Demystifying Alternative Food Production and Marketing Systems

Larry Lev
Oregon State University
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Four themes

- Alternative markets have much to offer to society, producers, and consumers (but they have limits)
- Importance of team work and “commitments”
- Money (pricing, transactions costs etc) matters
- Diverse tools/strategies needed

Our Product Is More Than Beef

... it's the smell of sage after a summer thunderstorm,
the cool shade of a Ponderosa Pine forest.
It's 80 year old weathered hands saddling a horse in the Blue Mountains,
The future of a 6 year old in a one room school on the High Desert.
It's a trout in a beaver built pond, haystacks on an Aspen framed meadow.
It's the hardy quail running to join the cattle for a meal,
the welcome ring of a dinner bell at dusk.

Doc Hatfield & Becky Hatfield Hyde

Oregon

- **Population: 3.8 million**

  (Ireland: 6.4 million)
- **Area: 254,805 km²**

  (Ireland: 81,640 km²)
- **Climate: Varied**
- **Agriculture: Diversified**
- **Farm Sales: $5.3 Billion**

  (Ireland: $7.0 Billion)
- **# of "Farms": 38,000**

  (Ireland 140,000)

A Tale of Two Food Systems

MAINSTREAM
(90-96%)

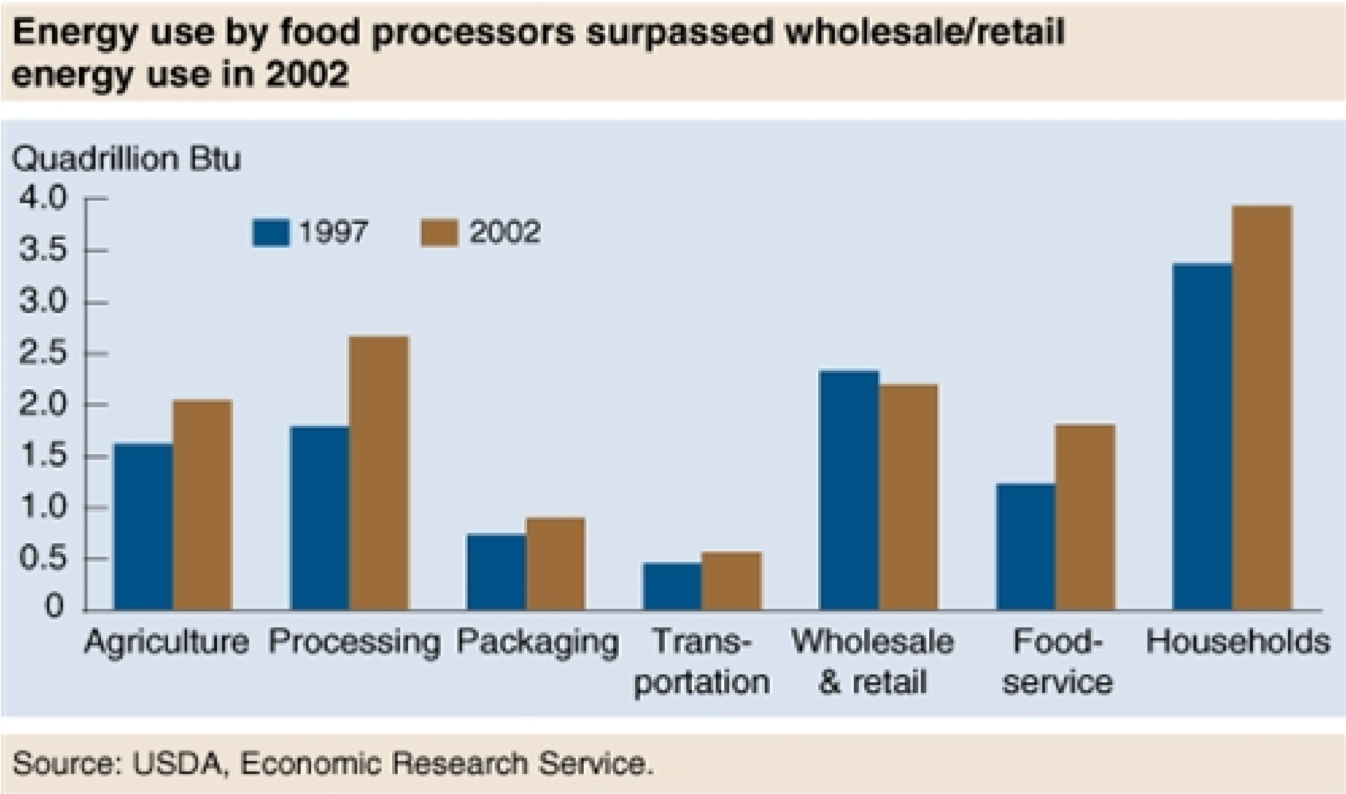
**Fringe/Alternative
(4-10%)**

Start with a fish tale…..

