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May 2014

The background of the slide is a collage of three types of fresh produce: garlic on the left, peaches in the center, and brussels sprouts on the right. Two overlapping circles are superimposed on the collage: a dark red circle on the left and a teal circle on the right.

# FOOD VALUE CHAINS:

## Creating Shared Value To Enhance Marketing Success

**Preferred citation:**

Diamond, Adam, Debra Tropp, James Barham, Michelle Frain Muldoon, Stacia Kiraly, and Patty Cantrell. Food Value Chains: Creating Shared Value to Enhance Marketing Success. U.S. Dept. of Agriculture, Agricultural Marketing Service, May 2014. Web. <<http://dx.doi.org/10.9752/MS141.05-2014>>

A Project of the USDA Agricultural Marketing Service and Wallace Center at Winrock International



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FOOD VALUE  
CHAINS:

Creating Shared  
Value To Enhance  
Marketing Success

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# Acknowledgements

The content of this report was based on, and is faithful as possible to, the outputs of an intensive “writeshop” on food value chain research and development held in December 2009, with the initial ideas generated bolstered by further research, case studies, and a theoretical framework. The original writeshop event was organized by the USDA Agricultural Marketing Service and Wallace Center at Winrock International with partial financial support from the W. K. Kellogg Foundation. Many of the ideas presented within the report reflect the consensus views of the food value chain researchers and practitioners (listed below) who convened to share their accumulated knowledge and expertise in this open forum.

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We thank Dr. James Beierlein, Pennsylvania State University, for his review comments on this report. We would also like to thank Luanne Lohr (Editorial Director), Michael Smith (Editor), and Jessica Ladd (Layout Artist) for their work on this report.

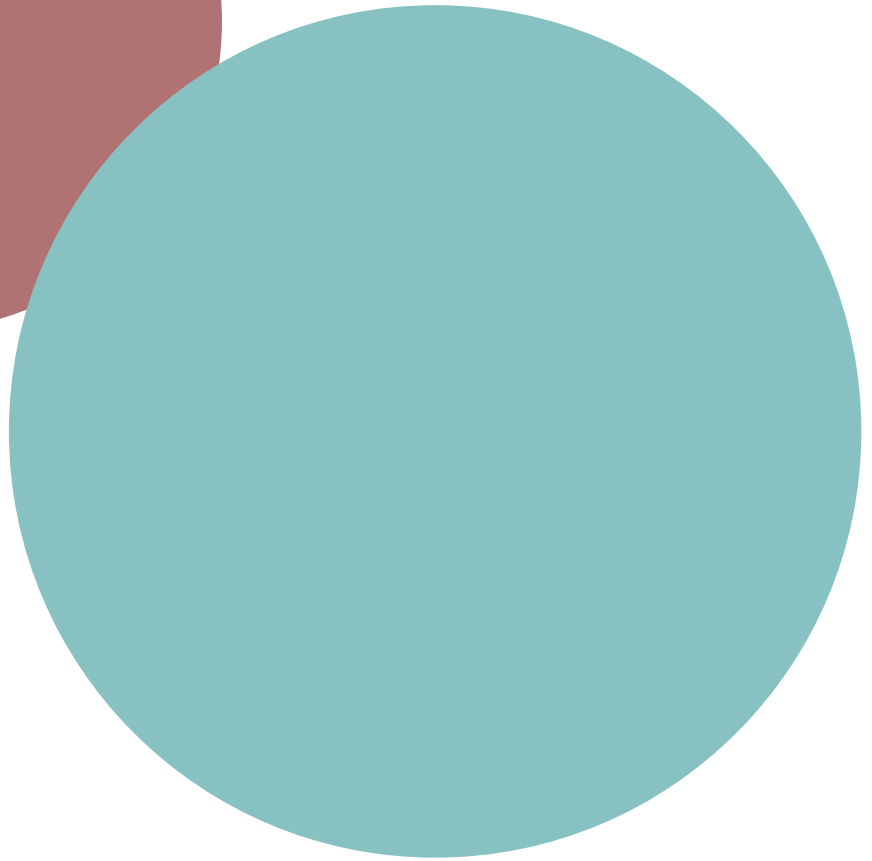
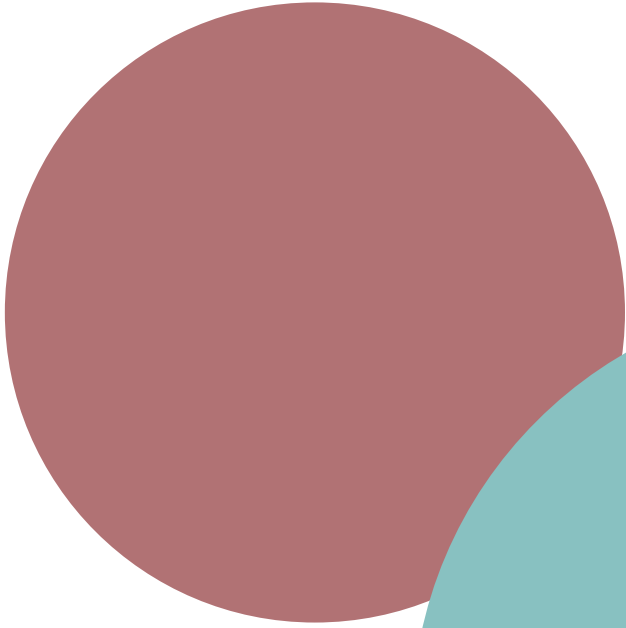
# Executive Summary

