as one grower lamented, “Oh God, they are out of control! This is one point where I agree with big farmers, regulations are killing us. Everyone is really dissatisfied. The labor laws are an unworkable system, and the food safety thing is nuts.... We have a diversified farm that simply can’t deal with regulations coming from lots of directions” (FSNF2, 2010)

Another midsize producer was more specific: “We are very conscious of the myriad of regulatory agencies that could arrive on our door and audit us and give us a lot of grief. We are at that size where those issues are very critical. The reality is that you need staff to focus on those things. It is very time consuming and we are really working hard to make it happen. Food safety has not really come home yet. Its Cal OSHA, water quality board, DMV, each of these has many pieces and moving parts.

Sweeps from Cal OSHA and the Fair Labor Standards Board have been busting farmers who use interns. So we have to make sure that we totally understand the rules.” (FSNF3, 2010) The largest farmer is more resigned: “Regulations have a good side and bad side. I’m working on the food safety thing. Our customers are asking us to get food safety certified by NSF or Primus Labs who cover a lot of different certifications. In going through the process I’ve learned a lot about how to make our

business better, but bureaucracy and cost are a problem. I'm trying to be more open about it." (FSNF1, 2010)

In summary, growers are concerned about regulations and policy changes that will affect them and are moving to comply. However, this movement is dictated by more than their participation in the values-based supply chain.

Entrepreneurship

All of the producers interviewed for this study were selected in part because they appear to be successful. No attempt was made to randomly sample all farmers who sell product with values attached. All of the farmers for this case, with the exception of one, have been in business for decades. They all have university degrees and are articulate about the industry and their values. Their entrepreneurial skills are proven. However, they stand out in one area that has contributed to their success in this supply chain, and that is their ability to form and maintain strategic partnerships.

All but the new education farm were founding members of an organic produce co-operative called YoCal Produce in 1985. Although that business closed, it was the beginning of many examples of collaboration by these neighbors over the years. Two were also founding members of the Davis Farmers Market. The Davis Food Co-op has similar relationships to these farmers and both Co-ops are supporting a unique program to secure the future of one of the farms through a farmland preservation project, called One Farm at a Time.

We have discussed how these producers work strategically with Veritable Vegetable, a values-based company, to market values-based food. Farmers mentioned other partnerships that have benefited them as well. One mentioned his bank; another, the non-profit organizations she directs; another, her pioneering work on farmers markets and CSA's. The educational farm mentioned the links with similar beginning farmer programs around the country. All these alliances have built entrepreneurial skills and placed these farmers on the leading edge of the movement towards values-based food supply chains.

Foodservice / retail buyer – Sacramento Natural Foods Co-op

Finance

Sacramento Natural Foods Co-op was started as a buying club in 1972. As a co-operative it was not designed to return capital to investors but rather value to members. The values of sustainability, local, family, and scale are what the members pay for when they shop in their store. To the extent that prices are higher, its members are willing to pay that premium to support the store. The financial success of the store indicates that any added costs due to education and merchandising programs are worth the expense to the members.

The store is succeeding despite, and perhaps because of, the downturn in the economy. Annual sales from the store are about \$24 million with \$2 million of that coming from produce. “We are making money even during part of this bad economy. These strategies are working. We are getting more people coming in...people want to keep local business supported.” (BSNF1, 2010)

It costs more for the produce department to source organic, but it does not cost more to buy from local farmer vendors. “It’s not more expensive to manage small farmers. In general it is pretty easy. VV works with them on the ordering and managing (product) flow so the costs are reduced. Sharing our information with VV is good. It is not about money.” (BSNF2, 2010)

Compared to a conventional grocery store of similar size, Sacramento Natural Foods Co-op spends far more on educating their customers about the produce. Their relationships with the small educational farm has incurred both cash and time costs but it is part of a larger positioning strategy

Policy and Regulations

There are no policy initiatives or regulations that the management of Sacramento Natural Foods Co-op are concerned about. Like the distributors we interviewed for other cases, they simply comply. The produce department manager did express concern about the Leafy Greens Marketing Agreement, (LGMA) “I’m worried about Leafy Greens and how it will hurt my farmers and the supply of their product. If it becomes a problem we will deal with it” (BSNF2, 2010). The contrast is striking between the level of concern about regulations among farmers and that of Sacramento Natural Foods Co-op. Producers see regulations like the LGMA as being expensive and difficult to implement on small, diversified operations and it is not clear to them how to comply.