Alternative/Fringe Markets:
It's Not About Food as Food

- Food as pleasure
- Food as entertainment
- Food as a way of building community
- Food as a means to reduce environmental impact of consumption

Transport Energy Use Relatively Minor

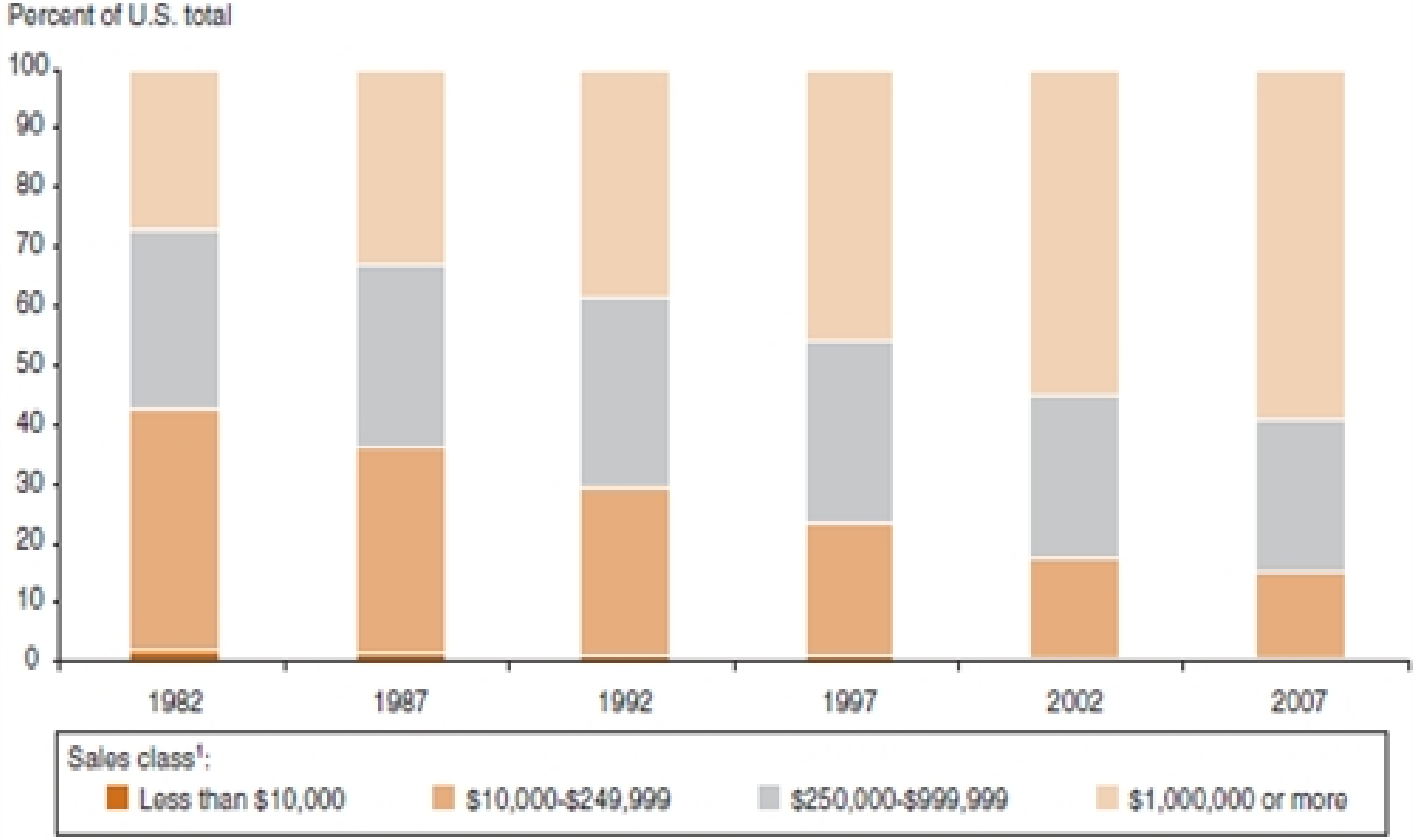


Alternative Marketing Categories (FRINGE)