A new model of organization is beginning to pop up in the agribusiness sector that seeks to merge social mission objectives with core business operating principles. Known as food value chains, these business arrangements are distinguished by their commitment to transparency, collaborative business planning and exchange of market intelligence and business knowhow among chain partners, and their interest in developing business strategies and solutions that yield tangible benefits to each participant in the system. External factors that have contributed to the rise of food value chain enterprises in recent years include the growing segmentation of the consumer market, escalating demand for specialized, highly differentiated food products—even at higher price points—and the increasing appeal of food items that are produced in accordance with desired social or environmental welfare standards. The advent of low-cost communications technology has made possible new collaborative approaches to business management and oversight that operate according to a set of shared operational and ethical principles, founded on the idea of maintaining steady and open communication among all chain partners.

As suppliers of highly differentiated—and highly sought after—food products, producers in food value chains typically have the opportunity to exert significant influence in price negotiations with buyers and retain a greater share of retail food spending than their counterparts in conventional supply chains. They also benefit from ongoing exposure to information about consumer purchasing habits and

preferences from their downstream supply-chain partners. Meanwhile, aggregators and receivers in food value chains benefit from the provision of specialized products that can command higher prices in the marketplace and reduce their risk exposure through advance planning and price negotiations. The collaborative partnerships also provide natural opportunities to build on previous business successes by exploring and successfully executing innovative product launches and marketing strategies and evaluating opportunities for waste reduction and improvements in efficiency.

This document is designed to provide guidance on how food value chains are initiated and structured, how they function, and the benefits they provide to participants, with the intent of encouraging their adoption where the opportunities for successful collaboration exist among organizations with compatible principles and complementary areas of expertise. It addresses which characteristics are desirable—and not—when seeking appropriate value-chain partners, and provides examples of how participation in a food value chain can be advantageous to all members. Special attention is devoted to exploring how values-based operating principles are defined and maintained in a food value chain and how these values are successfully communicated to buyers and to the public. The document also addresses the issue of shared leadership and succession-planning strategies within value-chain partnerships.



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# Background

The decision to organize a national “writeshop” on values-based food supply chains was made in response to a growing number of requests for more guidance on effective market access strategies for small and mid-sized food producers and manufacturers. Some of these enterprises are increasingly turning to new types of supply chains to capitalize on growing consumer interest in differentiated food products that embody values related to how, where, or by whom food products are produced.

