

Local Food and Farm Task Force
Friday, February 20
1 p.m. – 4:00 p.m.
Kansas State Capitol, room #159 South

1:00 p.m.	Welcome and introductions of task force Approval of January 23 Meeting Minutes	Chair Ron Brown
1:15 p.m.	Specialty crop industry in Kansas	Diana Endicott, Tony Schwager, <i>Good Natured Family Farms</i> ; Bill Crooks, Good Food Good Futures
2:45 p.m.	Support programs for specialty crop Producers and calculated risk	Jordan Olsen and Michael Leitch, <i>Frontier Farm Credit</i>
3:30 p.m.	Closing comments and meeting adjournment	Chair Ron Brown
3:45 p.m.	Task force planning session	Task force members

MINUTES

Attendance

Task force members present: Ron Brown, Chair; David Coltrain, Loren Swenson, Dr. Cary Rivard, Senator Dan Kerschen, Representative Adam Lusker and Annarose (Hart) White (via phone).

KDA Staff: Stacy Mayo and Julie Roller

Guests: Senator Tom Hawk, Janet Barrows, Jordan Olsen, Michael Leitch, Julie Mettenburg, Renee Bryant, Missty Lechner, Jessica Bowser, Heather O'Hara, Ryan Flickner, Nancy Brown and Phyll Klima.

Welcome and Introduction of task force: Chair Ron Brown called the meeting to order at 1:00 and asked the task force and audience members to introduce themselves.

Loren Swenson moved to approve the January 25, 2015 minutes. Senator Dan Kerschen seconded. Motion approved.

Specialty crop industry in Kansas: Diana Endicott and Tony Schwager, Good Natured Family Farms, thanked the task force for the opportunity to attend and share information about local food and its future as an economic engine in Kansas.

In absence of David Ball, Balls Foods, Endicott shared the “Innovative Models: Small Grower and Retailer Collaborations” handout, which outlined Balls Food Stores’ perspective on local foods.

Endicott shared her history as a producer in Kansas. Her family moved to Kansas in the early 2000s to take over a family farming operation. She shared that her family owned a landscaping business in Dallas and she taught high school horticulture. In 1998, before it was common, they started raising greenhouse tomatoes. During that time, she started working with David Ball, Balls Foods. She said that they were ahead of their time, but over time, their relationship with Balls Foods has evolved.

Endicott shared that the North America Free Trade Agreement dropped tomato prices due to Canadian tomatoes. NAFTA created obstacles and made it more difficult for small farmers to survive in the marketplace. She said everything she has done has been by trial and error, business plans and feasibility studies, but life is what happens after the plan.

She shared that in light of prices, the tomatoes business was not working and they stopped production. She shared that a producer could not make a living at \$0.68/lb.

Endicott said that her family then started selling and processing beef. She shared that she was in the right place at the right time and her beef business grew to the point of Balls Food Stores needing 300 head a week. At the time, they had no infrastructure. They had enthusiasm, but no base plan or strong financing to know how to access money or develop an organizational structure.

Today, Good Natured Family Farms is selling beef and tomatoes. She said beef is easier to sell in Kansas because people understand it and there are more resources to access if you have questions. Endicott shared that those same resources do not exist for produce farmers. She shared Good Natured Family Farms also process chickens in Uniontown, Kansas and supplies all of the beef for Balls Foods.

According to Endicott, Good Natured Family Farms works with 150 small family farms in Kansas and Missouri. She started working with other farms when Hawley Honey from Lola called and said they had problems getting into grocery stores. She said then someone else called with eggs and they wanted to sell to grocery stores and from that, Good Natured Family Farms was born. Endicott shared she started collecting food from different producers and helping to get it into stores. She said they were very fortunate to have Balls Foods because Fred Ball had a passion for helping producers because he came from a farming background.

Endicott shared the mission of Good Natured Family Farms is to bring high quality local food and food products from sustainable family farms to consumers, especially consumers in vulnerable communities. She said they do not want to be the cheapest product, but they are competitive.

According to Endicott, the evolution to survive has put more money in the pockets of producers. She said Good Natured Family Farms sells \$4.5 million of local foods, but their margins are very low.

She said grant funding has helped them to access vulnerable communities in Kansas and Missouri.

Endicott shared that because Sysco wanted all of their food to be food safety certified, they have developed a food safety program.

Additionally, she said that her passion was to build an aggregation and distribution facility in Kansas. She said Good Natured Family Farms currently has an aggregation facility at Balls Foods that distributes to 29 stores.

While Good Natured Family Farms currently serves 150 family farms, they also provide branding, distribution, food safety and farm sustainability. According to Endicott, many times they are the financier. She said they have signed agreements with producers outlining what they would purchase in order to help farmers obtain financing.

Endicott said Good Natured Family Farms has also helped to build docks.

According to Endicott, rural communities benefit from local foods. She said there is an opportunity to use local foods as an economic engine to revitalize rural communities. She said there is significant potential, but there is not the infrastructure to allow the potential to grow; infrastructure is what is lacking.

Giving examples, Endicott shared that Cotton River Cheese is a great example because it retails for \$25/lb. it is a high-end cheese. However, in order to sell to smaller consumers, they need to purchase equipment to slice and cube the cheese.

Hawley Honey is a fourth generation honey producer and in 12 weeks, he was the #1 selling honey in the marketplace with \$300,000 in sales, but his margins are low. Endicott shared Good Natured Family Farms is a for-profit business, but it is also mission driven.

Endicott also shared examples of consumers utilizing EBT. According to Endicott, if there were a match for EBT cards to help with the purchase of local foods, it would encourage more people to buy local.

Highlighting obstacles, Endicott shared that Good Natured Family Farms grew to the level that Balls Foods could not use all of the produce they offered.

She shared there is a market for berries, especially small berries. For example, a small berry farmer in Sabetha plants 2.5 acres of blackberries. Endicott shared that these visionaries need mentors to help them grow their business to a point where it is viable.

Endicott said money is always an obstacle, but the biggest obstacle is inventory; you cannot sell it if you do not have it. She said cash flow with the inventory is the biggest factor, at any given time they may have \$500,000-\$750,000 of unpaid inventory in their system. She said banks do not like to give lines of credit, but instead want producers to borrow against what they have.

According to Endicott, transportation is also an obstacle because you cannot afford to take a truck with only a partial fill; you need a full load in order to make it work. She said they have used infrastructure from Balls Foods and Sysco, but there are other opportunities to expand.

Endicott stressed the need for collaboration and working together. She shared one instance of multiple feasibility studies conducted in Kansas City to study local foods. She said collaboration would have saved funds thus enabling dollars for use elsewhere.

She also shared that regulations can get in the way of store-ready products. For example, understanding labeling, label claims and what you can and cannot say is an obstacle because it is always changing.

Endicott said the term “local” is confusing. She said transparency and authenticity lend credibility and help the consumer to believe you.

She shared there is growth potential with Good Natured Family Farms and their “local favorites” – candles, salsa, herb mixes, dog biscuits, but they need the market capacity to help grow “local favorites”.

Endicott shared the example of Rich Hill, Missouri, which is a small Amish community that generated \$17 million in produce from a community of 100 families. She said semi-trucks visit and leave full of produce and they are GAP certified. She shared her hope for Kansas is that they could replicate this model with an emphasis on berries because there is such a great demand. For example, she said local strawberries sell out because of the demand.

Bill Crooks, founder of Good Foods Good Futures, thanked Endicott for her work and shared that there is not enough supply to meet the demands.

Tony Schwager shared that in his opinion, if all farms added two acres of vegetable operations, they could face problems selling all they have produced. He shared that for example, Sysco will not buy items that are not GAP certified.

Crooks suggested building aggregation centers, similar to grain elevators.

Endicott suggested building coolers, with docks and other infrastructure.

Endicott highlighted the partnership with the Kellogg Foundation and suggested that, similar to the insurance industry changing the tobacco industry in a short period of time, perhaps the insurance industry could help change the food industry because they cannot afford to take care of everyone. If they helped promote local foods and building infrastructure, it could be mutually beneficial.

She also shared that Good Natured Family Farms was the first in the United States to be group GAP certified and that they're the model for group food safety certification on small family farms. She also said that they were the first to process white and red meat in a federal plant. They solved food safety issues by processing on different days.

Endicott also shared about a western Kansas farmer producing a quarter section of cantaloupes, watermelons and pumpkins for Dillons. She said people are figuring out how to make local foods successful, but that maybe it is excluding people like beginning farmers. She said it takes a lot of knowledge and paperwork to have a viable business, she suggested that perhaps junior colleges could have a program for learning to own your own farm and how to apply for funding.

Crooks also shared that the task force should think about government and its commitment to purchase local. He suggested set aside dollars and a commitment to purchase from local farmers. He asked what could we do as a state and what can we commit? He also questioned what commitments school districts, municipalities and other government facilities could make.

Crooks said it would take a coalition of the willing – rural development, economic development organizations, cities and other groups working together to build brands, but that it could generate robust revenue.

Endicott highlighted the power of group buying. For example, buying egg cartons in bulk can reduce the cost from \$0.27 to \$0.11, that savings could be an added profit. She suggested a platform where producers could login and list what they needed and then the group could buy in bulk. She said this artificial scale of economy could allow small producers to look like a big company, but remain individual.

According to Endicott, producers do not like to share with competitors – when they find something that works, they do not want to share what they are doing. She said a strawberry or asparagus grower wants to stay doing really well, so they do not want to share their experiences. In her experience, Endicott said that even in aggregation and distributing, people do not want to share. She questioned if there would be an incentive for people who are successful to mentor others.

Endicott said one frustration they face is that out of all of the funding they have received or looked at; none of it pays for brick and mortar. She reiterated the need for infrastructure and that allow funds to be used for infrastructure will bring change.

She also said urban buyers and rural leaders need better communication. She said the CEOs of Sysco and Balls Foods want to come to the table, but they do not have the first idea about rural America. She suggested bringing buyers and growers together. She also shared that farmers' markets need continued support because that is where people learn and sell and that is where you develop a love of community and selling what you have grown. She added that moving markets indoors has been great and repurposing old buildings has been great for communities.

Focusing on solutions, Endicott explained the need for legal representation for growers to help the small family farm because they will face legal issues.

She suggested more support for Kansas innovators and shared an example of one dairy using glass bottles not only for milk, but also for orange juice and then feeding the rinds to cows.

Chair Brown shared that while Endicott alluded to her humble beginnings, her father-in-law stated hydroponics. He said he did not know what that was at the time, but it has been nothing but an upward movement.

Endicott said that organic is not the driving feature, but instead local. She said that part of the GAP program includes fertilizer and pesticide usage. For example, high humidity in the state means you have to use fungicides. She said that if she grows organic product, she would lose 50% of her tomato crop. She explained what they do is a buy fresh, buy local integrity program that required people to have documentation, licenses and focus on sustainability with cover crops and composting. She said they look at each farm and what they are doing to figure out how it can be the most sustainable. She shared that there are food safety checks on the farms.

According to Endicott, some farms she works with are certified organic farms, but hers is not. She said for them, they try to find the most direct way from the farm to the consumer with as little pathways as possible. She said that it is easy to grow organic crops underground and that producers have more control when growing in a greenhouse. She said the organic market is growing.

Crooks said that when conducting a survey of employees in a large business in Kansas City, 89% of employees said they were supportive of local. He said they wanted to keep their dollars in the community. He shared that respondents felt like they were helping the community by shopping local.

Endicott shared that with everything they have done; they look for funding partners who will be patient. She said it is not that she cannot do it, but she cannot always do it overnight. When trying new things, it is a new way of thinking.

Senator Kerschen thanked Endicott for her expertise. He shared when he was a member of a dairy cooperative; they marketed as a small group and had the same types of problems, but that when they had volume, they had a voice. He asked Endicott what how she defined a vulnerable community.

Endicott said that the Kellogg Foundation describes a vulnerable community as one being at risk for not being able to feed themselves healthy food, a community with a high risk of diabetes and a community that is stagnant and not growing.

Senator Kerschen asked Endicott if she would work with a small farmer who uses pesticides.

Endicott said yes, they would work with the farmer. However, they want to know what the farmer is using so, if a consumer asks, they can answer. Endicott said they only spray when necessary, not on a continuous basis. She said she asks for complete disclosure and that she has no preference either way, she believes that the consumer has the right to know.

Endicott explained that she would sell GMO corn and regular corn, but would not put them together. She said they segregate and label each.

Representative Lusker asked Endicott where she was located.

Endicott said they are located in Bronson, Kansas.

Representative Lusker identified Bronson as being part of his district.

Endicott shared that when starting out she used the name Rainbow Organic Farms, but now does business as Good Natured Family Farms, an alliance of farmers.

Representative Lusker commented that is one of the problems that had been discussed, whether an aggregation center is a coop. He shared that sometimes we try to reinvent the wheel and it is good to see a program in place that meets the needs of the group. He asked Endicott what she does beyond the growing season and if she cans or freezes produce.

Endicott shared canning and freezing is another value-added opportunity that creates a second market for tomatoes. She said there is not a processing facility to handle freezing and that oftentimes excess is given to Harvesters, but it would be nice to be able to utilize the seconds.

She said there are many community development organizations that have started test kitchens (commercial kitchens) and that people make salsa or jellies, she said the economic driver is to freeze the produce and sell it to hospitals, school systems or the Department of Defense.

Crooks shared they are also working with Sysco to repackage.

Representative Lusker asked what the task force could do to help.

The task force took a 10-minute break.

Returning, Chair Brown shared that there are now fewer grocery stores than in the past and that most do not have enough sales to make minimum orders. He shared that many small towns now rely on gas stations and fast food.

Schwager shared the following takeaways and suggestions for how the task force can help:

1. Assist with patient, results-driven funding with less emphasis on studies and more on aggregation and distribution.
2. Facilitate effective ways that small farmers can work together to leverage their power with group buying and mentoring opportunities.
3. Examine regulatory and financing obstacles in getting store-ready products to market, as well as legal assistance.
4. Create "local" signs and labels that have meaning to consumers
5. Make local food more affordable and accessible to lower income families
6. Recognize a plan for differences between traditional family farms and produce/specialty crop farms.

Representative Lusker commented that one goal of the committee is to get lower income families.

Schwager shared that if producers have more profit, they will be able to produce more.