- <u>Direct marketing</u> –Selling products directly to customers
- <u>Semi-direct marketing/intermediated</u>- Sell to retailers, restaurants or institutions but products retain their farm identity

Market value of agricultural products sold, by constant-dollar sales class,[1] 1982-2007

Very large farms' share increased from 27 percent in 1982 to 59 percent in 2007

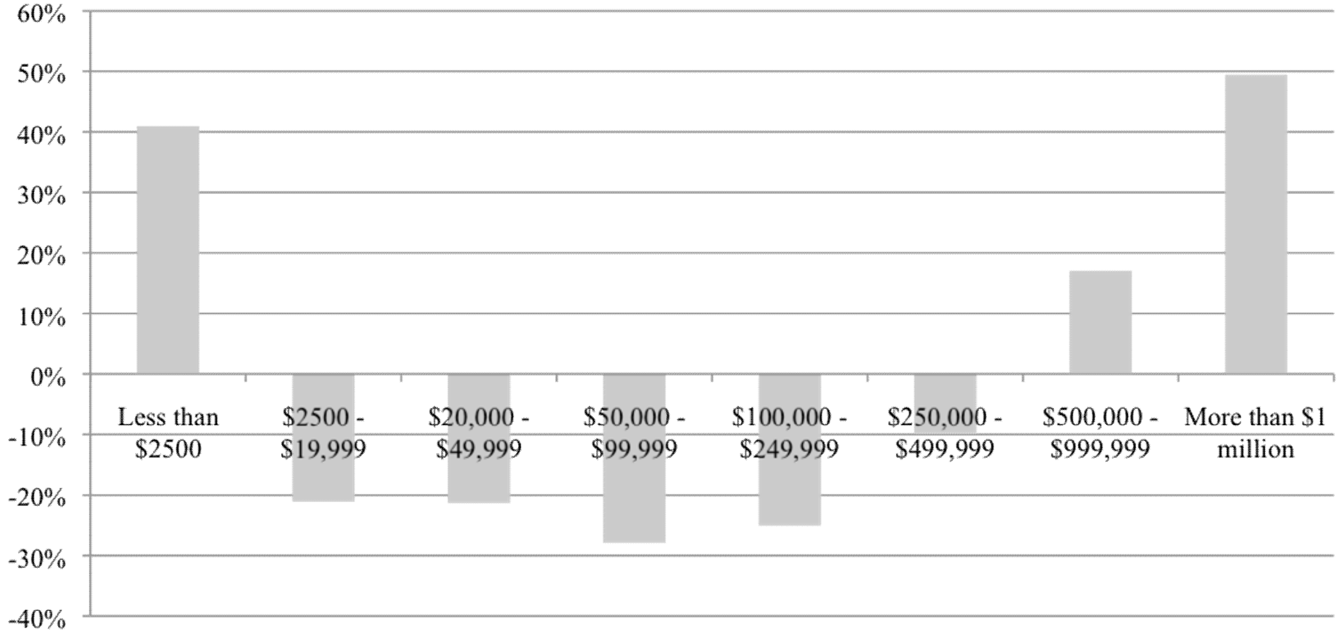


Note: Sales classes are expressed in constant 2007 dollars, using the Producer Price Index for Farm Products (PPIFP) to adjust for price changes.

[1]Sales class is based on the market value of agricultural products sold.

Source: Economic Research Service calculations based on U.S. Census Bureau, 1982, 1987, and 1992 Censuses of Agriculture and USDA, National Agricultural Statistics Service, 1997, 2002, and 2007 Censuses of Agriculture.

Changes in Number of Farms 1997-2007



Source: USDA 1997 and 2007 Census of Agriculture
*All farm sales categories adjusted for inflation using the Consumer Price Index

Market and Product Characteristics	Small Farms	Midsized Farms	Large Farms
LOCAL Differentiated; direct and short supply chains	X		
REGIONAL Differentiated; values-based supply chains		**Opportunity Zone**	
GLOBAL Commodities; efficiency-based supply chains		**Troubled Zone**	X