Entrepreneurship

Sacramento Natural Foods Co-op is a successful store, and the staff certainly possesses entrepreneurial skills in abundance. The operational plan is effective, the strategic planning is evident and, merchandizing is well understood. However, according to interviewees, two key elements--commitment to producers and communication with customers--were instrumental in their success in this values-based supply chain.

Commitment In the words of a farmer, “Sacramento Natural Foods Co-op finds something they need to do and act to do it. Their difference is in the commitment...” (FSNF2, 2010)

The Co-op management also pointed out their commitment to the producer: “It has to happen at the top level of the organization. It can’t be just from the produce manager. Who wants to buy from a lot of farmers? It takes a lot of empathy with what the farmer actually goes through to get the product to the store. You have to build the patience level from all the players in the store so that they can take the trouble to buy from small growers.

We felt that it was really important to expand our commitment to small farmers. It’s harder. We have to take responsibility to train the farmers. There has to be a relationship developed because we look for a heart connection.

We have to create brand loyalty among the members towards particular farmers. About 14 years ago we made a commitment to identify every farmer on every product (with information) about who grew it and where it came from.¹¹

We also committed to talk about the specialty variety from the farmer. We had to build anticipation by the consumer about a particular new variety and about the farmer. It was a way to secure commitment by the staff of the co-op towards keeping this system of farmer connections solid and make it survive co-op staff turnover.”(BSNF1, 2010)

Communication and education: Communication and education are obvious hallmarks in the Sacramento Natural Foods Co-op. The store is filled with class announcements, label information about locality, information kiosks, suggestion boxes, and even little piggy banks at the checkouts to collect donations for the One Farm at a Time program. The farmers are in the store talking to staff. “We periodically open up channels between growers and the produce manager, the marketing department, and the general manager. We want the farmer to get to know lots of different people in the organization. not just the produce manager. We protect the grower by having multiple contacts so that the grower can have a candid conversation with other people at the co-op. (We help the farmer) to know not only *up* the organization but also *down*”. (BSNF1, 2010)

Analysis

We evaluated the common themes and differences among five cases. Three are anchored by existing private sector businesses that have created a “values-based” line among their other lines. Their purpose is to profitably meet the needs of their customers. Meeting the needs of their farmer suppliers is a secondary concern. The fourth case, Growers Collaborative, is a non-profit that markets only values-based

¹¹ The farmers are identified on cards on the stands, posters, and other means – not usually on the produce item itself.

product. Meeting the needs of the new or small farmer who farms sustainably is CAFF's primary concern and supplying healthy local food to people who need or want it is the secondary concern. Making a profit is not a central concern. The fifth case ending in a retail co-operative is not focused on profit, but rather on the needs of its members. The Co-op charter is rooted in values that include the interests of farmers. These fundamental differences in perspective color every observation or comparison to be made between the chains

In this analysis we identify common features and make comparisons across two dimensions. The first is related to three factors affecting values-based supply chains development—financial, policy, and entrepreneurial. The second is related to the perspectives of the three classes of businesses that make up the chain; farmer, distributor, and foodservice/institutional, restaurant or retail buyer.

An early discovery was that these chains were not neat linear relationships, but were, in fact, networks that interacted with one another in complex ways. For instance all the midsize growers were marketing through several different chains. In fact, farmers' products might enter the same chain at several points as well as entering several chains. Therefore, an interview with one farmer often provided insights into two or three of the chains we studied.

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, retail customers, and institutional buyers want to know the story of the farm, its scale, how far away it is, and that the production practice is sustainable or organic.

The real world of growing crops, finding markets, and getting the product to the customer doesn't fit neatly into categories. It is a complex system. A farmer can also be a distributor, a non-profit can behave like a for-profit, and business acumen affects access to capital. Within these blurry borders we offer the following analysis.

Finance

Most small farmers have difficulty accessing both long-term financial and short-term operating capital. The smaller and newer they are, the harder it is.¹² These farmers are not sophisticated about options available to them that differ from conventional financing sources.

¹² Growers who can benefit from access to a values driven food chain tend to operate on the urban fringe where there are fewer farmers and less financial infrastructure such as Farm Services Agency offices and agricultural lending institutions. The dispersed farm community makes networking about these options more difficult.

The interviews with the farmers indicated that the people who 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. Finally, small and emerging producers who feed these and other supply chains, have fewer assets to collateralize loans. This makes them vulnerable.