Endicott said that EBT match or double buck programs use foundation or grant type funding to match purchases. She also said they have used recipe cards to teach people how to utilize the food they have purchased.

Annarose (Hart) White asked if the Great Plains Growers Conference had an existing buyers and growers forum. She also asked in regards to Endicott's comment about a short of supply if they have a list of crops they need.

Endicott said that they need small berry farmers, as well as people to grow other labor-intensive crops. She added heirloom seeds are another opportunity and that many people in Kansas raise produce because they are isolated and cannot get cross-pollination.

Senator Hawk asked for more information about double buck programs.

Endicott said that any organization could apply for them.

Dr. Cary Rivard added that Beans and Greens receives its funding from USDA.

Senator Hawk added that he would like to include information about how to access these funds in the task force's report.

Ashley Jones-Wisner shared that Douglas County piloted a program similar to Beans and Greens, but the problem is marketing the program and letting people know its available.

Loren Swenson shared that he had trouble signing up to accept EBT/SNAP.

Julie Roller shared the 2015 State Farmers' Market Conference will include information about signing up for EBT/SNAP.

David Coltrain shared that in response to berries, he had attended a session on growing blackberries in high tunnels, which allowed producers to have berries for four months, thus extending the season.

Senator Kerschen asked if there are incentives for buyers to buy an entire crop.

Endicott said that farmers set the price. For example, if the cost of squash is less than \$8.50 producers will not make a profit. She said they know the price points for each crop.

Representative Lusker asked how much per acre would blackberries yield.

Schwager said an acre could yield range from \$10,000-\$25,000 an acre.

Chair Brown that he had made money on blackberries and that it is an easy crop to grow.

Endicott said that in Parsons, where there is water and sandy soil, blackberries are easier to grow. She added that the soil is much better than the soil in Rich Hill, Missouri.

Crooks also suggested that regional brands could be established, similar to Vidalia onions.

Endicott added they do offer individual quick freeze options for school systems to purchase. She said they do not participate in value-added for fresh produce, but it is something they are exploring for St. Louis. She shared that they purchased a building in Bronson with the intention of processing beef, but it never came to fruition. She said there are facilities available, but they need refrigeration and equipment. According to Endicott, it would cost \$75,000 to purchase a piece of equipment that peels, chops and cubes vegetables.

Chair Brown thanked Endicott for sharing with the task force. Endicott replied that Brown is the right person to chair the task force.

Support programs for specialty crop producers and calculated risk: Janet Barrows, Frontier Farm Credit, thanked the task force for the opportunity to share. Barrows said Farm Credit is a national system of coops committed to financing agriculture. She said they are six locations serving Kansas with more than 11,000 customers and 22,000 loans.

Barrows said the goal of Farm Credit is to help find solutions for rural American and to reach out to others when needed. She said they receive their funds from Wall Street; they are a government-sponsored enterprise (GSE) which helps agriculture have a long-term reliable source of credit. She added they are a private organization and does not use tax dollars.

Michael Leitch, vice president of Frontier Farm Credit, shared that they can assist with new or expanding specialty crop operations. According to Leitch, they refer customers to foodshedguide.org, which is a resource that Gary Matteson helped to create. The website helps to build form and function to business planning as producers explore a new or expanding endeavor; he likened it to a one-page business plan. He shared this gets the process started for people.

In regards to a financial plan, Leitch said they want to see assets and liabilities and want to work with people on a month-to-month cash flow projection. He added that if your crop is seasonal, your payday is also seasonal.

Leitch said they look heavily at capitalization and a debt to equity range of 40-60%. He said they provide operating and term loans, but they also look at a fallback plan in case things do not go as planned. Leitch said they look at risk management and recognize risk is beyond production, there is also regulatory and people risk and that it is important to understand the plan around managing risk.

Jordan Olsen, Frontier Farm Credit, shared that he has been a crop insurance agent for almost five years, but that the local foods movement has come to the forefront in the last 10 years. He added many people want to produce specialty crops and they need assistance.

Olsen shared information on crop insurance; he said 90% of farmers use Multiple Period Crop Insurance (MPCI), which allows producers to, at a minimum, break even.

Senator Hawk asked Olsen why drift coverage is not an option.

Olsen said they hear that question a lot, even for corn and soybean producers, but it is the same type of situation as your neighbor's cow getting out and eating your beans. It is the owner's liability, just like fireworks in a wheat field.

Olsen said they base crop insurance on a ten-year actual production history (APH) and if you have better yields, you will have a lower insurance rate.

In regards to a strawberry or blackberry farmer, Olsen said that up until now, there were not any solutions and there was a potential for significant loss.

Olsen said that Whole Farm Revenue Insurance based off a five-year average of your revenue based off tax returns from either the fiscal year or growing operations. This program is federally subsidized. In January, a new product was launched that created a higher subsidy rate for the more crops you produce. He added this is a great product for small-acre producers. Olsen said with this new product, the more diverse you are, the less risk you have as a producer. For example, if you only grow tomatoes, you would have a higher risk because there is less diversification.

Chair Brown said politicians are beating farm subsidies to death and crop insurance is the only thing that is left. He added the more you use it, the less you receive because your yields are decreasing.

Senator Hawk asked about the five-year average and its effect on beginning farmers.

Olsen said it is the same as MPCI, they assign a county yield to a farmer and they would then look at your business plan and build on the averages.

Chair Brown said that they set your base and if your yields are better, they will increase.

Barrows commented that the January meeting, there was talk about beginning farmers. She said the 2014 Farm Bill does have a subsidy for beginning farmers.

Chair Brown asked for closing comments.

The task force agreed that the March meeting should be a work session and they would focus on recapping what they have heard from presenters, re-examining the Kansas Rural Center's report and discuss recommendations.

Adjournment followed.

Attachments:

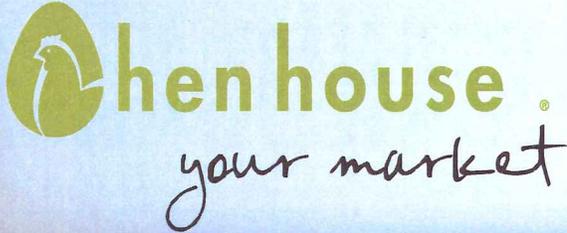
1. Who is Good Natured Family Farms?
2. Innovative Models: Small Grower and Retailer Collaborations
3. Sysco's Journey from Supply Chain to Value Chain: 2008-2009 Final Report
4. Good Natured Family Farms presentation
5. Risk Management and Financing for Specialty Crop Enterprises

6. Crop Insurance Today – A New Tool in the Risk Management Safety Net Whole-Farm Revenue Protection

Who is Good Natured Family Farms?



Good Earth • Good Food • Good Life



Who We Are.....

An alliance of over 160 local family farms working together to supply quality local food products to the KC area. We sell mostly through Ball's Price Chopper & Hen House & SYSCO wholesale. We also administer a grant from the WK Kellogg Foundation to make more local food available to vulnerable populations. See back for mo14re INFO.

What We Do....

We use our expertise, connections, resources and passion to help the members of our alliance with:

- * MARKETING, PACKAGING, BRANDING
- * DISTRIBUTION & SALES
- * FOOD SAFETY CERTIFICATIONS
- * CURRENT BEST PRACTICES

What We Look For.....

BUY FRESH BUY LOCAL GROWER CRITERIA

1. Grow products within a 200 mile radius of the Kansas City metro area.
2. Grow on small family size farms.
3. Grow using environmentally sustainable methods with minimal use of pesticides.
4. Raise animals free-range without the use of growth hormones and sub-therapeutic antibiotics.
5. Use no genetically modified seed varieties or livestock breeds.
6. Process locally using traditional handcrafted artisan methods with minimal/no use of artificial ingredients or preservatives.
7. Enhance the environment, reduce pollution, and practice social responsibility.
8. Stimulate and support local and rural economies.
9. Use the breeds and varieties best suited to produce the highest quality products for the KC metro area.



WANT TO KNOW MORE?



www.FoodThatsBetterForEveryone.com

PROJECTS PARTIALLY FUNDED BY THE WK KELLOGG FOUNDATION





Good Earth • Good Food • Good Life

A pioneering alliance of over 160 family farms within a 200 mile radius of the Kansas City metro area. GNFF sells wholesale to local grocery stores and distributors and is heavily involved in social projects to provide healthy, local food to the urban core.



Workplace Wellness CSA

The Good Natured Family Farms "Workplace Wellness CSA" (Community Supported Agriculture) program is an employer-based program to provide a weekly bag of healthy, local foods to employees at companies in the Kansas City community. CSAs are a way for families to purchase food directly from local farmers. The GNFF Workplace Wellness CSA provides produce, eggs, artisan breads and all-natural meats and dairy to its members. Each weekly CSA bag includes a newsletter with information about the farmers, recipes and storage tips.

Farm to School

Our Farm to School program, currently in 8 KC metro YMCA Head Starts, is a collaboration between Good Natured Family Farms and Bistro Kids designed to improve the health of school children by providing fresh fruits and vegetables, grass fed meats, and hormone-free milk in their school lunch program. In addition to creating kid friendly meals that are healthy, seasonal, delicious, and locally sourced, the Farm to School lunch program provides a nutrition education program, hands on cooking classes, on-site farmer visits, and a school garden.



Good Natured Market at Harvest Learning Center

Harvest Learning Center Market is a non-profit grocery store built alongside the World Harvest Ministries church in Kansas City's Ivanhoe neighborhood. It is a joint project of Good Natured Family Farms, The Kellogg Foundation, Buy Fresh Buy Local, and Ball's Hen House Markets. The Market was formed with the mission of providing healthy, local food to the community at an affordable price. Prices are kept low through a generous EBT matching program from the Menorah Legacy Foundation. Only healthy food is available and it is sourced locally whenever possible, thanks to the partnership with Good Natured Family Farms. This store is working hard to become a model for similar programs in "food deserts" in vulnerable communities in Kansas City and across the country.

INNOVATIVE MODELS: SMALL GROWER AND RETAILER COLLABORATIONS

PART B - BALLS FOOD STORES' PERSPECTIVE

 WALLACE CENTER
WINROCK INTERNATIONAL

Authors: Shonna Dreier, MBA; Minoor Taheri, MBA • June 2009 • ©2009 Wallace Center at Winrock International. All rights reserved.

The Wallace Center supports entrepreneurs and communities as they build a new, 21st century food system that is healthier for people, the environment, and the economy. The Center builds and strengthens links in the emerging chain of businesses and civic efforts focused on making good food – healthy, green, fair, affordable food – an everyday reality in every community. Winrock International is a nonprofit organization that works with people in the United States and around the world to increase economic opportunity, sustain natural resources, and protect the environment, implementing projects in more than 65 countries across the globe.


WINROCK
INTERNATIONAL

HOW IT BEGAN

In the winter of 2004, Diana Endicott, a farmer and pioneer in the natural food movement, organized a luncheon to showcase the success of Good Natured Family Farms (GNFF), an innovative program supporting local farmers' efforts to sell their produce in grocery stores.

GNFF had become an umbrella brand for naturally grown food sourced from farms within a 200-mile radius of Kansas City and sold exclusively at Hen House Markets and Price Choppers, two supermarket chains owned and operated by Balls Food Stores. When Diana discovered that the total sum of wholesale sales of GNFF-labeled products to BFS had hit \$2 million in 2004, she decided to throw a celebratory lunch for BFS managers, guests, and others involved in the program. The purpose was to take stock of their joint success and to generate additional support.

The managers and guests talked about creating a farmers' market within the supermarket chain: a place where shoppers could enjoy natural, locally grown foods year-round. They talked about how shoppers valued knowing how and where their food was grown. They also mentioned that shoppers were willing to pay a premium for this kind of food. "I had no idea this had grown to such a high level. It just made business sense to continue to develop this niche market," said David.

That luncheon signaled that the time was right for the grocery chain to make a more formal commitment to local farmers and to sell locally grown food throughout its chain. Under David Ball's leadership, BFS has since become one of the few retailers with a stated commitment to working with local farmers. As its partnership with local farmers has grown, BFS has become a national model for how supermarkets can support local farming by creating a year-round farmers' market within their stores.

BALLS FOOD STORES: A COMMITMENT TO COMMUNITY FROM THE START

Sydney and Molly Ball founded Balls Food Stores (BFS) in 1923 and opened their first Hen House Market in 1989. Today, BFS operates 29 grocery stores in Kansas and Missouri under the Hen House Market and Price Chopper banners. The company remains family-owned: the founders' son, Fred Ball, serves as chairman, and his son, David, runs day-to-day operations as president and chief operating officer.

From the start, BFS had a close connection with the community it served. In the early days, shoppers paid monthly for their groceries and knew Sydney and Molly personally. They also knew where their food came from because the Balls frequently bought food from local farms and farmers' markets to resell in their store. This close connection with the community created a high level of trust, and the grocery store name came to represent locally sourced, high-quality food.

Today, the company's philosophy is to provide its customers with courteous service, quality products, value pricing and clean and well-organized stores. This philosophy is governed by honesty, fairness, truth in advertising, freshness of perishables, guaranteed satisfaction and competitive pricing. "Our tagline is 'Making Grocery Shopping a Pleasure, not a Chore'," says David Ball. David assigned Matt Jonas, BFS' vice president of sales and marketing, and Bill Esch, BFS' executive director of advertising, to work with GNFF and lead BFS' team in the company's local food sales effort.

The technological transformation of agriculture and the extensive developments in transportation during the latter half of the 20th century impacted the trajectory of the entire grocery industry. Synthetic fertilizers, pesticides and vaccines, along with mechanization and breeding programs, enabled farmers to grow more food, more quickly and with less disease. Improved transportation and shipping networks meant that food supplies could be sourced from around the world. This, in turn, enabled supermarkets like BFS to provide many food items year-round and often at cheaper prices. BFS' operations evolved into a mainstream supermarket model and they began to source products from farther away.

However, the negative effects of industrial agriculture have become apparent over the past two decades. These include increased health risks from synthetic pesticides, growth hormones and overuse of antibiotics, and from the consumption of highly processed foods. They also include damage to the environment such as water and soil contamination and the depletion of aquifers, as well as an exponential loss of family farms and rural communities.

Over the last thirty years, environmental concerns and natural food awareness began to have an effect on consumer behavior. The organic food movement of the 1980s grew out of a growing concern among scientists, environmentalists, farmers and, perhaps most importantly, consumers, about the negative impact of modern conventional farming.