These values-based food supply chains, as defined by the writeshop participants, are *strategic alliances between farmers or ranchers and other supply-chain partners that deal in significant volumes of high-quality, differentiated food products and distribute rewards equitably across the chain*.<sup>1</sup> This report uses the phrase *food value chains* as a shorthand reference for values-based food supply chains.

The “value” in food value chains refers to efficiency gains resulting from close coordination among supply chain partners, to higher prices earned through marketing of differentiated food products, and to a set of shared values articulated by chain participants that directly responds to consumer demands and interests. Food value chains deliberately embed the

values of the partners into the supply chain through explicit negotiation and partner selection. Efficiency, profitability, and sustainability remain central to the motivation for the partnerships. In fact, the values themselves become a selling point for products that move through this type of supply chain. While the attraction to the food value chains business model may be strong, there are few guidance documents that explain how food value chains are structured and what should be considered when evaluating this emerging business model.

To fill this gap, USDA’s Agricultural Marketing Service (AMS) and the Wallace Center at Winrock International produced this report to describe how food value chains work, how to structure them for optimal performance, and what challenges they face. This report is designed to help individuals and organizations interested in exploring food value chains as a distribution and marketing system to use in practice, as well as researchers and educators who study and teach food marketing. This emergent business model layers social goals onto the profitability and loss-prevention objectives observed in traditional food supply chains. A successful food value chain will return profits for food distributors and agricultural producers as well as generate social benefits through values-oriented food production and marketing.

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1 Stevenson, G.W. and Rich Pirog. *Values-Based Food Supply Chains: Strategies for Agri-Food Enterprises-of-the-Middle*, Agriculture of the Middle. Web. <[www.agofthemiddle.org/papers/valuechain.pdf](http://www.agofthemiddle.org/papers/valuechain.pdf)> (PDF), accessed July 3, 2012.

# Methodology

This report is based on the outcome of a 2-day “writeshop,” an intensive participatory knowledge synthesis process, held in December 2009 in Warrenton, VA, with more than 20 values-based food supply chain practitioners and researchers. USDA’s Agricultural Marketing Service and the Wallace Center at Winrock International jointly organized this writeshop to distill the collective knowledge of those present about what food value chains are, how they operate, the challenges they face, and the benefits they can provide for a wide range of supply chain actors.



*La Montanita Co-op has a stated commitment to offering products that are “fresh, fair, and local.”*

A *writeshop* is an intensive, participatory workshop that aims to produce a camera-ready document within the confines of the workshop itself. The writeshop process was pioneered by Paul Mundy in cooperation with the International Institute of Rural Reconstruction in the Philippines and has been refined over a decade of applications in more than 50 settings to produce written products.<sup>2</sup> The writeshop process rapidly assimilates into a written product the information and knowledge of many different people with a variety of valuable experiences and opinions.

Preparatory to this 2-day workshop, the planning team identified a mix of researchers and practitioners with publications or hands-on experience with food value chains. Each participant was asked to answer the following questions in writing before the event:

- What insights does your research or experience yield with respect to forming values-based relationships in a value chain?
- What have you learned about how buyers, producers, and other players in the value chain modify their behavior to achieve and share the benefits of competitive advantage?
- What do you know about why efforts to form values-based food supply chains have failed?
- Is there anything else you think intermediaries should know about establishing values-based food supply chains that hasn’t been addressed above, such as the value of branding or differences between nonprofit and for-profit intermediaries?

2 Mundy, Paul. *Writeshops*. Mamud, December 19, 2011. Web. <<http://www.mamud.com/writeshop.htm>>, accessed June 28, 2012.

On the first morning of the writeshop, two subgroups were formed and each participant shared responses to these questions. All participants reflected individually on each response and then collectively identified key topics to address in the writeshop proceedings.