Access to capital is closely related to scale. The midsize farmer who has been in business longer and is better capitalized can afford to take the risk of trying an unproven values-based marketing channel, especially since she probably has alternatives ways to get to market should the new channel not work out. She is also the farmer the new chains must have as part of the supply mix because she is better able to reliably fill larger orders with consistent product. The customer-focused distributor who has no particular mission to serve the small farmer will gravitate to the midsize farmer, while the mission-driven non-profit will court both the small and midsize producer. The non-profit is likely to be financially challenged already, and it is further weakened by the need to work with financially weaker small producers.

It is difficult to separate the additional profit earned by the grower for being certified organic from the premium earned for the added values of an authentic story about being local, sustainable, and small. In addition we can't isolate the marginal costs the producers incur for their participation in this particular value chain from those stemming from the other marketing channels they employ. Finally, there is no consensus in the research confirming that the return to the farmer is significantly greater when they participate in values-based supply chains than when they simply brand the farm and grow specialty products. However all the producers we interviewed, with one notable exception, (FSNF1) for all the cases are mature farmers with plenty of options about how they market their produce and they perceive that the return from participating directly in these supply chains is worth the additional cost.

Distributors who rely entirely on the values-based product line are unlikely to succeed without a subsidy. Locally sourced, seasonal product with a story is more expensive to source and the supply fluctuates wildly. The small producers are often not ready to collaborate on planting schedules and forward contracting. The distributor needs alternative, more conventional product lines in order to spread the overhead across greater volume and more customers. To stay in business they need to be able to bid for contracts with institutional buyers, and they need to stay in year-round contacts with their regular customers. They have to have the means to meet the orders of their regular customers virtually all the time and can't be restricted to just one line of product.

All the cases but one treat the values-based product as a “line” among several and in some cases, as a loss leader or as an investment in a brand that will become profitable over time. (DGC5, 2010). It is doubtful that any company that attempts to aggregate from small farmers and sell only local values-based product could be profitable. Sacramento Natural Food Co-op buys most of its product from Veritable Vegetable, a for profit distributor that acts like the others in as much as the local product with story is a product line, but the Co-op interacts directly with small farmers to tell their story and add values to the product. The Co-op also receives added value from the farmer who lends authenticity to the Co-ops image or position.

The distributors anchoring the three for-profit cases and distributor in the retail case are much larger than the Growers Collaborative- Thumbs Up partnership and already have trucks and other infrastructure in place. Their marginal costs to create and sell the new line of values-based produce are lower than those incurred by the Growers Collaborative-Thumbs Up partnership.

This is not to say that the non-profits can’t succeed. The new Growers Collaborative model neatly separates the functions of branding from distribution. The former is supported partly by fees, (15 cents a box) and by government grantors and foundations. The latter stands a better chance at being profitable compared to the old model because of the value the branding will add to the product.

Currently, GC is incurring costs for managing the Buy Fresh/ Buy Local brand and finding buyers and producers. The costs will certainly be too high if Growers Collaborative can’t get an ongoing subsidy or premium for the branding and marketing work in addition to the 15 cents/box fee. On the other hand, if the sales volume of Buy Fresh Buy Local product were high enough, the marketing costs could potentially be covered.

The customers of these supply chains are not faced with the same issues as the growers. All of the chefs and the retail buyer at the Co-op understand the tradeoffs between small/midscale, regional growers and larger conventional growers and can make appropriate decisions. Most of the time, the product is not pre-cut so it costs more labor to source from farmers. The price is higher, but they can charge more. Occasional “fabulous ingredients” make the restaurant “pop” (stand out). Stories help create an advantageous position. The chefs are able to compensate for their less secure supply of values-based produce by making their menus more flexible. (BS2, 2010).

The retail buyer for the Co-op is not buying pre-cut at all so that issue does not enter into the calculation. The buyer is following a store policy to source as locally as possible, (within about 200 miles), and will pay a premium to do so.

Policy and Regulations

Business people don't like to answer questions about regulations. The universal answer to a direct question is, "We follow carefully all the regulations we know about" (DG1, DG2, 2010), or a flat, "We follow all regulations" (DFP1, DFP2, DFP3, 2009). The degree to which regulations and policy are a constraint to their success can more easily be inferred from what they don't say, rather than what they do say. The participants in this study roughly divided into two groups; those who proactively identify the applicable regulations and develop a plan to comply, 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.