Consumers began to seek out organically grown food, which is often grown by small scale, family-run farms and sold through non-mainstream channels such as farmers' markets, food cooperatives and natural food stores. As the organic food market grew, supermarkets jumped in, and by 2002, organic food was available in 73 percent of conventional supermarkets.

But the rise in awareness of global warming made consumers realize that buying food produced and shipped from thousands of miles away, even if it was organic, was not necessarily a sound choice. A number of other factors, including a preference for fresher taste, prompted a powerful trend toward local food, and some supermarkets began to rethink their way of doing business. For BFS, this trend was a return to its roots and its history of sourcing from the family farms around it.

SEIZING THE OPPORTUNITY TO RETURN TO ITS ROOTS

Balls Food Stores' efforts to return to its roots of selling locally grown food as a supplement to its conventional food business began informally in 1994, when Diana Endicott of Good Natured Family Farms (GNFF) approached Lou Malaponti, BFS' director of produce operations, about selling her surplus of locally-grown hot house tomatoes. After a tasting, the forward thinking produce director agreed to buy the tomatoes. This initial transaction was the seed that grew into what today is an expanding partnership between BFS and the GNFF alliance of local farmers.

The sale of GNFF hot house tomatoes paved the way for other products within the Balls' chain. Diana also raised cattle on her ranch with her husband's help. They wanted to sell cattle directly to local grocery stores to get better pricing. Diana approached Jon Wissmann, BFS' director of meat operations, and offered him their hormone- and antibiotic-free beef.

As luck would have it, BFS' meat department was looking for a branded beef product to sell in its 13 Hen House Markets and a deal was struck. Health-conscious consumers embraced the naturally raised beef and demand soon outstripped supply. Diana then partnered with other local ranchers to create the All-Natural Beef Cooperative and began selling the cooperative's beef products under the Good Natured Family Farms brand.

"Family farms producing farmhouse cheese, raising local honey, bottling milk, and even making organic tofu started calling and asking how they could join the Good Natured Family Farms Alliance and sell to BFS," said Diana. Until 2004 and that pivotal luncheon, Diana worked with each department director independently, a time consuming process, because the relationships had to be built one at a time. David Ball was eager to address this inefficiency. Rather than return to business as usual, he took charge by issuing a company-wide mandate to increase sales of locally grown foods. From David Balls' top-level commitment came a number of innovations in how bigger buyers can work with smaller farmers for mutual benefit.

KEY INNOVATION: COMMITMENT FROM THE TOP AND DESIGNATING A CHAMPION

A commitment to local farmers and sourcing food locally starts at the top of the organization. "Having local foods in our stores matches our values and philosophy," explains David Ball. "It represents us as a locally owned company, it fulfills customers' demand for local foods and it benefits the local economy." Carrying out that commitment, however, requires a coordinated team effort across all departments.

David's commitment to the locally grown program signaled that Balls Food Stores did not view local food as a passing trend, but as a growing and critical part of their overall business. "The local product allows us a special niche in our market," explains Matt Jonas, BFS' vice president of sales and marketing. "It is one that most, if not all, of our competitors cannot, or are not, willing to fill. It also attracts customers to our stores because it is special, and they can find this product in very few establishments in town."

Matt led the coordinated effort of the BFS team and furthered the collaborative partnership with GNFF. This enabled the organization to take a consistent approach by making a lasting commitment and dedicating sufficient resources to building its local food business. And the results are clear. “From 2004, sales of locally grown foods have increased 20 to 35% a year,” says Matt. “We’re committed to growing this part of our business, so we need to make sure we have revenue goals for local products, strong working relationships with the GNFF alliance and strong marketing programs to entice and educate shoppers.”

KEY INNOVATION: DEVELOPING STRONG RELATIONSHIPS WITH SUPPLIERS

Balls Food Stores has redefined the supplier-buyer relationship as its local food business has evolved. Conventional supplier relationships in the food industry tend to be price driven, transactional and facilitated by food brokers. By contrast, BFS’ relationships with the GNFF alliance farms, which are small-scale and family-owned, are designed to be more long-term, partnership-oriented and focused on win-win outcomes.

For example, Lou Malaponti, BFS’ produce director and Del Housworth, BFS’ local buyer, work with GNFF alliance fruit and vegetable growers to determine what products and varieties to grow. Today, the GNFF alliance has over 100 family farms; in addition, BFS has about another 25 local growers. All growers or producers selling to BFS must meet a 200-mile rule that BFS and GNFF established to designate product as “local”. Once again, demonstrating forward thinking market strategies, Lou Malaponti led the initiative to triple the sales of GNFF locally grown produce for the 2009 season. “Buying local is very important to our customers and we need to continue to keep the local message fresh; we continuously work with our growers to increase supply, bring in new and unique items, and last season I worked with GNFF and started a locally grown fresh cut flower program” says Lou.

To meet this challenge, Lou and Del work with GNFF growers to establish crops where the grocery chain has voids. For example, if shoppers increasingly ask for okra, BFS identifies it as a market demand and works with growers to meet it. Del will ask these farmers to plant a small amount and test their ability to become okra producers. In the process, the grocery chain assesses the farmers’ ability to grow okra that meets their quality standards for taste and appearance, in the required amount and in a timely fashion. If this test is successful, then participating farmers can become steady okra suppliers to BFS.

“In a sense,” Diana says, “BFS plays a research and development role in helping GNFF farmers diversify what they grow based on what shoppers want to buy and on what can be farmed locally.” “We are unique in that we have a big market basket of local foods that allows us to promote buying local year-round,” explains Matt.

Locally raised and processed meats have played a major role in keeping the ‘Buy Local’ message alive year-round. Equally important, Diana explains that meat sales are what drive the economic sustainability of the GNFF alliance. Jon Wissmann, BFS’ director of meat operations, has made BFS a leader in local meat sales across the country. “We carry a full line,” says Jon, “from all-natural beef, free range chicken, pastured pork, bison, to a full line of value-added products. “We bring variety and quality in local meats to our customers and our sales continue to reflect our customers’ growing appetites for wanting to know where and how their meat is produced,” he explains.

Another unique aspect of BFS’ partnership with the GNFF alliance is the role it plays in helping farmers to remain financially viable. For example, the grocery chain works with farmers on negotiating price. According to Jon, “pricing is based on a process of continuous communication between GNFF alliance farmers and BFS buyers.” This prevents farmers from being squeezed financially while enabling BFS to stay profitable – another win-win outcome. In addition, BFS provides financial support to farmers on occasion. It has also expedited payments by paying within fourteen days instead of the traditional 30 days.

Lastly, BFS plays a critical role in how locally grown food goes from farm to store shelves. It works with the GNFF alliance to make the distribution of locally grown food more efficient and cost effective. Distribution challenges will be discussed later, but it should be noted here that this is also an important aspect of the relationship between BFS and local farmers.

KEY INNOVATION: HAVING THIRD PARTY SUPPORT FOR SELLING LOCALLY GROWN FOOD

In 2004, Hen House Markets received an Environmental Excellence Award from Bridging the Gap (BTG), a Kansas City nonprofit organization whose mission is to build the sustainability of the Kansas City area by connecting the environment, economy and community. This award is given annually to a local business that excels in environmental practices. This recognition added credibility to Balls Food Stores' efforts to support local farmers – it was able to use the award as a tool in its early marketing efforts.

The award also became the starting point for a collaborative effort between BFS, GNFF, and BTG to launch the Buy Fresh Buy Local (BFBL) campaign. Buy Fresh Buy Local is a national campaign initiated by the FoodRoutes Network, a national nonprofit organization that provides technical support to community-based groups working to strengthen regional markets for locally grown foods. This campaign focuses on connecting consumers to locally grown food through outreach education, events, festivals, and farmers' markets. From 2003 to early 2008, Otavio Silva organized and administered the Buy Fresh Buy Local program in Kansas City at BTG.

Diana heard of the Buy Fresh Buy Local campaign through Dr. Mary Hendrickson, University of Missouri extension and director of the Kellogg Food Circle Networking project. Diana approached BTG and BFS with the idea of initiating a Buy Fresh Buy Local campaign for the Hen House Market stores. Diana worked with Bill Esch, BFS' executive director of marketing, and Otavio Silva of BTG; after lengthy discussions with the Buy Fresh Buy Local national office, BFS was accepted as the first supermarket chain in the United States to participate as a partner in the campaign. "Our participation lends credibility to the overall program and signals to our customers and competitors that we're fully committed to supporting local farming," says Bill.

Otavio was also responsible for overseeing local farmers who wanted to market their products under the Buy Fresh Buy Local marketing campaign with BFS. Nowadays, Otavio, formerly with Bridging the Gap and currently the KC BFBL administrator, continues to be the third party consultant who oversees site visits and interviews with local farmers. "If farmers do not pass the requirements, then their products do not get sold under the BFBL program," says Otavio. BFBL provides a third party "seal of approval" that food marked as "locally grown" within BFS' stores is, indeed, grown locally. This enhances BFS' reputation among its shoppers as being authentic, customer-focused and quality-driven – and it further differentiates the supermarket chain from the competition.

KEY INNOVATION: PROMOTING LOCALLY GROWN FOOD TO INCREASE OVERALL SALES

Before joining the Buy Fresh Buy Local campaign, Balls Food Stores had few ways to promote locally grown food within its stores. Store teams created signs and labels but the Buy Fresh Buy Local umbrella enabled them to develop a more comprehensive marketing program to educate shoppers about locally grown food.

For example, BFS created new signs used throughout its Hen House stores. Large hanging ceiling signs clearly let shoppers know that BFS emphasizes the sale of local food. The BFBL signs name Good Natured Family Farms, Hen House Markets and the name of the local farmer – all under the Buy Fresh Buy Local uniform slogan. Moreover, pictures on the signs are of actual farmers who supply BFS. The signs point out that products sold under this campaign are "thousands of miles fresher." Today, BFS has about 30 of these signs in each Hen House Market. The consistent messaging across stores reinforces BFS' locally grown message and solidifies its positive image in shoppers' minds.

Uniform signage was critical in educating customers, but not necessarily enough to get them to buy locally grown food. The BFS marketing team used proven promotion tactics to address this issue. "We continually promote our locally grown foods at checkout and in our circulars," says Matt Jonas. The Buy Fresh Buy Local campaign and special promotions (such as "buy one, get one free," etc.) are featured prominently on the front pages of in-store circulars, which a majority of customers read. At check out, Buy Fresh Buy Local signage appears on the computer screen to further raise awareness. Also, each locally grown item is identified as such on receipts. Lastly, BFS uses the bottom portion of receipts to advertise specific programs and promotions related to local food.

In-store promotions targeting shoppers proved effective, but what about Kansans who did not shop at BFS supermarkets? How would BFS capture this group's attention and bring them into its stores? David Ball decided to invest in local advertising. BFS places weekly four to six-page ad flyers in the Kansas City Star newspaper distributed to 400,000 homes in the metropolitan area. For example, these flyers advertise "Meet the Growers" events held on Saturdays from July

to September. These events consist of a sampling table of locally grown products, a “meat road show” and two to six farmers at the store helping to sell their products and doing a meet-and-greet with shoppers. Helping educate the customers on how to cook with local foods, BFBL Chef Mark Mollentine teamed up with GNFF to create recipes and sample locally grown foods during the store events. In 2008, Chef Mark partnered with GNFF and launched a gourmet line of Good Nutured Local Artesian finishing sauces, taking BFS’ local foods program to the next level.

Growers’ events are also promoted on Fox 101 FM, one of Kansas City’s major FM radio stations. There is a live radio remote at each event, and BFS serves a lunch for \$1.01, which buys shoppers a Good Nutured Family Farms all natural antibiotic-free hot dog, drink and a bag of chips. The station advertises the \$1.01 lunch using its on-site live radio remote, providing great exposure for BFS.

In 2006, David Ball, decided to step up the Buy Fresh Buy Local message, and launched a series of TV commercials where he featured local family farms and the locally grown foods available at BFS. As David states in the BFBL commercial, “Shop Hen House Markets, where you will find a farmers market seven days a week.”

BFS advertises regularly in Tastebud, a free, local food-oriented publication distributed throughout the Kansas City metro area. BFS typically contracts for the entire last page of the magazine and uses this vehicle to promote its local food efforts and showcase local farmers.

BFS also hosts a weekly live talk show by Chef Jasper Mirabile, owner of the famous Jaspers restaurant in Kansas City and founder of the local Slow Food movement. A passionate advocate of locally grown foods, Chef Mirabile frequently hosts the one-hour show at a Hen House store location.

Another idea pioneered by Diana, GNFF, and BFS is a supermarket-based Community Supported Agriculture (CSA) program. Currently, there are CSAs at all twelve Hen House Market locations, where customers commit to purchasing a bag of locally grown food each week for 21 weeks.

Key messages remain constant across marketing programs and outlets: “Our marketing message stresses four benefits of buying local: shoppers get exceptional taste and freshness; they support the local economy; they help family farms remain viable; and they help protect the environment,” says David Ball.

BFS’ marketing efforts have had a significant effect on sales. Local food sales grew 35 percent from 2004 to 2005 and that figure became the base line and annual growth target. In 2006, the company and local farmers exceeded this goal when they experienced an almost 42 percent increase in locally grown food sales. This represented \$7 million dollars in sales across all stores.

“If we start with the sales results in 2003 of \$2.5 million, the Buy Fresh Buy Local campaign tripled our sales of locally grown foods by 2006,” says Matt. BFS met the 35 percent sales growth target in 2007, as well: almost \$9.5 million in local food sales. Although this represents a small percentage of BFS’ system-wide overall sales, it means that there remains tremendous room for growth.

A critical – perhaps even unintended – outcome of BFS’ efforts to promote locally grown food throughout its stores has been an increase in overall sales, including conventional food and non-food items. In other words, shoppers go to BFS stores to buy locally grown food and in the process end up spending more overall. Matt puts it best when he says, “The program has helped us increase sales storewide, and that probably is the greatest value it brings to our stores.”