A library of case studies provided by participants and workshop organizers was set up for reference. Topics were written on 3-by-5 cards and physically sorted by all participants into themes. In the afternoon, participants chose which theme or themes they wished to work on and, using the topics as input, wrote a short paper for presentation to the whole group. Later that evening, authors read their papers to the whole group and received feedback; the authors then revised their papers in preparation for another round of group discussion and feedback the following day.

Before the second set of presentations, the group discussed a possible order for the themes. Papers were presented in that order to get an idea of flow and to help identify gaps. During the second set of presentations, participants identified case studies, examples, and other supporting material that would be helpful in the final document. The group also identified additional gaps, and some participants offered to work on filling them in.

By the second day, participants had produced solid drafts for sections addressing approximately 10 themes. The material was prepared for editing and further feedback and revisions, first by writeshop participants and then by invited value-chain researchers who had not been able to attend the writeshop. This feedback was incorporated into a master draft, which was refined for clarity and consistency of content, and prepared for publication as this report.



*A worker from Green B.E.A.N Delivery holds a watermelon.*

# Introduction

**F**ood value chains represent a business model in which producers and buyers of agricultural products form strategic alliances with other supply chain actors, such as aggregators, processors, distributors, retailers, and consumers, to enhance financial returns through product differentiation that advances social or environmental values. Partners in these business alliances recognize that creating maximum value for their products depends on interdependence, collaboration, and mutual support.

The food value chain model is gaining traction because it responds to agricultural and food industry consolidation that has placed intense market pressure on small and mid-sized farmers. The model also describes how small and mid-sized farm operators band together and respond to food-industry market trends, which include growing consumer demand for food products differentiated by values-related product claims such as “local,” “regional,” or “organic” food. Local food sales were close to \$5 billion in 2008, with the majority of these sales moving through supermarkets, restaurants, food-service institutions, and other wholesale marketing channels<sup>3</sup>, while sales of organic food and beverages in the United States reached nearly \$27 billion in 2010, up from only \$1 billion two decades ago.<sup>4</sup>

## What Is a Food Value Chain? Some Definitions and Assumptions

**Food Supply Chain:** A food supply chain is defined as the set of trading partner relationships and transactions that delivers a food product from producers to consumers.<sup>5</sup>

**Values-Based Food Supply Chain:** Values-based food supply chains (referred to herein as *food value chains*) are strategic alliances between farms or ranches and other supply-chain partners that deal in significant volumes of high-quality, differentiated food products and distribute rewards equitably across the chain.<sup>6</sup>

**Product Differentiation:** Differentiation is the act of highlighting a set of meaningful differences to distinguish one enterprise’s offering from a competitor’s. Products can be differentiated on the basis of product quality, production processes, or provenance (the place of origin).<sup>7</sup>



3 Low, Sarah A., and Stephen Vogel. Direct and Intermediated Marketing of Local Foods in the United States, ERR-128, U.S. Department of Agriculture, Economic Research Service, November 2011. Web. <<http://www.ers.usda.gov/publications/err-economic-research-report/err128.aspx>>.

4 Organic Trade Association, Industry Statistics and Projected Growth. Web. <[www.ota.com/organic/mt/business.html](http://www.ota.com/organic/mt/business.html)>, accessed July 13, 2012.

5 King, Robert, Michael S. Hand, Gigi DiGiacomo, Kate Clancy, Miguel I. Gomez, Sherman D. Hardesty, Larry Lev, and Edward W. McLaughlin. Comparing the Structure, Size and Performance of Local and Mainstream Food Supply Chains, ERR-99. U.S. Department of Agriculture, Economic Research Service. June 2010. Web. <<http://www.ers.usda.gov/publications/err99/>>, accessed July 21, 2012.