Figure 1

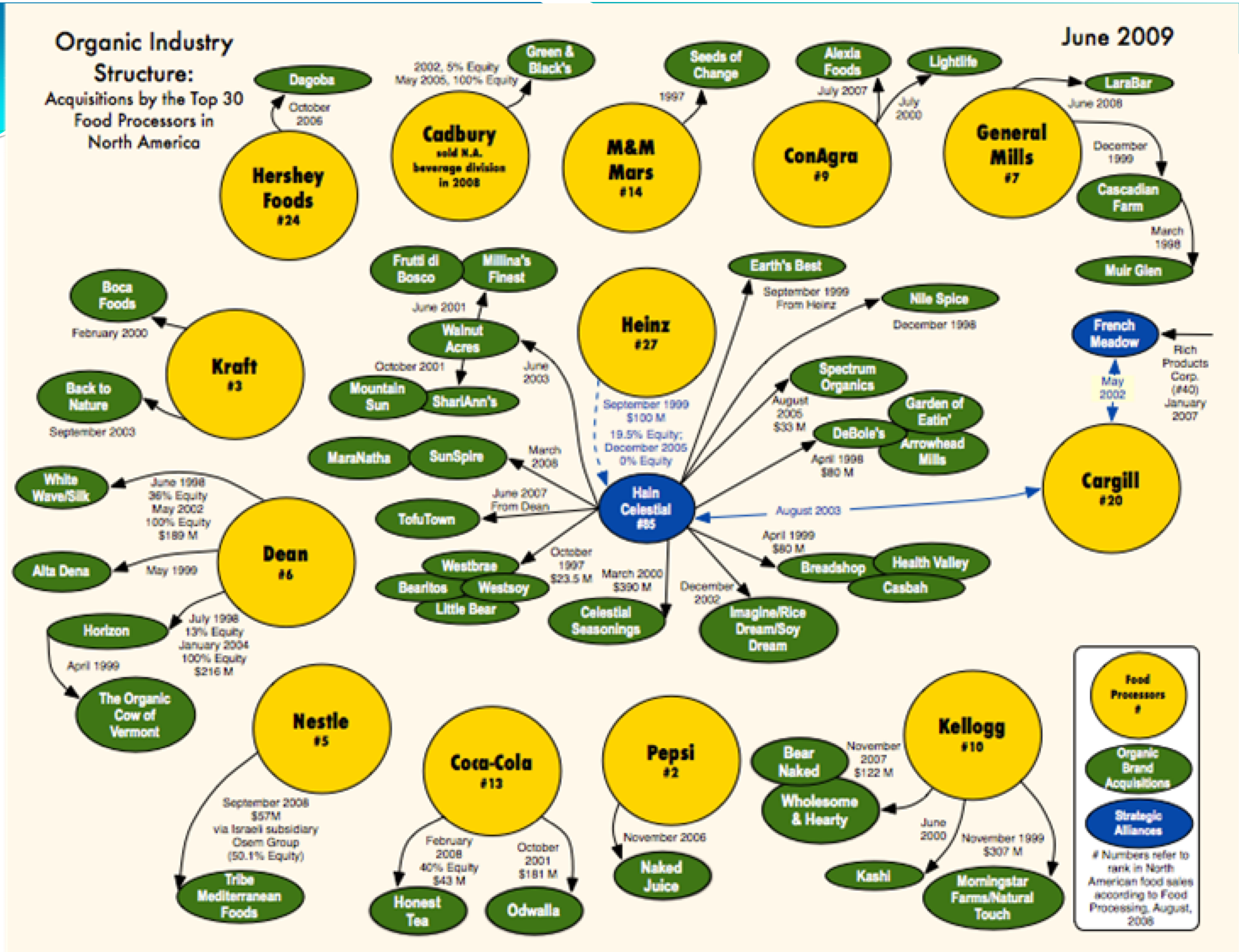
Direct-sales farms and direct sales of local foods, 1978-2007

Note: Inflation adjusted sales were calculated based on the gross domestic product implicit price deflator published by the Bureau of Economic Analysis, U.S. Department of Commerce and calibrated to 2007=100.

Source: 1978, 1982, 1992, 1997, 2002, and 2007 U.S. Censuses of Agriculture.

There is something about local….


EATWELL FARM
FRANCES & NIGEL WALKER AND SONS
SUPPORT A FAMILY FARM
WE GROW WHAT WE SELL!