KEY INNOVATION: MAKING OPERATIONAL CHANGES TO SUPPORT LOCAL FOOD SALES

To grow its local food business, Balls Food Stores had to make important changes in key areas including distribution, merchandising and training. Collecting food from local farms and distributing it to BFS supermarkets was more challenging than conventional food distribution. Conventional food is brought to BFS’ 55,000 square-foot central warehouse by trucking companies specializing in food transportation. There it is unloaded, inventoried, repacked, reloaded and sent back out on BFS-owned trucks to individual stores. These are large, coordinated shipments that follow set daily or weekly schedules.

Early on, BFS realized that working with small farmers fell outside of this framework; with small farmers, getting product from each farm to each store was a difficult and costly task. So, how would the food get from each local farm to each store? Who would be responsible for transportation, and who would pay for it? How would this be done in a coordinated way?

David Ball solved this problem by using their 55,000-square foot central warehouse to play a critical role in the distribution of locally grown food. BFS' central warehouse's mission is to source and distribute superior product in a productive and low cost manner by focusing on variety, quality and quantity. "Using the central warehouse for locally grown food made sense, but we had to make some adjustments," says Matt.

BFS changed its distribution policies to enable locally grown food to be brought to its central warehouse. Farmers working through Good Natured Family Farms either bring their products to the warehouse individually or band together to transport food to the warehouse share the costs. In some cases, BFS sends out its own trucks to local farms for pickup and delivery to the central warehouse. Regardless of how the food gets there, once at the warehouse, the food is kept separate from non-locally grown food, although it is loaded on the same trucks as conventional food items when its ready to be sent out to individual stores.

The central warehouse also has systems in place to facilitate local food distribution using a "Home Grown" designation (a campaign similar to Buy Fresh Buy Local, but limited to Price Chopper stores) to distinguish between local and conventional food, said Del Housworth, BFS' central warehouse local buyer. For example, it maintains a Home Grown Projected Timeline for when local crops become available and in what quantities. It also creates Home Grown Specification Forms for products that specify attributes such as grade, size, packed/unpacked, purchase order number, temperature, pressure, taste, color, condition, weight and count. These specifications are designed to ensure product quality and uniformity for locally grown food brought to the central warehouse because this can be an issue with small scale farming.

Another issue BFS faced was what to do about locally grown food once it got to the stores. Each department director worked with store managers to designate space in each department for locally grown food. The goal was to give prominent shelf and floor space to locally grown food, in many cases side by side with conventional food to educate customers and enable them to comparison shop.

For example, Jon Wissmann, BFS' director of meat operations, worked with store teammates on how to merchandise GNFF meat next to conventional meat while maintaining the integrity of each. Lou Malaponti, BFS' director of produce operations, integrated locally grown produce in the same area as conventional produce along with clear signage. Locally produced honey was labeled as such and placed on the same shelves as non-local honey. Proper labeling and signage seemed to be a trivial component of BFS' task, but in fact it was not. BFS' department directors worked with store teammates on how to properly designate locally grown food as such and how to display it in the store. "Our store teams developed key practices for our employees that included proper signs and discipline in placing them," explains Matt.

CHALLENGES AND THE KEYS TO SUCCESS

According to Diana Endicott, the most significant challenge in helping to grow Balls Food Stores' local food program is the consistency of supply. The supply chain can get disrupted for a number of reasons, such as financial difficulty of the grower, a key family member falling ill, or an important aspect of the production cycle being affected (delivery truck break down, for instance). These are small-scale, family farms and they can, at times, be faced with challenges that hamper their ability to deliver products as agreed upon. In this case, the issue is addressed through a large supplier network, Good Natured Family Farms, but the reality is that local farms are not unlimited in number.

A second challenge is BFS' ability to meet its growth target year over year. When the program was in its infancy and sales were under half a million dollars, it was relatively easy to increase sales by 35 percent. But now that local food sales stand at approximately \$9.5 million, a 35 percent increase translates into an additional \$3.5 million in sales for the next year. To reach this goal, BFS will need to increase its supplier base, diversify its local food product portfolio and continue to invest heavily in marketing. BFS' department directors recognize this and they remain committed to building stronger partnerships with existing suppliers while seeking out new ones, especially within the partnership with GNFF partnership.

Increasing efficiencies in logistics and distribution remains an area that requires constant honing. For example, GNFF and BFS need to work with local farmers to ensure uniform packaging so that time and resources are not wasted at the central warehouse to repackage products according to BFS' specifications. Also, small deliveries to the warehouse result in multiple rounds of offloading and reloading, which can affect product quality (bruising, etc.) Farmers have learned to aggregate as much product as possible and send it to BFS' central warehouse as infrequently as possible to reduce the number of times products are received at the BFS dock, which in turn reduces cost and makes the central warehouse's operation more efficient. This is an area that remains a work in progress.

The key to success of BFS' local food sales program has been the company's commitment to supporting local farmers while keeping a laser focus on bottom line results. Having an organizational philosophy that starts at the top with David Ball and flows down through the company is critical to long-term success. Bringing the BFS team together and getting all department directors on board with the local food initiative is also a major driver of success. Finally, working directly with the GNFF alliance and the Buy Fresh Buy Local campaign is critical in creating a year-round market for locally grown food.

BFS has had great success working with Good Natured Family Farms to source and market local farm foods. The BFS team remains steadfast in their commitment to local foods even though much work remains to address challenges. And as usual, David Ball leads the charge: "The beauty of all this is that the current level of local food sales represents less than 2 percent of our total sales across all stores, so we have lots of room to grow our local food program."

REFERENCES

This case study was developed based on: (i) conversations with Matt Jonas of Balls Food Stores, Diana Endicott of Good Natured Family Farms and Otavio Silva, KC BFBL administrator; (ii) a review of public websites and PowerPoint presentations provided by Diana Endicott; (iii) a review of BFS marketing materials; and (iv) a reading of magazine and newspaper articles. The list of materials reviewed appears below.

Buy Fresh Buy Local: Farmers' Market Product Information Guide, Hen House Market.

Diana Endicott and Matt Jonas, PowerPoint presentations on Good Natured Family Farms (GNFF) and Balls Food Stores' efforts to support local farms and the Buy Fresh Buy Local Campaign results.

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Carolyn Dimitri and Catherine Greene, "Organic Food Industry Taps Growing American Market," Agricultural Outlook, October 2002

FOR MORE INFORMATION

Balls Food Stores: <http://www.henhouse.com/>

Buy Fresh Buy Local: <http://www.foodroutes.org/buy-fresh-buy-local.jsp>

Good Natured Family Farms: <http://www.goodnatured.net>

Wallace Center at Winrock International: <http://www.wallacecenter.org>

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SYSKO'S JOURNEY FROM SUPPLY CHAIN TO VALUE CHAIN: 2008-2009 FINAL REPORT

RESULTS AND LESSONS LEARNED FROM THE NATIONAL GOOD FOOD NETWORK /
SYSKO CORPORATION PILOT PROJECT TO SOURCE AND SELL GOOD FOOD

 WALLACE CENTER
WINROCK INTERNATIONAL

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The Wallace Center supports entrepreneurs and communities as they build a new, 21st century food system that is healthier for people, the environment, and the economy. The Center builds and strengthens links in the emerging chain of businesses and civic efforts focused on making good food – healthy, green, fair, affordable food – an everyday reality in every community. Winrock International is a nonprofit organization that works with people in the United States and around the world to empower the disadvantaged, increase economic opportunity, and sustain natural resources.


WINROCK
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INTRODUCTION

Nearly 10 years ago, the \$40 billion Sysco Corporation recognized a serious weakness in its business model. Like other food industry giants, Sysco achieved a leading position by offering its restaurant and institutional customers, such as schools and hospitals, the lowest prices and the most convenient service.

But the industry's successful focus on constantly streamlining, to gain more and more efficiencies, had resulted in a very narrow product selection that many customers were questioning and rejecting. Restaurant chefs and school cafeterias, for example, were beginning to ask for products that Sysco could no longer source easily as a result of an industrial approach to food sourcing and distribution that Sysco and other major food companies helped to develop.

For example, most of Sysco's 185 regional operating units in the United States offer only two varieties of apple: Red Delicious and Golden Delicious. The reason is partly the industry's drive for cost-efficiency, which has reduced choices across the commercial food system. Apples and many other products offered through major food service channels are down to those few varieties that can withstand thousands of miles of travel and still sell at a low price because they are produced in large volume.

But restaurants, schools and other food service customers now want more flavor, variety and meaningful connections to the people and places behind their food than this far-flung system can provide. They want fresh-picked apples and more types from which to choose. They want the story behind the apple – about its heritage and its farmer, for example. They want to support local farms and local economies. They also want more accountability regarding labor and environmental practices.

Rick Schnieders, Sysco's chief executive officer from 2003 to 2009, recognized this demand shift and realized two things:

1. Requests for more product diversity, and more connection to the people and places that produce the food, would not go away; in fact, the demand for what he called "romance, memory, and trust" was on course, and has grown significantly.
2. The best way to keep and gain customers would be for Sysco to find new ways to source from farms and other food businesses that could help the company meet customer demand for greater variety and stronger social and environmental values behind the food they buy.

Thus began Sysco's journey from its mainline food supply chain model to a new values-based food supply chain, or value chain, approach to sourcing, selling, and distributing food. According to research in this emerging field, new food value chains differ from traditional food supply chains in that value chains:

- Operate as a series of win-win strategic relationships through the supply chain from farm to table rather than win-lose, interchangeable business transactions.
- Differentiate products by attributes that traditional supply chains do not typically monitor or promote, such as the environmental and social benefits of producers' practices.

This report documents the results, lessons learned, and strategies developed in the second and final year of a pilot project that Sysco began in 2008 in partnership with the Wallace Center at Winrock International and the National Good Food Network, which is housed at the Wallace Center. Through the National Good Food Network and the Wallace Center, Sysco draws on the experience and knowledge of businesses and organizations across the country also working to build more choice and fairness into the commercial food system.

Sysco's goal is to develop a strategic plan for the procurement and distribution of foods that meet new consumer demand for knowing where food comes from, who produced it, and how it was produced. The desired outcome is a replicable business plan, which independent operating companies that manage different regions across Sysco's system can use as they respond to this new reality.

Sysco's Grand Rapids operating company now offers 12 varieties of apples from environmentally certified Michigan farms, instead of just two varieties previously. This fact is one indicator of the success of the pilot project and Sysco's overall strategy to change how it sources food. Sysco operating companies

involved in the pilot have gained new customers because of the new choices they are now offering. Other Sysco regions are beginning to replicate this new, evolving values-based food supply chain business model. Farms are also investing in the growth of their own businesses as Sysco opens this new channel for local and sustainably produced foods.

EXECUTIVE SUMMARY

With results for 2009 now in, it's clear that in just two years Sysco has made progress advancing the concept of a values-based food supply chain while also using components of the concept, particularly "local" and "sustainable," to produce significant results.

The company landed major accounts in the pilot regions of Grand Rapids and Kansas City because those operating companies were able to offer food produced in environmentally sensitive ways by area farms. Sysco Grand Rapids won the entire Michigan State University account because it was able to help that institution respond to public and student demand for MSU to source more food from Michigan farms. One of several new local farm products Sysco brought to MSU included major sales for a Michigan lettuce producer and a fresh produce processor in the region who worked together to supply chopped and bagged lettuce within 30 hours of harvest. Similarly, Sysco Kansas City won the business of the Kansas University system and the Hallmark Cards Corporation, based in Kansas City, because of the distributor's local and sustainable food focus.

Sysco has found that it works to start with what the market understands and what Sysco can reliably provide — local and sustainably produced food. This starting point gets new sales underway for Sysco and the farms involved. These sales become the evidence that builds confidence and opportunities in the program. It also builds a platform upon which to start the business conversation about other values that Sysco wants to integrate. In 2009, for example, Sysco developed a concise, one-page document, called Guiding Principles: A Value-Chain Partnership Charter, to communicate its philosophy around values-based food supply chains and its commitment to transforming its operations.

Sales success is the way to start that conversation, and the two-year pilot did just that. Local product movement was up more than 30 percent during the 2009 growing season across the two original pilot regions: Sysco Grand Rapids and Sysco Kansas City. Key to this profitable growth was regional branding, early and motivated sales efforts, and innovation with new pack sizes and products. In addition to growth in the original pilot regions, the program successfully launched a new region in 2009: Sysco Chicago.

The program's growth in 2009 is particularly significant because of a number of challenges during that time. With the general economic downturn of the United States, the nation collectively tightened its belt, hunkered down, and families began eating out much less, all of which had a particularly negative effect on the foodservice sector. In addition, the summer was delayed and cool, creating additional challenges with the production and sourcing of many produce category items. Lastly, food scares in late 2008 shifted considerable attention to working with growers to understand and comply with changing food safety certification requirements.

Sysco's investment in learning how to build a values-based food supply chain has resulted in new sales and customers, which has made the business difference over two challenging years in the industry. These results came from getting out in the field and getting to know and understand local suppliers. It also came from innovative approaches to managing the challenges and opportunities that the new suppliers presented.

In Grand Rapids, for example, Sysco was successful in handling new varieties of apples, and the local farms' varying volumes and availability, by developing new pack sizes for different kinds of customers. More convenience stores and hotels are buying apples now because the new pack sizes fit their limited inventory capacity better. In Kansas City, the challenge of incorporating local foods from many Amish and Mennonite farms resulted in the nation's first successful food safety audits of such farms. The experience is informing industry and legislative negotiations over how to develop new food safety regulations so they do not overwhelm small farm budgets and operations.

Going forward, Sysco sees the model spreading through its system because the program has resulted in the framework of a new business model for additional

operating companies to work with. The pilot regions are also experienced enough now to serve as models and mentors.

Strategically, Sysco sees the opportunity to link regional operating companies' local food efforts so that they not only share information but also suppliers. Growers now working with Sysco Grand Rapids could easily supply Sysco Detroit and even Sysco Indianapolis, depending on the farm's scope and location. Sharing information and contacts can help each operating company build its local portfolio, which is important for keeping product flowing and for keeping customers and sales staff excited and engaged. This engagement, again, is the first step to building the values-based food supply chain relationships and the awareness of "Good Food" that will transform the system.

BACKGROUND

The Sysco/Wallace partnership designed its two-year "Success for Family Farms" project around the flexibility of Sysco's 185 independent regional operating companies. It chose two regional units that were ready and willing to innovate as the project's pilot locations. They are Sysco Grand Rapids, which distributes to customers in western Michigan and northern Indiana, and Sysco Kansas City, which covers the state of Kansas and the Missouri regions east of Kansas City to Columbia and south to Branson.