In all cases, the main task of, and responsibility for identifying, complying, and making sure that marketing and food safety regulations are obeyed along the entire chain from the restaurant or grocery back door to the field, lies with the distributor. The full legal responsibility may not in fact lie there, but both the producers and the foodservice retail/buyers tend to place it there. The distributors hold the vendor permits issued by the institutional buyers. In order to get it they have to comply with a list of requirements that include traceability, any needed third party certifications for food safety, insurance, etc. (DGC1, 2010) The chefs trust the distributor to have all these matters covered, so compliance with regulations is not an issue for the independent chef who buys only from growers who also sell to Veritable Vegetable. Similarly, the independent retail buyer at the Sacramento Natural Food Co-op trusts the growers from who it buys directly, because the growers also sell to Veritable Vegetable.

Regulatory and food safety issues are more of a challenge for institutional and retail buyers who are under contract with a particular (usually larger) distributor. These buyers may want to buy directly from a local grower, but cannot because institutional food service company policy requires that they buy from the contracted distributor. These policies are in place for financial reasons such as being able to get bulk discounts, and for risk management reasons to assure that all suppliers have appropriate food safety practices and insurance policies.

Small producers who have developed in the direct marketing world are less sophisticated about regulations and have not had to deal with buyer-driven food safety policies. A farmer's decision to access the values-based chain will likely result in some sort of third party audit for food safety. (FS1, 2010) Even if the grower can find one standard that is (now or likely to become), legal and meets the buyer's protocol, the grower's compliance costs could be at least \$5,000 (DGC2, 2010) and is a significant burden. 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.

The distributors mentioned in this study with the exception of Growers Collaborative Bay Area have been working with small and midscale producers for years. They keep good records about each farm including copies of any certification or inspection (DG1, DG2, 2010). On occasion, they hire their own food safety inspectors. The staff tends to develop a fairly intimate relationship with the growers over time and visit the farms occasionally. This approach of extensive record-keeping but worked well for the distribution firms in ameliorating regulatory risk.

The staff at Sacramento Natural Food Co-op are probably the most intimate with the individual stories and farms from whom they source. The communication program brings the farmers to the store and sends the produce staff to the farms as part of their ongoing training.

Entrepreneurship

No collection of resources, be they capital, contacts, time in the business, or even a passionate conviction in the cause, will guarantee success for any of the supply chains that we studied without the right set of entrepreneurial drive and business acumen. Each chain has different strengths and significant weaknesses. The degree to which each manager understands how to maximize the former and minimize the latter defines chances of success in the long term.

Among the five supply chains in this study, Growers Collaborative is one of the most credible advocates for farmers and understands the particular interests of the institutional market for values-based product. It is also the weakest financially. Greenleaf Produce understands the high end market and the specialty produce world best. They have a tested and refined business model and old partnerships with farmers and customers. FreshPoint Southern California has the greatest reach, the best institutional contacts, and arguably the deepest pockets. Specialty Produce is a maverick led by pragmatic pioneers who understand how to build and maintain a community of interest among customers. Additionally, the sense of mission exhibited by Specialty Produce may be an important indicator of success in a values-based food chain. The Sacramento Food Co-op supply chain is marked by trust and transparency from the farm, through the distributor, to the store. All information is shared up and down the line including price availability. Together they are able to convey the most authentic story about shared values to the final consumer. The produce managers over time at the Co-op have not always understood this relationship as well as the current staff. All these managers have seen the opportunity in offering values-based product to their customers and have made a commitment to succeed.

In all the supply chain cases the distributor and the buyers help to carry the farmer's story forward, but they don't generate it. In all cases the producers who effectively access the values-based supply chains are building their own brand, story, and

position with a web presence, labeling, personal contact with buyers, and many other techniques. They have taken responsibility to tell their own story.

Every distributor we interviewed is looking for small local farms with good stories. They need these relationships to access the values-based market niche. It is expensive for the individual distributor to buy from very small farmers. They can either buy through the Growers Collaborative or another formal or informal aggregation/ distribution point like the Santa Monica Farmers Market, or take the loss of dealing with the small producer in order to build their brand.

There is competition among foodservice produce distributors like FreshPoint SF and Greenleaf for institutional buyers who seek value-based produce. The distributors want to partner with local farmers with a good story in order to attract the buyers. They can partner with the farmers by either working through the Growers Collaborative or by dealing directly with the farmers. Growers Collaborative has a good reputation among buyers for authenticity, but the conventional distributors are perceived as more reliable by the institutional buyers.

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.