Organic Industry Structure:
Acquisitions by the Top 30 Food Processors in North America
June 2009
Hershey Foods #24
October 2006
Dagoba
Cadbury sold N.A. beverage division in 2008
2002, 5% Equity May 2005, 100% Equity
Green & Black's
M&M Mars #14
1997
Seeds of Change
ConAgra #9
July 2007
Alexia Foods
July 2000
Lightlife
General Mills #7
June 2008
LaraBar
December 1999
Cascadian Farm
March 1998
Muir Glen
Kraft #3
February 2000
Boca Foods
September 2003
Back to Nature
Frutti di Bosco
Millina's Finest
June 2001
Walnut Acres
October 2001
Mountain Sun
ShariAnn's
June 2003
Heinz #27
September 1999 $100 M
19.5% Equity; December 2005 0% Equity
Earth's Best
September 1999 From Heinz
Nile Spice
December 1998
Spectrum Organics
August 2005 $33 M
Garden of Eatin'
DeBole's
Arrowhead Mills
April 1998 $80 M
French Meadow
Rich Products Corp. (#40) January 2007
May 2002
Cargill #20
August 2003
Hain Celestial #85
MaraNatha
SunSpire
March 2008
June 2007 From Dean
TofuTown
White Wave/Silk
June 1998 36% Equity May 2002 100% Equity $189 M
Dean #6
May 1999
Alta Dena
July 1998 13% Equity January 2004 100% Equity $216 M
Horizon
April 1999
The Organic Cow of Vermont
Westbrae
Bearitos
Westsoy
Little Bear
October 1997 $23.5 M
March 2000 $390 M
Celestial Seasonings
December 2002
Imagine/Rice Dream/Soy Dream
April 1999 $80 M
Breadshop
Health Valley
Casbah
Nestle #5
September 2008 $57M via Israeli subsidiary Osem Group (50.1% Equity)
Tribe Mediterranean Foods
Coca-Cola #13
February 2008 40% Equity $43 M
Honest Tea
October 2001 $181 M
Odwalla
Pepsi #2
November 2006
Naked Juice
Kellogg #10
November 2007 $122 M
Bear Naked
Wholesome & Hearty
June 2000
Kashi
November 1999 $307 M
Morningstar Farms/Natural Touch
Food Processors #
Organic Brand Acquisitions
Strategic Alliances
Numbers refer to rank in North American food sales according to Food Processing, August, 2008


THE FARMERS MARKET
EXCLUSIVELY AT GIANT EAGLE
EUROPEAN
SALAD BLEND
Iceberg Lettuce, Romaine, Radicchio, and Endive
No Preservatives
Washed & Ready To Eat
Net Wt. 12 Oz. 340g


TOSTITOS
ALL NATURAL
ARTiSan recipes
Roasted Garlic & Black Bean
delicious 9 grain blend
100% natural ingredients
FLAVORED TORTILLA CHIPS

Farm-to-Retail Connections

- Many retail food businesses (grocery stores, restaurants) feature locally produced food.
- Key requirements:
  - Adequate supply
  - Long season
  - Excellent quality
  - “Competitive” price
  - Business savvy

Sales to Restaurants

CHEZ PANISSE

Saturday, February 16 $75

An aperitif

Warm salt cod and new potato salad with cress and black truffle vinaigrette

Stradette al sugo di porro: Piemontese cornmeal pasta with leeks and Parmesan cheese

Grilled **Cattail Creek Ranch lamb** with spicy sausages, artichokes, and lemon; risotto with Dolcetto wine

Oro Blanco and blood orange soup with Meyer lemon sherbet

1517 Shattuck Avenue, Berkeley, California 94709
Reservations: (510) 548-5525

Farm to Fork Dinners

Farm-to-Institution Connections

- “Captive” consumers such as:
  - Schools (grade schools to universities)
  - Nursing/retirement homes
  - Prisons
- Quality and “story” are key selling points
- Need to make it **<u>easy for them</u>** to purchase from you.
- Pricing and length of season are significant challenges

Fostering farmer- buyer connections

- Food Hub -- more than 2500 buyers and sellers

http://food-hub.org/

- A food version of Craigs' List
- "Speed dating" and other workshop activities

Food Hubs: the general concept

"Manage the aggregation, distribution, and marketing of source-identified local/regional food products"

- Sound attractive
- Economics remains poorly understood
- Need and justification for public funding remain unclear

Does the US "need" more meat processing plants (Gwin research)?

Very common complaint from producers (and food activists) but….

Most current small plants are failing or only marginally profitable.

Would opening more plants actually help?