Sysco Grand Rapids and Sysco Kansas City continued as regional pilots in the project's second year, 2009. A third operating company, Sysco Chicago, became involved in 2009 as a test of how the emerging model could extend to another region.

Sysco's corporate office was directly involved, providing project direction and oversight, as well as grant funding for project needs. Craig Watson, Sysco's vice president for quality assurance and agricultural sustainability, led the effort.

The Wallace Center and the National Good Food Network provided key financial and in-kind support, including the guidance of Joe Colyn of Originz, LLC. Mr. Colyn is a supply chain expert who served as the national project leader for the Sysco/Wallace partnership. The National Good Food Network also contributed expertise through its ability to leverage the knowledge and experience of a wide range of businesses and organizations working to transform the nation's food system so that more "Good Food" gets to more people.

In their work together, Sysco, the Wallace Center, and the National Good Food Network use the widely adopted W.K. Kellogg Foundation definition of "Good Food" as "healthy, green, fair, and affordable." Good Food, under this definition, is wholesome and nutritious, is produced in an environmentally responsible manner, comes with justice for farm workers and others involved in the system, and is accessible and affordable for all.

2008 Experience

Each of the regional pilots formed teams that included a Good Food advocate serving as project lead, a Sysco operating company lead, and a lead from an organization serving as the logistical partner, or product aggregator.

Members of the Grand Rapids team:

- Good Food advocate – Joe Colyn, principle of Originz, LLC and consultant to the National Good Food Network.
- Sysco lead – Denis Jennisch, produce manager, Sysco Grand Rapids.
- Aggregator lead – Gary Lyon, co-owner of Walsma & Lyons, fresh produce broker/distributor.

Members of the Kansas City team:

- Good Food advocate – Otavio Silva, administrator of Buy Fresh Buy Local - Kansas City.
- Sysco lead – Pat Cipolla, produce director, Sysco Kansas City.
- Aggregator lead – Diana Endicott, owner of Good Natured Family Farms, a marketing cooperative of more than 100 family farm members. During the

two-year pilot, Good Natured Family Farms handled aggregation of product while the cooperative's primary customer, the regional Balls Food Stores grocery chain, provided distribution services through its central warehouse.

Both teams undertook in 2008 to develop approaches for increasing purchases and sales of Good Food. The primary emphasis is on moving local fresh produce with some experimentation in processed foods and meats, dairy, and eggs.

Project teams found market traction by focusing on an initial subset of Good Food attributes: Local and sustainable. They worked also to integrate other elements of Good Food into their values-based food supply chain development (healthy, green, fair, affordable). Yet the most executable approach to start was to work with what they could find — local producers, engaged in sustainable practices — and what they could clearly and reliably communicate through the chain.

Grand Rapids 2008

In the Sysco Grand Rapids market, the project contributed 10 percent in 2008 to the total volume of sales, or 5,354 incremental cases, and a \$92,000 increase in incremental sales. These sales were especially valuable in a crop year constrained by a slow start and an early finish, and by total volume on products listed the previous year down by approximately 18 percent. The project's movement of new locally sourced, sustainably produced items mitigated the downside of this tough year to only a nine percent drop in case volume.

The 2008 Sysco Grand Rapids effort involved 16 producers and 100 items from the operating company's existing base of Michigan and Indiana suppliers. The operating company also added six new farm suppliers and 18 new products.

Much of the Sysco Grand Rapids success came from Produce Manager Denis Jennisch's idea to start communicating the operating company's focus on local by simply differentiating products it had always sourced from Michigan and northern Indiana but had never labeled as such. Key to this idea was to develop a brand that fit into normal food service ordering systems. Sysco Grand Rapids launched the label, or brand, of MIPROD (Michigan-produced) on order forms to distinguish local products from Michigan and Indiana. In addition, Sysco Grand Rapids began to feature local growers, both existing and new suppliers, in sales materials and at its annual food show for customers.

Kansas City 2008

In 2008, Sysco Kansas City achieved 2,600 cases of incremental produce volume from 76 new local family farm suppliers, which contributed more than \$50,000 in incremental sales. In addition to fresh produce, Sysco Kansas City and Good Natured Family Farms test-marketed 'value-added' products like cheese, honey, and tofu to extend sales of locally sourced, sustainably produced items beyond the traditional growing season.

Sysco Kansas City did not have the advantage of a strong existing base of local wholesale suppliers of fresh produce and other items. Unlike Grand Rapids, which sits in the middle of a veritable Midwest fruit and vegetable belt, Kansas City region is more livestock and grains country. These products involve a significant amount of processing, which puts them even more into a global, anonymous supply chain than perishable fresh produce.

But Sysco Kansas City worked around its supply limitation by partnering with Good Natured Family Farms, a cooperative of more than 100 small family farms within 200 miles of the Kansas City metropolitan area. As an umbrella brand for the individual farms and groups of farms involved, Good Natured Family Farms operates with a set of standards around sustainable agriculture, humane livestock care, and community commitment. Good Natured Family Farms is well known at Kansas City's Hen House Markets and some Price Chopper supermarkets, where the regional Balls Food Stores company features the local food cooperative in its marketing.

Altogether, the 2008 start of the "Success for Family Farms" project in Grand Rapids and Kansas City produced a significant amount of on-the-ground learning and innovation, while also achieving early win-win results for growers and for Sysco.

2009 RESULTS

The second year of the project produced positive results and growth in both Grand Rapids and Kansas City with local product movement up more than 30 percent over 2008 in the key summer and early fall growing seasons. In both regions the expansion of the local produce offerings through new items contributed significantly to profitable growth.

In the new pilot region of Chicago, major accomplishments included developing the Lower Lakes™ brand and related marketing collateral. Unfortunately a late launch, just as local produce started hitting the market, prevented strong engagement from customers. The bright spot was the traction that a number of marketing associates gained with some key customers, setting the stage for stronger results in the future.

Table 1 summarizes the overall results for the project in 2009 by volume and sales with the best information available late in the year:

TABLE 1: 2009 Overall Impacts

2009	Grand Rapids MIPROD	Chicago Lower Lakes	Kansas City Buy Fresh
Total Family Farms Engaged	20	16	60-75
New Farms Engaged in 2009	4	11	25
Total Volume Moved (cases)	79,713	3,824	2,263
Total Sales (dollars)	\$1,179,948	\$64,121	\$44,093
Incremental Volume Moved (cases)	21,149	n/a	-337
Incremental Sales (dollars)	~\$313,057	n/a	-\$5,906

Chicago 2009

The primary focus of 2009 was to extend the project to Sysco Chicago, a much larger operating company with a significant produce business. In January the Sysco/Wallace partnership introduced the concept to Sysco Chicago. By mid-March Sysco Chicago had committed to creating the new Lower Lakes™ branding for produce from within 250 miles of Des Plaines, Illinois, which includes farms in nearby Ohio, Michigan, and Wisconsin, as well as Illinois.

The people of Chicago consider these Great Lakes states as their “backyard,” situated as the city is at the southern end of Lake Michigan. Sysco Chicago came up with the Lower Lakes™ name based on this cultural and geographic connection.

Chicago’s Lower Lakes™ branding strategy is like Grand Rapids’ MIPROD brand on food service ordering materials, which proved successful in 2008. MIPROD distinguishes products from Michigan and Indiana growers, many of which had always supplied Sysco Grand Rapids. Similarly, many of the growers that Sysco Chicago would designate as Lower Lakes™ are wholesale suppliers from the region whose produce would have flowed into Sysco Chicago’s inventory anyway.

The purpose of the brands is to help the operating companies stop co-mingling regional and imported products, both in inventory and sales efforts. By segregating regional produce, the operating companies can both respond to local-only requests and position Sysco more competitively as a distributor that offers local foods. The benefit to farms – both existing suppliers and those that Sysco recruits to broaden its local Good Food selection – comes through new competitiveness with produce from all over the country and potentially stronger sales as customers and Sysco commit to local.



Chicago's Lower Lakes™ program launched late in May 2009, just as the local season for fresh produce was beginning. While timely for having inventory of summer product available, it was too late for many customers to consider it in their purchasing; they had completed summer menu planning earlier in the spring. A number of marketing associates and district sales managers, however, leveraged the Lower Lakes™ program to start moving local branded produce to highly interested customers.

Originally Sysco Chicago planned to offer only local produce when available; that is, customers would only receive local, Lower Lakes™ branded green beans and carrots, for example, when available. Sales would revert to imported items when local was not available. But without the time to communicate this labeling step effectively, Sysco Chicago decided to offer both its normal Sysco Universal Product Code (SUPC) items along with the Lower Lakes™ branded SUPCs. In many cases the normal SUPC was pulling from the same regional suppliers as the Lower Lakes™ SUPCs, so local produce was frequently moving through both.

For the pilot 2009 year, however, Sysco Chicago tracked only those instances in which customers specifically ordered regional produce through the Lower Lakes™ branded SUPCs. Orders of Lower Lakes™ branded products nevertheless amounted to 3.55 percent for the growing season despite the lack of pre-season marketing effort. Initial data also shows gross profit on those items was relatively high, or 114 percent of margins on corresponding unbranded items, due largely to new specialty organic items and less discounting of Lower Lakes™ branded products.

Like the Grand Rapids and Kansas City pilots, the Chicago pilot assembled a team that brought additional expertise and capacity into the project. Members of the Chicago team:

- Good Food advocate – Joe Colyn, principle of Originz, LLC and consultant to the National Good Food Network.
- Sysco lead – Chris Eliopoulos, produce director, Sysco Chicago.
- Aggregator lead – Todd DeWaard, produce manager, Superior Sales, fresh produce broker/distributor.

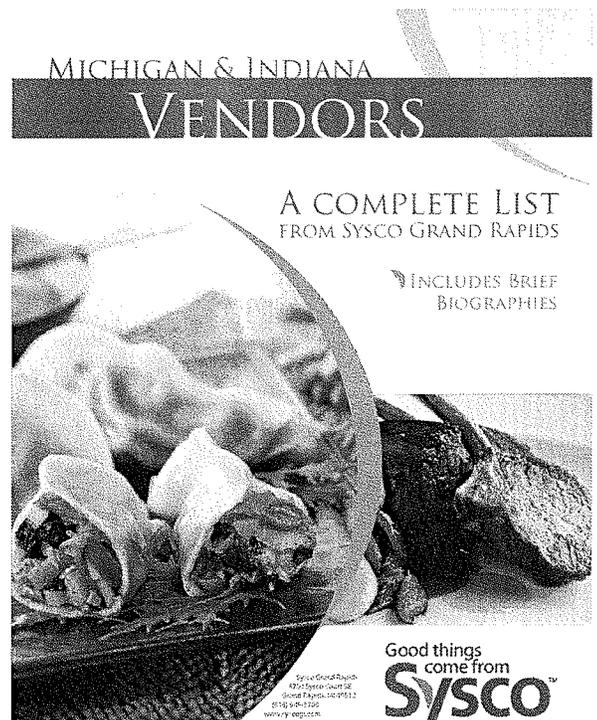
Grand Rapids 2009

A key strategy for Sysco Grand Rapids in 2009 was to build upon its successful use in 2008 of its new MIPROD brand to designate products from Michigan and northern Indiana. The food service brand allows Sysco Grand Rapids to track products coming from regional suppliers separately from products it imports from other places. The MIPROD label on the order form also allows customers to specifically choose local.

In 2009, Sysco Grand Rapids saw major sales growth because of a decision to offer only MIPROD branded options when available. The regional operating company also gained sales through innovations that came as a result of new types of local products and customer needs related to using local foods.

Overall, Sysco Grand Rapids sold 36.7 percent more in case volume and 47.4 percent more in dollars, which is a reflection of new, higher-value items. These MIPROD sales were up to almost 80,000 cases for the 12 months ending October 31, 2009, from less than 60,000 cases in 2008. Total MIPROD sales climbed to nearly \$1.2 million, an increase of more than \$300,000 over 2008. The branded local products represented 4.5 percent of total annual produce cases in a year when the category was down 7 percent overall.

The step of offering only MIPROD branded items when available succeeded in large part because Sysco Grand Rapids started communicating the change well before the growing season started. This was critical for avoiding customer confusion. Management worked in advance with sales staff. The marketing associates further relayed the change to customers in time for them to consider it in their menu development and purchasing plans.



Another factor in sales growth at Sysco Grand Rapids was the addition of new items and new pack sizes. Mr. Jennisch and the sales staff sought to accommodate the diversity of items and volumes coming in from new farm connections and to seize the opportunity to meet new customer needs.

For example, Sysco Grand Rapids expanded its apple offerings to 12 varieties in 2009, up from just two varieties in 2007 – Red Delicious and Golden Delicious.

Sysco Grand Rapids packed three apple varieties in the traditional 40-pound case. It also developed a new 16-pound case for eight varieties, which is easier for convenience stores to carry and which has resulted in more healthy food next to candy bars and chips, for example. Sysco Grand Rapids also introduced a new 20-pound variety-pack apple case in collaboration with the Michigan Apple Committee and River Ridge Packing for use by hotels in their lobbies. The effort has built a new market niche for Sysco.

Another example of new products and pack sizes is locally produced and chopped Romaine lettuce, which came about because Michigan State University dining halls were worried about their staff's lack of knife skills. Sysco Grand Rapids responded by working with Michigan lettuce producer Van Dyk Farms and produce packer Freshway Foods in northwest Ohio to offer three pack sizes of washed and chopped Romaine.

Because of the local supplier and regional processor, Sysco Grand Rapids was able to keep the lettuce fresh despite the extra steps; the value-added lettuce packs made it from farm to cafeteria in about 30 hours. This effort contributed to Sysco Grand Rapids landing the entire MSU account in 2009 after the university had previously split the business between Sysco and another food service provider.

Finally, Sysco Grand Rapids had planned in 2009 to spend more time cultivating grower relationships and broader values-based food supply chain understanding and commitment. However, nationwide food contamination recalls in 2009 prompted the industry to suddenly call for suppliers to meet certain food safety certifications. Many small and mid-size farms were not prepared for the new paperwork and significant compliance cost. Sysco Grand Rapids diverted a great deal of attention to working with growers so they could better understand and meet new food safety requirements.