Most purveyors in Southern California pick up much of their farm direct product from farmers at the Santa Monica Farmers market. It is unlikely that any values-based food chain will create much volume in a source identified product line without some sort of aggregation point where they can connect with many farmers in one place. The old Growers Collaborative couldn't do it. All of these Southern California purveyors are using the farmers market as an aggregation point or they are doing the aggregation themselves. Collaborative organizations such as the farmers market are helpful in developing local food supply chains (King, et al, 2010).

A lack of business acumen was probably the biggest reason that the "old" Growers Collaborative was not profitable. Had Growers Collaborative or CAFF sought more traditional sources of funds, they would have been required to create a plausible business plan with a defensible financial plan. Growers Collaborative never had to do this. Had it done so it would have probably provided more insight about whether the business could be profitable in dollars and when that would occur. However GC did return significant social benefits that the grantors were happy to pay for. The lessons that CAFF learned during those years about what is required to make a values-based supply chain succeed is an important factor in the potential for success in the new Growers Collaborative. CAFF and its Growers Collaborative program managers have hired, contracted, and simply learned the entrepreneurial skills they need. The following barriers to success remain: a successful test of the new

business model; proof of genuine demand for the values-based product; access to operating capital for the aggregation efforts; a continuing subsidy for CAFF's Growers Collaborative branding and marketing program; the looming regulatory risk related to food safety; and finally, Growers Collaborative's ability to engage the correct mix of small and midsize farmers around each of its hubs.

All the managers in our case studies understand that they are building a brand or at least a branded line among their other offerings. It is doubtful that FreshPoint Southern California is making much profit on their farmers market line, but they are investing in their reputation for meeting customers' needs. GreenLeaf Produce has always positioned itself as a seller of specialty values-based product. Specialty Produce dominates its market by using a system that adds value to all of the product it sells. Growers Collaborative will be successful if it can build and defend its Buy Fresh Buy Local brand. FreshPoint SF said it perfectly, "Growers Collaborative is building a brand. A brand is everything because the more people and organizations that are building the brand with you the better. When you have a large company (like FreshPoint) backing a brand, it will take off" (DGC5, 2010).

Sacramento Natural Food Co-op applies a finely tuned branding strategy coupled to an efficient supply chain that is able to deliver a commercially viable line of produce grown by farmers who authentically share the values of the customer.

Each case we studied is a thread in the network of produce distribution. The industry is replete with innovation and strong business skills. Margins are very thin and price information so ubiquitous that, in many cases, business acumen is the only thing that separates the winners from the losers.

Appendices

Appendix 1: Evaluation tool

A data base tool called Bento™ was used to record and analyze the content of all interviews. Each subject was interviewed in person or by telephone. About half the interviews were recorded then transcribe. It proved simpler to transcribe directly into text without recording after the interviewer became accustomed to the questions and when the interview was done on the telephone.

The interviews always ranged far wider than the questions on the form and often the answers to one contained the answers to another. The interviewer had to adapt the questions on the fly to make them relevant to the subject. For instance question 4, “Do you take title to product or do you broker it?” is not relevant to a chef, it might be relevant to a grower if she is selling for another, and it is certainly relevant to a produce handler.

The interviewer cut and pasted sections of the raw unedited but completed questionnaire into the database under the relevant question to which the quote or fact applied.

The database made visible all the answers from farmers, distributors, and chefs on a case, or all the cases to a particular question, or it could show all the answers from one interview. It also allowed us to track the relationships between the subjects across cases thus showing that the business is more of a network than a linear chain. Finally we could do word searches and counts to locate and roughly weight various concepts. As an evaluation tool the database proved to be a fairly blunt instrument but as a means to organize and recover information about every subject is was invaluable. All the data can be exported easily as an excel file for further manipulation.

Appendix 2: Case Study Questionnaire

Name of Interviewed:

Date of interview:

Title/Position:

Contact Info:

Legal name of business:

Headquarter location:

Code:

Hello. My name is [#####] from the University of California Sustainable Agriculture Program.] We are conducting interviews with people in supply chains in [California] who purchase some food from local producers. Our project hopes to inform financial institutions and local government about what they can do to assist businesses like yours that are supporting local economies. Did you receive a copy of our questions? Do you have about 60 minutes to talk with us today about your operation's practices in buying/selling locally sourced foods? All information you provide will be kept confidential. All participants will be provided with copies of the survey results if you like.

BASIC SUPPLY CHAIN NETWORK CHARACTERISTICS/ SCOPE

(some of these questions need to be modified for producers)

1. Our study and this interview is focused on values-based supply chains which are business networks that link small and medium sized producers with partners to develop alternative food systems that are more sustainable economically, environmentally, and socially.