Current model based on **convenience**

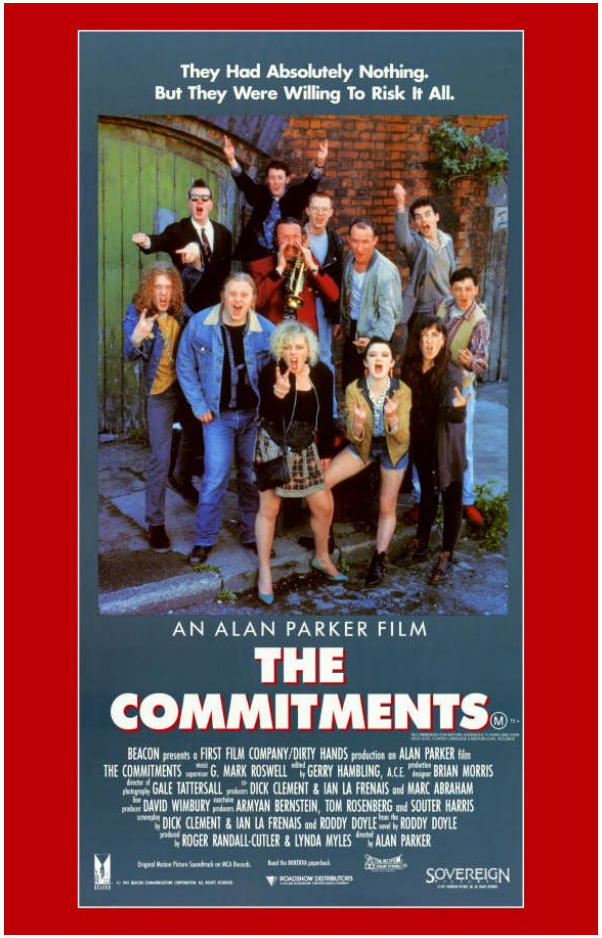
Producers say **"I'll call you when I need you"**

Processors say **"I'll process for you if I have an opening"**

Positive change requires **commitments**

An ongoing partnership in which the parties:

1. ***Communicate about roles, abilities, and responsibilities (AKA the "kumbaya" stuff)*** AND
2. ***Deliver/process enough animals, properly timed,*** **so that both producers and processors are viable**



Product labeling as **THE** solution?

- More than 400 eco-labels worldwide (implications for consumers and producers)
- Fear that even successful labels such as “organic” have been commodified
- Some individual US products have 7+ labels
- Economic benefits poorly understood
- Tesco has pulled its carbon footprint labels
- In many instance, “more is less”

Intriguing possibilities **ARE** out there

- *"Many of our best customers are former vegetarians" Doc Hatfield, **Country Natural Beef***
- *"We have a number of vegetarian customers who buy **Good Earth Farm's** products for their meat eating relatives"*

Mainstream food supply chains usually have these characteristics:

- Benefits and profits unevenly distributed across the supply chain.
  - Food processors/marketers often receive a disproportionately higher share.

In contrast,values-based food supply chains

- Shared decision making (horizontally and vertically) so that all partners experience a sense of fairness and justice.
  - Distributive justice—rewards/profits are distributed fairly among all strategic partners
  - Procedural justice—all partners view rules of business as fair

Key Characteristics of These Supply Chains:

- Value/values represented in both products and business relationships
- Emphasize organizational interdependence, trust and transparency
- Scale & volume through cooperation and aggregation of mid-scale producers
- Enable mid-scale enterprises to be competitive

The Role of Producers

- Strategic partners who participate fully in supply chain decisions rather than replaceable input suppliers
- Negotiate prices based on production and transaction costs, plus a reasonable margin
- Establish fair agreements/contracts for appropriate time frames
- Able to maintain ownership and control of brand identities on food products throughout the chain.

Must be able to demonstrate that

- Value-based supply chains can be both “Smart” and “Right”

  1) *Smart Business*: strategic partnerships (social capital) replace economic capital and expertise; nimbleness in the market; quality control efficiencies; safety efficiencies; geographical identities

  2) *Ethical Business:* equitable distributions; participatory organizations and alliances; ethical differentiations

Challenges for values-based supply chains

- Finding appropriate partners and developing mechanisms for trust, transparency and decision-making
- Determining effective strategies for product differentiation, branding and regional identity
- Developing food quality control systems that address weather, seasonality, multiple production sites and quality-preserving distribution mechanisms

Challenges for values-based supply chains

- Determining appropriate strategies for product pricing based on understanding the true costs of production AND understanding the broader market
- Building sufficiently large farmer networks

A Surprising Price Problem

Desire to Avoid
“Roller-coaster Prices”

Need to fully grasp the implications of the **“Commodity Tsunami”**

Concluding thoughts

- Demand will continue to spur the development of these production/marketing systems. Some will crossover to the mainstream.
- The nature of the relationships will remain a very significant differentiator from the mainstream.
- The implications go way beyond economics.