Kansas City 2009

In 2009, the Sysco Kansas City program expanded its marketing of produce and other items from the Good Natured Family Farms cooperative, a base of some 150 farms in the region that market together under a common brand. The project built additional Buy Fresh/Buy Local marketing into the effort to further promote the cooperative's products.

Buy Fresh/Buy Local sales of local produce for Sysco Kansas City from July through November 2009 were \$44,093. New items contributed significantly to the Sysco Kansas City program, with 844 cases of vine ripe tomatoes representing 66 percent of new item volume and more than 25 percent of the total.

Like in Grand Rapids, case volume purchases of local foods were up approximately 35 percent, although quantities were lower because the region does not have the broad base of local commercial fruit and vegetable farms to provide the volume that Sysco Grand Rapids and Sysco Chicago enjoy.

Two constraints on the Sysco Kansas City program were a poor growing season and challenges with distribution. Again, because the Kansas City region is not as strong in local commercial produce, it is difficult to find intermediary businesses that can provide needed logistical support between the farm and Sysco's system. In Grand Rapids and Chicago, companies that already buy and sell wholesale produce are well established. Sysco Grand Rapids uses the Walsma & Lyons brokerage to aggregate local foods and distribute them to restaurants, hospitals and other food service customers under Sysco's MIPROD brand. Sysco Chicago uses Superior Sales, another well-established distributor, to aggregate and move the local products it sells under the new Lower Lakes™ brand.



The Sysco Kansas City program in 2009 again used the best distribution option available for aggregating and distributing the local products it sought to differentiate in the market. That option was the retail warehouse of the Balls Foods Stores chain, a company that features the broad line Good Natured Family Farms brand in its Hen House Markets and some Price Chopper supermarkets. The partnership between Good Natured Family Farms and Balls Foods Stores works well for retail distribution to the chain's stores. But the needs of food service are different, and the program will need a food service-focused distributor to grow.

The food service supply chain requires produce to be packed and ready for the end customer before it goes on the truck; the food service trucker cannot sort and grade produce for sale like a grocery store produce manager. Designed around retail, the Balls Foods Stores distribution facility could not meet the pack or timing requirements of Sysco Kansas City consistently. This affected availability and customer service, and in some situations resulted in sub-par product. The experience made it clear there is a need for food service-specific aggregation and logistics. Good Natured Family Farms is working to establish such a facility for 2010. The cooperative is working with urban churches and neighborhood groups to redevelop property in an underserved area and employ local residents.

One of several bright spots in the Sysco Kansas City program is the fact that Kansas University elected in 2009 to start using Sysco because of its partnership with Good Natured Family Farms and the National Good Food Network. Volume in 2009 was limited, but the relationship provides a foundation for future sales of local produce and other categories, such as meats, dairy, and eggs.

Another bright spot was the nationally significant achievement by the Kansas City team of accomplishing commercial food safety certification for four Amish and Mennonite farms. Some 30 percent of Good Natured Family Farms' products come from farms in these religious communities, which refrain from using electricity, tractors and other modern conveniences. New food safety requirements from large-scale buyers, such as Sysco, made commercial food safety certification of local farms a high priority.

The Kansas City team attacked this issue by focusing on the most challenging farms first: Amish and Mennonite farms, which regulators see as posing potentially higher risk for E coli contamination because they integrate horses and other farm animals into their daily operations. The Good Natured Family Farms cooperative and Buy Fresh/Buy Local Kansas City program worked directly with the Amish and Mennonite farms to develop needed food safety plans. The cooperative also covered the fees involved, approximately \$1,000 per farm for the inspection alone. The communities received guidance and support from Sysco staff. As a result of this achievement in Kansas City, Sysco Grand Rapids is in dialogue with the Michigan Amish community leadership to begin developing a 2010 food safety training and certification program.

2009 LEARNING

Success and challenges in 2009 prove that the road to Sysco's ultimate goal is a long one that starts with small steps. By taking these initial steps, however, Sysco has seen that it can also build significant momentum and progress toward its long-term goal.

One of the key changes that Sysco has made is the seemingly small but actually big step of labeling products from existing regional suppliers as "local." Re-branding existing products and suppliers could seem counter to the intent of the Sysco/Wallace partnership, which is largely to make a place in the market for farms and products that the current system excludes. Yet Chicago's Lower Lakes™ brand, Grand Rapids' MIPROD brand, and Kansas City's Buy Fresh/Buy Local offerings are part of realizing that intent.

Now, instead of saying "no" when motivated customers ask for local products, the three regions involved in the Sysco/Wallace partnership can say "yes." They can say "yes" because they are investing in the new ordering codes, communication with sales staff and customers, branding, inventory management, new supplier prospecting, and more that is required to make the local differentiation happen. The new line of local products also gives marketing associates something new to sell, something that no other broad line distributor yet offers.

This key step of segregating and branding local products has increased the pilot regions' sales, as well as their customer base. In turn, this branding step has

also improved the market outlook for regional farms, both those already supplying Sysco and those Sysco will need to keep recruiting in order to build its local selection.

The pilot proved that the assumption behind Sysco's strategy was correct: Customers want to know more about their food and to support local, conscientious businesses.

The project also confirmed in 2009 that the local branding component is fundamental to the new business model that the Sysco/Wallace partnership is developing. Now with this cornerstone in place, Sysco continues to ask how it can:

- Build on its new "local" differentiation to deliver the full range of Good Food values – healthy, green, fair and affordable food – to local communities.
- Continue moving away from a purely transactional business model toward its ultimate goal of a new relationship-based chain that ensures the long-term success and diversity of family farming.

Key learning to address these questions includes:

Communication with Customers

Introducing a new brand requires time to build understanding among the sales force and time for these marketing associates to introduce it to customers. With time to interact about the program, both sales staff and customers have an opportunity to communicate values; that is, the reasons why Sysco is taking this step, why customers are interested, and what else is desired or possible. Taking this time, sales staff and customers build relationships that invest them in the program's growth.

In evaluation interviews, Sysco learned that many marketing associates and customers were concerned about the state of the economy and cited the importance of buying power and keeping their dollars within the state. Across the board, both marketing associates and customers felt like the program was a step in the right direction. They also said they would like the program improved upon in the future with more participating growers, greater product variety, and tours of the growing sites themselves.

Year two in Grand Rapids, for example, validated that this kind of interest, along with more familiarity with the new products and the new program, will result in growth of the program. Grand Rapids saw the "ownership" of the program shift from the main office's produce and marketing department to genuine enthusiasm among the sales staff for the MIPROD branding. They "made it happen" in 2009 after seeing the successes of year one and the improvements brought to the program with new items and strong support from program leadership.

Yet major challenges exist with the local branding strategy. The seasonality of local products, and varying quantities and quality through the season, are new to marketing associates and customers. In the past, the operating companies involved in the project could seamlessly switch to carrots or squash from other states and countries if needed. And they still will do this to keep customers supplied. But now more customers need to know the switch is happening because more of them have planned their menus around local.

To make it work well over time, therefore, Sysco must provide marketing associates and customers with more, ongoing information about when the local product will be available, how much of it will be available, and how long it will last.

Potential next steps for effective branding and communication with sales staff and customers include:

- **New information and new channels for communicating local product availability.** As one Sysco Chicago marketing associate noted: "It would be helpful to have a public website from Sysco to tell which products are coming in, and from where and which grower. Customers could check the supply

before placing an order, instead of just looking at a flyer without up-to-date information.”

- **More progress in the use of unique product codes for the local items.** The branded Sysco Universal Product Code (SUPC) is critical in distinguishing local items from like items that come from outside the region. It also allows for effective tracking of the product, which is needed for reliable, ongoing communication with the sales force and with customers. Additional SUPCs, however, present a significant information management challenge that, over time, will require Sysco to develop a new approach, such as a prefix or suffix to existing SUPCs, to designate local without taxing the tracking system with too many codes.
- **More opportunities for marketing associates and customers to learn about the local farms and the local products.** The relationship building helps them understand and appreciate how weather, for example, can affect quality and availability. Sysco has already had success with a variety of approaches, including marketing materials that feature the farm and family stories behind the products, product availability calendars to communicate seasonality, and including local growers in Sysco food shows for customers. Enhancing these strategies is important along with building more personal interaction opportunities, such as visits by chefs and marketing associates to farms.

Intermediary Position of Aggregators

The aggregator/distributor function is a key logistical component in food supply chains. Sysco often relies on third party aggregators to fill orders. The aggregator sources, consolidates, and transports loads of products. Aggregators also handle quality assurance and assume liability.

The aggregator/distributor is especially needed for the new program around sourcing and selling local, sustainably produced food. They handle the collection and movement of products that are new, and potentially incongruent (i.e. unconventional packaging, quantities, etc.) to Sysco's systems. Instead of Sysco taking on the extra logistics, the aggregator applies its expertise and capacity to the challenge.

This need for a third-party aggregator for the overall program has, however, caused some consternation among local farms that have long supplied Sysco directly, without going through an aggregator. But that was when their products were commingled with products from elsewhere with no need for special branded attention. Now they are part of a new brand of products that Sysco needs to manage as a group.

Some farms view aggregators as a way to build a relationship with Sysco, while others who previously had a direct relationship with Sysco see aggregators as creating more distance between themselves and Sysco. A couple of farmers, for example, reported in interviews that their initial contact with Sysco had led them to believe they would be dealing directly with Sysco in the future. Yet they later learned that they would be working through an aggregator and would have little to no contact directly with Sysco.

The challenge for Sysco is to prevent the intermediary position of the third-party aggregator from creating more distance between the farmer and Sysco buyers. Trusting relationships must develop all along the way if the supply chain is to transform into a values-based food supply chain.

A lesson from 2009 in this case is to continue and increase the focus on building those relationships. It is important that all three players — Sysco, the aggregator, and the farmer — come together at the beginning of the venture and periodically thereafter to talk through how the program and relationships will work and why. The program can also strengthen the chain by investing in both the sales staff and customers getting to know the farms.

Another aggregator/distributor issue, as noted earlier in discussion of Kansas City's results, is how well the aggregator and/or distributor knows and can accommodate the food service business. In Kansas City's case, distribution through Balls Foods Stores was more geared to retail than to food service, which posed some quality and customer service issues. The aggregator/distributor for Sysco needs to be one with capacity that matches food service needs.

Farm Fortunes

At the base of the supply chain is the farmer. The Sysco/Wallace partnership is largely about keeping that farm strong so it can be in the business of providing the broader product variety and product qualities that Sysco customers want. In addition to great taste and new varieties, customers also value farm businesses that protect water quality around farmland and provide fair wages for the farm's employees.

Building a successful values-based food supply chain means building consciousness throughout Sysco's system about the farm suppliers and their needs. That includes the story behind who they are, where they live, what they do, and how they benefit from the program.

All of the 16 growers that Sysco Chicago promoted with its Lower Lakes™ brand are family farm operations. The smallest and newest to wholesale marketing is Bob Borchardt's 20-acre Harvest Moon Organic farm in Wisconsin. One of the largest is fifth-generation Buurma Farms, which now has more than 20 family members involved in its multi-state operation.

Mr. Borchardt's experience illustrates the benefits of the Sysco/Wallace partnership to some farms that are stretched between on-farm work and off-farm sales. Like many smaller entrepreneurial farms, Harvest Moon Organic sells at farmers markets, through the farm's Community Supported Agriculture model, and direct to restaurants. But the time and cost of servicing those restaurants had become an issue; the trip to and from Chicago to supply downtown restaurants amounts to a full day away from the farm.

The opportunity to sell through Sysco, which already called on Mr. Borchardt's restaurant clients, worked well. His products were among the only local organic items that Sysco offered in 2009, so the customers knew they were getting the same products they always had. His delivery trip is now down to two hours total for traveling to a nearby Sysco distribution center.

In Grand Rapids the program added four growers in 2009 to expand the local supplier base to 20. New farmers in the program included Van Dyk Farms, a third-generation family farm specializing in the production of Romaine lettuce. Also new is TLC Tomato, a small hydroponic specialty tomato grower that brought a small volume of heirloom tomatoes to the program for the first time, meeting the needs of some white tablecloth establishments. In total the 20 growers are stewards of approximately 10,000 acres of Michigan land practicing sound environmental management.

In Kansas City, 25 more farms from the Good Natured Family Farms cooperative entered into the wholesale Sysco channel. Kansas City offers a unique grower base, centered on Amish and Mennonite communities in northwest Missouri. Through the communities' leaders, Good Natured Family farms has gained access to a supply base that is strong, yet not without its challenges. Among the key hurdles in 2009 was achieving certification under the USDA's Good Agricultural Practices and Good Handling Practices standards. The first few farmers did achieve certification. One said that with the certification, "there could be more recognition of our way of living and dealing with family farms working together."

Overall, evaluation interviews indicate that farmers are earning the same or higher profits through the Sysco program than they are through other wholesale avenues, which most of them use. Most farmers perceive some added advantage to working with Sysco, based on an expectation of increasing volumes and/or greater commitment to local growers in the future.

Two farmers interviewed found being part of the program particularly advantageous. "It has given us the ability to nearly double our sales for the year. It's helped us to increase overall profits and volumes significantly. We are looking at expanding acreage within the next six to nine months, expanding into a totally new additional facility in southern Michigan just to provide additional product for Sysco and some other customers." This new facility will result in 10 additional jobs.

Consistently, however, farmers say they would like to have more communication, whether with Sysco or the aggregators, throughout the year. More information about what the farmer can expect with regard to volumes and consistency is important, for example, so they can better plan production.

STRATEGIES

Sysco launched its two-year Success for Family Farms project not only to improve its long-term bottom line but also to change practices throughout the food service industry. As the food service category leader, Sysco intends to assure a long-term future for family farms, and supply of Good Food, by pioneering a new

business model.

That business model is taking shape now after the experiences of the past two years in three pilot regions. The ability of these regions to “act locally,” because they are independent operating companies, has been a key part of Sysco’s ability to innovate.

Key components of the model that is emerging are:

- Branding of the local food offering.
- Strong executive management leadership to support the category manager in marketing and merchandising activities.
- Grower profiles that communicate the farm story to sales staff and customers.
- Opportunities for Sysco staff, as well as customers, to develop personal relationships with farmers.
- Systems support for local category management and tracking.
- A dynamic aggregator that can manage supply, risk, and the day-to-day details of produce.
- Availability calendars and Sysco programs to support timely menu planning and integration of local food by the customers/chefs.