Is your business part of such a values-based supply chain? How is it different from normal chains?

2. What is your "value proposition"? Do you have an "elevator speech" that you use to describe your business quickly?

3. Can you briefly describe the process for how your business is involved in handling agricultural products from the field to point of sale? In particular, how does the supply chain you represent source/sell local food from small and mid-scale producers? [*Prompt: how do products travel from farm to warehouse to buyer?*]
4. Do you take title to product or do you broker it?
5. Have your approaches changed in the past year in an attempt to get more diverse, local and/or small suppliers?
6. What is your sourcing/selling (for producers) region [for local designation]? [*Prompt: Do you have a specific mileage limitation (or goal)? How did you decide what is local/regional?*]
 - Within 100 miles
 - Within 150 miles
 - Within 250 miles
 - Within a day's drive
 - Within multi-county region of the state
 - Within the state
 - National
 - Other:
7. How large a percentage of your business is branded or positioned as "local"? How much has that part of your business increased or decreased in the last three years?
8. How do your customers know that your products are local, or grown by a family farmer, or are grown organically or sustainably? How do you prove it? [*Is there any sort of audit or paper trail to ensure authenticity? Need specificity on upfront traceability or retroactive reporting.*]
9. Do you participate in a third part certification program? Labeling?]

10. What would help you do more business with local, small to mid-scale producers? (particularly consider financial aspects of the operation)?
11. Please complete this table so we can find out the relationships between scale, dollars, and distance among your suppliers.

	Small <\$250K	Medium <\$1M	Large	Local	Distant
Number of (direct) producers					
% of your total purchases (direct and otherwise)					
Dollars spent with each size category both direct and otherwise. (Should equal your total purchases)					

12. Can you tell us what your approximate overall sales were in 2008?

- < \$500K/year
- \$501 - \$1 million/year
- \$1.1 million - \$5 million/year
- \$5.1 million - \$10 million/year
- \$10.1 million - \$30 million/year
- \$30.1 million - \$50 million/year
- \$50.1 million - \$100 million/year
- \$100 million/year

13. What were your overall sales in your “values added” line? [*Values-based supply chain*]

FINANCIAL PERFORMANCE: OPERATIONAL

14. Considering all of the costs you incur when purchasing from local, small to mid-scale growers for your values-based line, are they higher or lower than those for comparable products from larger growers or shippers?

15. Does your strategy of purchasing from local and smaller farmers increase your need for financial capital more than if you just bought from producers or shippers without regard to their location? If so, where does that money come from? *(are your terms different when purchasing from local farmers?)*
16. How are these potentially higher costs managed? How do you compensate for these higher costs in other areas of the operation? Do prices reflect some of these changed costs?

POLICY/REGULATORY/INDUSTRY CONTEXT

17. Are there any regulations or legal issues preventing you from sourcing more locally?
18. Are there certain regulations that are more difficult to comply with when you are working with these values added producers? What type of regulations?

ENTREPRENEURIAL SKILLS/BUSINESS ACUMEN/ INDUSTRY EXPERIENCE

19. How is your management team suited to develop a values-based marketing channel and manage it successfully?
20. In regards to your values-based line, what alliances have contribute to your success?
21. What are the greatest challenges that you face in relation to your values-based line?
- start-up phase
 - growth phase
 - current operations

FINANCIAL ORGANIZATION/ STRUCTURE/CAPITALIZATION

22. What kind of legal structure does your business have and why did you choose it? [*Prompts: For profit corporation, LLC, Co-operative, , Private-NGO partnership, Nonprofit*]

23. How did you originally finance your business?

24. Was your business plan developed with technical assistance from any entity? Which one?

25. What are your biggest financing challenges? [*Prompt: credit availability, terms?*]

[The following two questions assume independent ownership. Some may have a parent company. Need to distinguish this and be clear about who the answer applies to.]

26. At the close of your most recent fiscal year, what was your debt/equity ratio? [*Prompt: How much of your total capital is debt?*]

OVERALL PERCEPTIONS SUPPLY CHAIN NETWORKS SUPPORTING LOCAL AG

27. On a scale of 1 to 5 where “5” is extremely important and “1” is not at all important, how would you rate the importance of the following on the viability of your organization:

(Note if the firm has not reached the maintenance or growth phases)

	During start-up	Growth phase	Maintenance phase
Access to financial capital			
Govt. regs/policies			

Entrepreneurial skills			
Technical assistance			

28. Do you have any other comments?

Thank You!