This model is ready for other Sysco operating companies to try. In the meantime, the Chicago, Grand Rapids and Kansas City operating companies are ready to build upon the foundations they have built. The next objectives in these three pilot regions are to:

1. Move more volume of existing locally branded items to more of the customer base.
2. Bring in more new items, including items in categories beyond produce, such as meats, dairy, and eggs.

Finally, another strategy in development is for the pilot regions to collaborate with each other, and with additional nearby Sysco regions, to build the local supplier base and extend season availability.

Working together Sysco regions could make local last longer. They could do it by drawing on suppliers from northern Michigan to southern Ohio to keep fresh strawberries from family farms, for example, on their product lists beyond the short time that strawberries are available from farmers immediately nearby.

In addition to extending the season, relationships and collaboration among operating companies is one way to both share the learning and share the contacts. One consideration would be to extend the existing program from the Chicago/Grand Rapids area out to the broader Upper Midwest region. Current Michigan, Ohio, and Indiana growers could in some cases also supply Sysco’s Columbus, Cincinnati and Indianapolis operating companies to get them off to a quick start. Sysco Detroit already leverages some of Grand Rapid’s MIPROD products into its market on the east side of Michigan.

The map on the next page illustrates the potential for extending the program by working with the proximity of other Sysco operating companies, such as Columbus, Cincinnati, Detroit, Indianapolis and possibly New York. Another, Sysco Central Illinois, was engaged in some local sourcing in 2009 and could be engaged further.

Through the National Good Food Network, Sysco is also fielding calls from organizations working with local farm suppliers in Iowa and the Carolinas, which could mesh well with Sysco operating companies in those states.



CONCLUSION

The Sysco Corporation's investment in developing a new values-based food supply chain approach is revolutionizing the way Sysco operating companies do business.

Working through three local operating companies, the partnership has completed a two-year pilot project that has produced the framework of a new business model and strategies for replicating it across Sysco's national network of 185 independent operating companies. Success in the pilot and in future replication is based on a team approach, with insights and expertise from Good Food leaders across the country supporting on-the-ground innovation by Sysco staff and third-party aggregators.

A key component is Sysco's partnership with the National Good Food Network through the Wallace Center at Winrock International. The partnership opens channels of information and assistance from people, businesses and organizations involved in transforming the food system.

With publication of program reports and ongoing involvement with the National Good Food Network, Sysco is working not only to improve its own bottom line but also to help the entire industry begin shifting to a more sustainable way of doing business.

The initiative started after Sysco realized it could not meet new and changing customer demands without family farms, and their more local, sustainably raised products. The conventional food supply chain deals with farms as interchangeable suppliers, and has resulted in a dramatic decline in family farm numbers and rural community vitality because that chain rewards only high-volume, low-cost suppliers. Yet customers care more and more about the people and places

behind their food, and the improved nutritional profiles and other qualities that can come with food raised more for quality than quantity. That means Sysco must care about these farm suppliers, too, and find a way to bring their products and preserve their multi-dimensional value through the supply chain to its customers.

Ultimately, and as seen in the two-year pilot program, Sysco's effort to build a values-based food supply chain results in new access for small and medium size farms to conventional food markets. This access and new recognition of the value of the farms' products – from environmental stewardship to the great taste of heirloom varieties – leads to new jobs in the farms' communities and more Good Food on the market.

This case study was produced based on interviews and insight from:

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WINROCK
INTERNATIONAL



Presentation to:

Governor's LOCAL FOOD and FARM Task Force

Good Natured Family Farms

*Diana Endicott, President and Founder
Tony Schwager, Special Projects*

Topeka, KS, 2-20-15



The Story of Good Natured Family Farms

- How we Got Started
 - Family farm looking for new marketing opportunities
- Mission
 - To bring high quality Local food and food products from sustainable family farms to consumers, especially vulnerable communities.
- Evolution (aka opportunities to survive)
 - Bill Through at low margin on larger producers
 - Grant Funding
 - Vulnerable Communities (accessibility & affordability issues)
 - Food Safety
 - St. Louis Northside Regeneration Project



Good Natured Family Farms (GNFF) Today

- Marketing Alliance (not a co-op) of over 150 Local Family Farms from KS, MO, NE
 - Branding
 - Distribution
 - Food Safety and Farm Sustainability
- Operating Local Food Hub
- "Good Food" Programs for Vulnerable Communities
- Our Producers - Meat, Dairy, Produce, Eggs, Honey, Tofu
- Procurers
 - Ball's (Hen House and Price Chopper)
 - SYSCO
- Who Benefits?
 - Family Farms, Consumers, Communities, Vulnerable Populations, Distributors, Retailers



Obstacles

- Obstacles that GNFF has Addressed
 - Strong Retail and Wholesale Partnerships
 - On-Farm Food Safety Programs (GAP)
 - All parties recognize value of working together (getting there)
- Obstacles that remain Persistent
 - Money (inventory and cash flow)
 - DISTRIBUTION
 - Transportation, Outside Sales
 - Politics
 - Good People with Good Agendas working parallel, but separately - resources wasted on duplicate efforts
- Regulations that can get in the way of a "store-ready" product
- Consumers confused by "bandwagon" programs



Examples of Obstacles

- "Local Favorites"
- Food Hub "Studies"
- Missouri vs Kansas?



Opportunities

- 3 million mouths to feed in Kansas alone
 - Multi-Billion dollar market!
 - The Market WANTS LOCAL!
- Impressive variety of available products
 - Talented, Creative, Hard-Working Entrepreneurs
 - Farmers
 - Value-Added



Solutions

- Overcoming obstacles
 - **Producers**
 - Working Together - POWER of the Group
 - better prices for all - Group Buying
 - lower costs for all - Shared Expenses
 - example: Delivery
 - sharing information
 - stop re-inventing the wheel
 - Mentoring Programs
 - **Funding!**
 - shift emphasis to DOING!
 - Patient Funding



Solutions

- Enhancing the industry
 - Legal Representation for Growers
 - Incentives for Government and Health Care Institutions to Buy Local
 - Elevator Model (Diana)



Part 2: Procurer's Perspective

Buyer's Priorities When Buying Local

- Safety
- Quality and Shelf Life
- Price
- Marketing "Local"
 - Product features that justify premium price
- Supply
 - consistent
 - predictable
 - producer's "reaction time"



Part 2: Procurer's Perspective

Opportunities/suggestions to increase locally grown food sales

- Address procurers' priorities on previous slide
- GAP Food Safety certifications required by an increasing number of large procurers
 - Small produce farms almost always have the capacity to grow more if they knew they could sell it all
- Differentiation and Unique Products Needed
- Market the Advantages
- Meet the Growers Events
- Social Media



Part 2: Procurer's Perspective

Obstacles to Buying & Selling Local Food

- Food Safety Program
- "Enough" Supply
- Delivery
 - cost
 - consistency
 - refrigerated?
- Competing with "Bandwagon" Programs
 - Wal-mart "Picked by Farmers", etc...
 - In the consumers mind, often a logo and a slogan create "legitimate" Local "program"
- Educating Consumers



Part 2: Procurer's Perspective

Success Stories

- Ball's - GNFF Partnership
- SYSCO - GNFF Partnership
 - challenging
- Amish Farm Food Safety
- Small Farms Successes
 - 1
- Small Businesses Successes
 - Anthony's Beehive



Part 2: Procurer's Perspective

Solutions

- Specific staff dedicated to LOCAL
- Farm "Partnerships" (not financial)
- Delivery "Entity" - Overcome Challenging Logistics
 - The mainstream suppliers have mastered this and it makes life so much easier for procurers
 - Honestly, when it comes to logistics and efficient, reliable delivery - small farms are a pain in the chairside
 - tolerated because procurers understand the good things about Local - and their customers want it



Important "Take-Aways"

- Patient, Results-Driven Funding (less emphasis on "studies")
 - aggregation and distribution
 - more emphasis on sustainable results
- Facilitate Effective Ways that small farmers can work together to leverage their Power
 - Group Buying (and Selling)
 - Effective Sharing of Ideas, Best Practices, Mentoring
- Look at Neighboring States
 - Missouri reimburses 75% of GAP Audit Cost
 - EBT Match Programs
- Take a look at regulatory (and financial) obstacles to getting store-ready products to market, Legal Assistance
- "Local" signs and labels that have meaning to consumers
- Making Local Food more affordable and accessible to lower income families
- Recognize and plan for differences between traditional family farms and produce/specialty product farmers



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GETTING TO KNOW FARM CREDIT



LENDING SUPPORT TO RURAL AMERICA

Farm Credit was created by Congress in 1916 with a mission to provide sound, dependable funding for agriculture and rural America.

FARM CREDIT FACTS & FIGURES

- Nearly \$200 billion in loans
- Nearly 500,000 member-borrowers
- More than 13,000 employees
- Serves every county in the U.S. and Puerto Rico

FARM CREDIT'S UNIQUE STRUCTURE

- Nearly 80 retail lenders nationally
- Four wholesale banks serving the retail associations
- Federal Farm Credit Banks Funding Corporation issues Consolidated Systemwide Debt Securities to fund loan portfolio
- Regulated by the Farm Credit Administration
- Insured by the Farm Credit System Insurance Corporation – the System has never used the fund for repayment of principal or interest

FARM CREDIT CUSTOMERS

- Farmers
- Ranchers
- Agribusinesses
- Rural Homeowners
- Cooperatives
- Rural Utilities
- Timber Harvesters
- Aquatic Producers

LENDING SUPPORT TO RURAL AMERICA

Beyond making loans, Farm Credit associations offer:

- Real Estate Financing
- Operating Financing
- Leasing
- Equipment Financing
- Real Estate Appraisals
- Crop Insurance
- Business & Succession Planning Support
- Young, Beginning & Small Producer Programs

For more information, visit www.farmcredit.com or email ask@farmcredit.com

Financing Specialty Crop Operations

The Marketplace for Specialty Crop Producers frames the Business Plan

- More than any other segment of agriculture: Location, Location, Location.
- Urban-edge agriculture close to population has competitive pressure for land.
- The laws of economics are at work, and thin markets have greater vulnerability and risk.
- Business and Marketing Plans are critical to establish repayment capacity.

Financial Section of a Business Plan (What a Lender wants to see)

Current balance sheet

- Company and personal (depending upon structure)
- Sources of equity

Income history and projections

- Three scenarios
- Assumptions
- Break-even analysis – before and after debt obligations

Projected month-to-month (cash flow) profit and loss through 12-month operating cycle

Capitalization = Equity + Debt

- Amounts (equity and debt) determined by the perceived risk in the venture by the individual and by the lender
- Typical equity ranges are from 40 – 50%
- Operating loans
 - Day-to-day needs (one 12-month operating cycle)
 - Inventories/receivables
 - Adequate working capital to support line of credit
- Term loans
 - Finances – hard assets/facilities
 - Repaid over more than one year (up to 20 years)
 - Match the length of repayment to asset life

Crop Insurance is:

- An affordable safety net
- A year-end Revenue Guarantee
- Available for more than 150 crops nation wide

Types of insurance available:

- Multiple Peril Crop Insurance – (MPCI)
- Crop Hail (private product)
- Livestock Risk Protection (LRP)
- Pasture Range, and Forage (PRF)

Farmers purchase MPCI to protect their investment – It costs a lot to farm!

Example:

Cost to plant 1 acre of corn*

Variable Costs = \$ 291.45
Fixed Costs = \$ 128.80
Total Costs = \$ 420.25 / acre

* Kansas Farm Management 2010 Non-irrigated corn

MPCI covers:

- Flood
- Drought
- Freeze
- Wildlife damage
- Fire
- Hail
- Disease
- Insect damage
- Wind
- Irrigation failure
- Heat

Crop Insurance is calculated using:

- Based off of Actual Production History (APH)
- Coverage available from 55% - 85%
- CBOT prices associated with commodities

Unit Structure:

- Optional Units – Grouped by Crop/County/Share/Section
- Basic units – Grouped by Crop/County/Share
- Enterprise units – Grouped by County/Crop

Types of coverage available:

- Yield protection (YP) – Protects against yield loss only
- Revenue Protection (RP) – Protects against yield and Revenue loss
- Revenue Protection, Harvest Price Exclusion (RPHPE)

Whole-Farm Revenue Protection (WFRP):

- Demand from specialty enterprises.

A New Tool in the Risk Management Safety Net

Whole-Farm Revenue Protection

By Leiann Nelson, Risk Management Agency

Farming and ranching is expensive. From operating costs, to land and machinery costs, producers have a large investment in every commodity that is grown. The financial impact of losing a commodity can be substantial and operating without a risk management safety net makes it difficult, even impossible, to continue farming after a loss event if no insurance is available. Producers may also find it difficult to obtain the credit necessary to produce a commodity without the collateral provided by Federal crop insurance.

Improved insurance availability for spe-

cialty commodity growers is a need within the risk management safety net that has been evident for several years. Across the U.S., interest in healthy eating with support for direct, local, regional, organic, and specialty farm markets is widespread. Additionally, there is increased focus on sustainable agricultural practices supported by the diversification of commodities on farms. Together, these have created much of the demand for a better safety net for specialty crop growers. This interest is evident as specialty crops have been included in the last several Farm Bills with provisions for whole-farm insurance also included in the Agricultural Act of 2014. The Risk Management Agency (RMA) received many calls over the past few years asking for the development

of a whole-farm insurance product with enhanced features and improvements from the previous Adjusted Gross Revenue and Adjusted Gross Revenue-Lite (AGR and AGR-Lite) insurance.

It is expensive and resource-intensive to research, develop, and implement one single commodity insurance product, much less the large number of products that would be necessary to cover the specialty commodities grown in the U.S. However, the largest single factor preventing development of individual crop insurance policies is simply the lack of sufficient data.

RMA's Portfolio Analysis, released in July 2013, identified percentages of U.S. acres as not covered by insurance as shown in Table 1.



Table 1.

Commodity Grouping	Percent of Uncovered Acres
Principle Crops	15%
Other Field Crops (except Hay)	30%
Fruits & Nuts	27%
Vegetables	68%

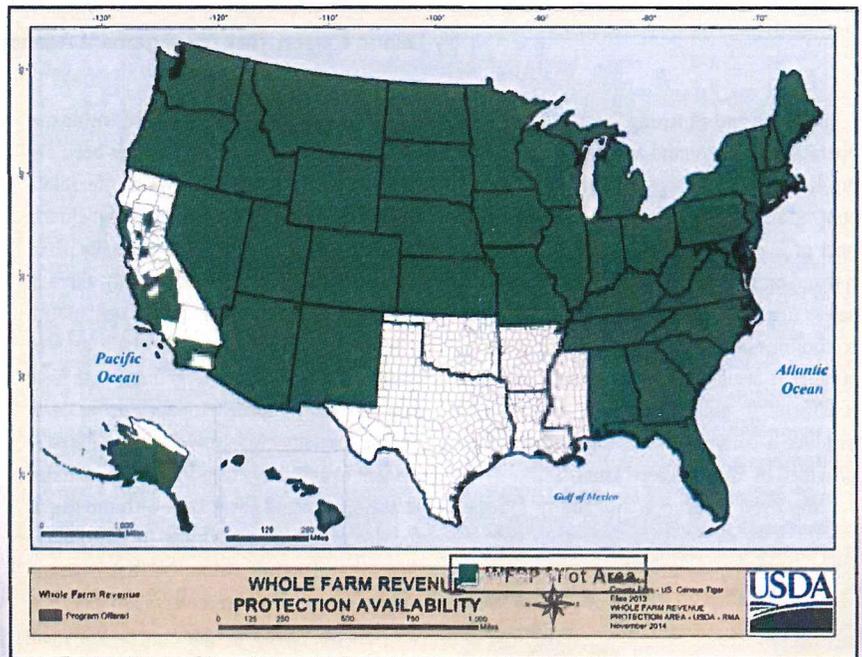
Federal crop insurance responded to the need for a whole-farm risk management safety net with the release of the Whole-Farm Revenue Protection (WFRP) insurance product in November 2014. WFRP is designed to meet the needs of highly diverse farms that are growing a wide range of commodities, and those of farms selling commodities to the wholesale markets. The WFRP policy was specifically developed for farms that tend to sell to direct, local or regional, and farm-identity preserved markets and grow specialty or organic crops and animals and animal products.

WFRP is available for the 2015 insurance year in the states and counties shown on the map in Figure 1.

The addition of this new insurance product to the agent's portfolio can provide an opportunity to serve additional markets that have not previously had available insurance, as well as providing a choice that agents can bundle with other MPC I insurance. Important aspects of the new WFRP insurance are that it provides:

- Risk management protection for the insured farm under one policy, protecting against the loss of revenue during the insurance period;
- A range of coverage levels from 50-85 percent to fit the needs of farming and ranching operations;
- Replant coverage for annual crops;
- The ability to consider market readiness costs as part of the insured revenue and expenses;
- Provisions to adjust the insurance guarantee upwards to better fit the needs of expanding operations;
- Insurance reflecting the type of market the producer sells to, such as allowing organic prices to be used to value certified organic production;
- Time lines to fit both calendar and fiscal year based farming operations so that reporting and billing times better fit the farm; and,

Figure 1. Whole Farm Revenue Protection Pilot Area



- Streamlined underwriting procedures based on the forms used for WFRP.

The WFRP policy and actuarial materials were released on the RMA website in November and can be found at: www.rma.usda.gov/policies/wfrp.html. Sales closing dates are February 28 or March 15, depending on the county and can be found in the actuarial documents. Producers will provide the agent with the current year's farm plan and five years of farm tax records (2009-2013 for the 2015 insurance year). This information, along with supporting documentation, will be used to determine the amount of insurance that can be provided for the farm.

WFRP has some coverage limits that are shown in the sidebar on page 7. Farms that exceed these limits are not eligible for WFRP so it is important to be aware of these limits.

The core of WFRP is the Farm Operation Report. It is here that approved revenue for the policy is determined as the lower of the expected revenue from the farm plan for the insurance year or the five-year historic allowable revenue adjusted for growth. Approved revenue represents an amount of revenue that can reasonably be expected to be produced on the farm during the insurance year. The approved revenue and the coverage level selected by the producer are used to determine the insured amount of revenue.

Agents begin the process by recording the producer's current year farm plan on the Farm Operation Report and will then complete an Allowable Revenue Worksheet and an Allowable Expense Worksheet for each year of the history (2009-2013 for the 2015 insurance year). These worksheets are where post production expenses, except those that are considered to be market readiness costs, are removed.

Market readiness provisions in the policy are a Farm Bill change that allows some post-production expenses to be left in the insured revenue instead of being removed. To qualify as market readiness operations, the costs must be: 1) The minimum necessary to remove the commodity from the field and make it market ready, and 2) Performed in the field or in close proximity to the field. Other post-production costs that do not qualify as market readiness costs, for activities that occur on or off the farm after producing and harvesting a commodity such as packing and

WFRP Farm Example

Sample Farm:	The Numbers:
Farm in Cumberland County, New Jersey: Highly Diverse Farm: beets \$1000, cauliflower \$3000, Chinese cabbage \$3000, cilantro \$1000, cucumber (pickling) \$3000, game birds \$5000, green peas \$3000, Indian corn \$3000, kohlrabi \$2000, leeks \$3000, raspberries \$20,000, zucchini squash \$3000. Approved Revenue = \$50,000	75% WFRP Coverage Liability \$37,500 Total Premium \$2,325 Whole-Farm Premium Subsidy \$1,860 Producer Premium \$465

packaging, as well as any added value operations such as making wine from grapes or putting together gift baskets for the farmer's market, must be removed from the expected revenue and allowable revenue as well as from the allowable expenses.

The Whole-Farm History Report summarizes the results from the worksheets and farm growth is determined. There are two ways the WFRP policy looks at growing operations. The first method is an indexing procedure that looks for historic growth and projects income into the future. This procedure is simply a mathematical calculation that looks at the last two years of the history and, if one of those years is greater than the five-year average, the amount of growth is measured and projected forward to represent the insurance year.

The second measure of growth is called an expanding operation. The insured provides information showing that physical changes have occurred on the farm and, if the company approves, an expanded operation increase of 10 percent over the five year average allowable income would apply to the historic revenue. If either of these growth measures is applicable to the farm then the historic revenue will be adjusted upwards.

The final results of the Whole-Farm History Report are added to the Farm Operation Report and the approved revenue, which is the lower of the expected revenue from the farm plan for the insurance year or the results from the Whole-Farm History Report (historic revenue

adjusted for growth), is determined.

It is important to understand that WFRP is covering revenue *produced* during the insurance year. For example: If a calf weighs 800 pounds at the beginning of the year and will be sold at 1200 pounds during the insurance year, the value of production will be the additional 400 pounds gained. If a farm has inventory or accounts receivable, this information will be used to remove production produced during previous years and to add revenue for production that hasn't been harvested or sold yet.

The WFRP product also measures diversification on the farm because diversification reduces revenue risk. A specific amount of revenue is required to be produced from each commodity for it to be included in the count of commodities. In general, the "commodity count" calculation determines a minimum proportion of revenue a commodity must contribute to the farm to be considered a commodity for WFRP. This determination is based on the portion of revenue coming from each commodity on the farm.

A farm's revenue would be most diversified if an equal percentage of revenue came from each commodity produced, for example, 25 percent from corn, 25 percent from soybeans, 25 percent from spinach and 25 percent from carrots. The minimum proportion required by WFRP is one-third of that amount. Therefore, in this four commodity example, each commodity would have to make up at least 8.3 percent of the total revenue of the farm to count as a commodity under WFRP (one-third of the 25 percent). The resulting count of commodities is an important part of WFRP because it determines:

- If the farm qualifies for the 80 and 85 percent coverage levels—a minimum of three commodities is required.
- If two or more commodities are present on a potato farm—a minimum of two com-

The WFRP product also measures diversification on the farm because diversification reduces revenue risk.

modities is required.

- If two or more commodities are present on a farm with a commodity insurable under Revenue Protection, Revenue Protection with the Harvest Price Exclusion or the Actual Revenue History plan of insurance—a minimum of two commodities is required.
- The amount of premium rate discount that will be provided due to diversification—farms with two or more commodities receive a premium rate discount based on the amount of diversification. This discount is a reflection of the lower risk of revenue loss because of the farms diversification.
- The amount of premium subsidy that will be provided—farms with two or more commodities will receive whole-farm subsidy.

Agents may sell other Federal reinsured crop insurance coverage to insureds along with WFRP as long as the other policy provides coverage at a 'buy-up' coverage level and not at the 'catastrophic' coverage level. When other Federal reinsured crop insurance policies are purchased in conjunction with WFRP, the total liability from those policies, up to 50 percent of the WFRP policy liability, will be used to adjust the WFRP liability amount downwards for premium calculation purposes. The liability adjustment will be used only for the premium calculation and will result in a reduced amount of WFRP premium. The other Federal reinsured crop insurance will become the primary policy and any indemnity paid on those policies will be considered to be revenue for the insurance year under the WFRP policy to assure duplicate payments for the same crop loss are not made. Insureds are not required to purchase other Federal reinsured crop insurance policies.

Replant coverage is also part of WFRP for annual crops that are not insured under another FCIC reinsured policy. Damage to the commodity must be due to an insured cause of loss and the AIP must agree whether is

WFRP Farm Eligibility Limits

- The farm's total coverage must be \$8.5 million or less at the sales closing date (this is approved revenue multiplied by the selected coverage level);
- The expected revenue from animals and animal products on the farm cannot be greater than \$1 million, or more than 35 percent of the expected revenue as determined on the sales closing date;
- The expected revenue from nursery and greenhouse products on the farm cannot be greater than \$1 million, or more than 35 percent of the expected revenue as determined on the sales closing date;
- The farm must have a commodity count of two or more if the farm has potatoes; and,
- Farms with a commodity insurable under Revenue Protection, Revenue Protection with the Harvest Price Exclusion, or the Actual Revenue History plan of insurance must have a minimum of two commodities on the farm in order to qualify.

practical to replant and give their consent to replant. The maximum amount of a replant payment will be the lower of: 1) 20 percent of the expected revenue times the coverage level per acre for the commodity or 2) the actual cost of replanting per acre.

WFRP requires a 'Revised Farm Operation Report' to be filed later in the insurance year, just like an acreage report is filed for other insurance products. If the farm is producing exactly what the producer reported on the Intended Farm Operation Report, the Farm Operation Report will just need to be signed at that time. The billed premium is calculated based on the Revised Farm Operation Report. Premium rates for WFRP are based on risk pools, using data for commodities that is available to provide rates for commodities that do not have data. Premium rates are farm specific depending upon what is grown. A farm example from Cumberland, New Jersey can be found in the sidebar on page 6.

WFRP offers subsidy amounts based on the count of commodities. Farms with two or more commodities that significantly contribute to the operation will receive a whole-farm

subsidy. These subsidies are equivalent to the subsidy amounts provided to insureds with traditional commodities on a whole-farm basis. Farms with only one commodity will receive the basic subsidy. Table 2 below shows the applicable subsidy amounts for WFRP.

All commodities produced by the farm are covered under the WFRP policy, so an insured farm may have a loss on one commodity but if overall farm revenue is above the insurance guarantee no indemnity would be due. Losses occur when the allowable revenue for the insurance year falls below the insured revenue and may be caused by natural causes of loss or a decline in market price during the insurance year.

Farm taxes for the insured year have to be filed before a claim can be filed and loss adjusters will use the same Allowable Revenue Worksheet and Allowable Expense Worksheet to gather applicable information from the farm tax forms for the insured year. The loss adjuster will determine if an expense adjustment to the insured amount of revenue is necessary. This occurs when a farm does not incur at least 70 percent of their approved expense amount.

Table 2. WFRP Premium Subsidy: Percentage of Paid by Government

Coverage Level	50%	55%	60%	65%	70%	75%	80%	85%
Basic Subsidy-Qualifying Commodity Count: 1	67%	64%	64%	59%	59%	55%	N/A	N/A
Whole-Farm Subsidy-Qualifying Commodity Count: 2	80%	80%	80%	80%	80%	80%	N/A	N/A
Whole-Farm Subsidy-Qualifying Commodity Count: 3 or more	80%	80%	80%	80%	80%	80%	71%	56%

Loss adjusters will also record any inventory and accounts receivable to use in the determination of revenue-to-count on the claims form. If the final insured amount of revenue is less than revenue-to-count, then an indemnity payment will be made to the insured.

While underwriting a WFRP policy is an intensive process the first few times, insurance companies have told RMA that once they gain experience writing whole-farm policies (from the AGR and AGR-Lite products) underwriting becomes faster and easier. Additionally, once the farm has had WFRP for one year, the following year the oldest year of history is dropped off, the new year of history is added, and the farm plan is completed so the underwriting process will be shortened as insureds return for subsequent years. WFRP policy worksheets and forms were designed to help lead the agent through the underwriting process.

Some suggestions for learning about WFRP so that you can successfully incorpo-

rate it into the portfolio of products you offer to your customers are to:

- Understand that the guarantee is the lower of the current year's Farm Operation Report expected revenue or the historic revenue adjusted for growth.
 - Understand the calculation of commodity count and how it works. This is an important 'backbone' in the policy that guides eligibility, coverage level choices, discounts of the farm premium rate and subsidy.
 - Understand what expected values should be used to value commodities.
 - Understand that WFRP covers production for the insured year and the role of inventory, accounts receivable and accounts payable all play in adjusting revenue to the current year.
 - Know the reporting requirements.
 - Understand that the three sections of the Farm Operation Report, Intended, Revised, and Final, will be filled out completely over the insurance year.
- Understand how the Revised Farm Operation Report should be completed.
 - Understand how WFRP interacts with MPCI insurance when both are purchased, both for premium and indemnity.
 - Understand how the worksheets and forms work together to lead you efficiently through the underwriting process.

The new WFRP product is a window of opportunity for insurance companies and agents to grow their crop insurance business through both new and existing customers. It provides a risk management safety net opportunity to an entire sector of U.S. agriculture that previously did not have insurance available, which can make a real difference when there are loss events, not just to a single producer, but to U.S. agriculture, the U.S. food supply, and to the economy in general. WFRP puts specialty commodity producers on the same footing as principle crop producers particularly since WFRP offers whole-farm premium subsidy.