6 Stevenson, G.W. and Rich Pirog. Values-Based Food Supply Chains: Strategies for Agri-Food Enterprises-of-the-Middle, Agriculture of the Middle. <[www.agofthemiddle.org/papers/valuechain.pdf](http://www.agofthemiddle.org/papers/valuechain.pdf)> (PDF).

7 Kotler, Philip. Marketing Management Millennium Edition, Tenth Edition. Upper Saddle River, NJ: Prentice-Hall. 1999; and Diamond, Adam, and James Barham. “Money and Mission: Moving Food with Value and Values.” Journal of Agriculture, Food Systems and Community Development 1.4 (2011):101-117. July 28, 2011.

# The Theory Underlying Food Value Chains

Central to the notion of food value chains is the idea that transparent and trusting relationships between supply-chain partners can produce positive, win-win outcomes for all parties. In this model, consumers, farmers, distributors, and others in the chain of food business activity, from planning and planting to processing and selling, see results and reap rewards. The gains of producers are not achieved at the expense of distributors or retailers, or vice versa, because the structure of food value chain transactions facilitates the sale of a broader range of well-differentiated food products, priced to reflect the incorporation of both social and private benefits, which are more closely tailored to the preferences of specific consumer segments. In producing value for participants and society at large, food value chains exemplify what Harvard Business School Professor Michael Porter and consultant Mark Kramer refer to as “creating shared value.” Rather than businesses seeing “social responsibility” as something they do for public relations purposes, they orient their core operations to simultaneously produce business success and social benefit.<sup>8</sup>

Traditional corporate marketing approaches have typically involved creating a *value proposition*—a reason for customers to choose one company’s products or services over another’s— based largely on asserting that their products or services are superior to the competition’s with respect to such features as quality, performance, design and style elements, durability, and reliability. Such an approach, say Porter and Kramer, fosters an overly constricted “cycle of imitation and zero-sum competition.” They observe (p. 67) that businesspeople “have spent decades learning how to parse and manufacture demand while [they] have lost sight of that most basic of questions: Is our product good for our customers? Or for our customers’ customers?”<sup>9</sup>



*Organic tomatoes from La Montanita Cooperative. La Montanita creates shared values by providing new market opportunities for local and organic producers.*

In contrast, the shared-value business model seeks to expand the traditional concept of value proposition to incorporate what Porter and Kramer say may be the most important—and most often neglected—component of customer demand: desire for social improvements. The shared-value concept recognizes that markets have the potential to generate positive externalities in addition to private benefits, which allows for greater flexibility in pricing decisions. Furthermore, the concept asserts that social harms or weaknesses—such as wasted energy or raw materials—often create unnecessarily burdensome internal economic costs for firms. Consequently, a shift in emphasis toward incorporating social mission objectives in core business strategies does not necessarily raise operating costs, because firms are able to use new technologies, operating methods, and management approaches to increase their productivity, identify new opportunities for innovation, and expand their markets.<sup>10</sup>

8 Porter, Michael E. and Mark R. Kramer. “Creating Shared Value: How to reinvent capitalism and unleash a wave of innovation and growth.” Harvard Business Review (January-February 2011): 6–77.

9 Ibid.

10 Ibid.

Porter and Kramer observe that businesses that adopt a shared-value lens typically adopt the following practices and structural changes:

- *Reconceiving products and markets* by identifying new products and services that meet social needs or serve overlooked customer segments
- *Redefining productivity in the value chain*, which may require new choices in areas such as production, marketing, and distribution and create demand for equipment and technologies that save energy, conserve resources, and support employees
- *Building supportive industry clusters at the company's locations* to enable achievement of social mission objectives through an enhancement in local procurement and reliance on less geographically dispersed supply chains.<sup>11</sup>

As the numerous case study examples offered in the remainder of the document will attest, food value chains have become exemplars of creating shared value in practice, using a social mission focus to improve economic returns to both value-chain participants and the communities in which they operate.



*Worden Farm fresh picked organic products ready for sale at the market.*

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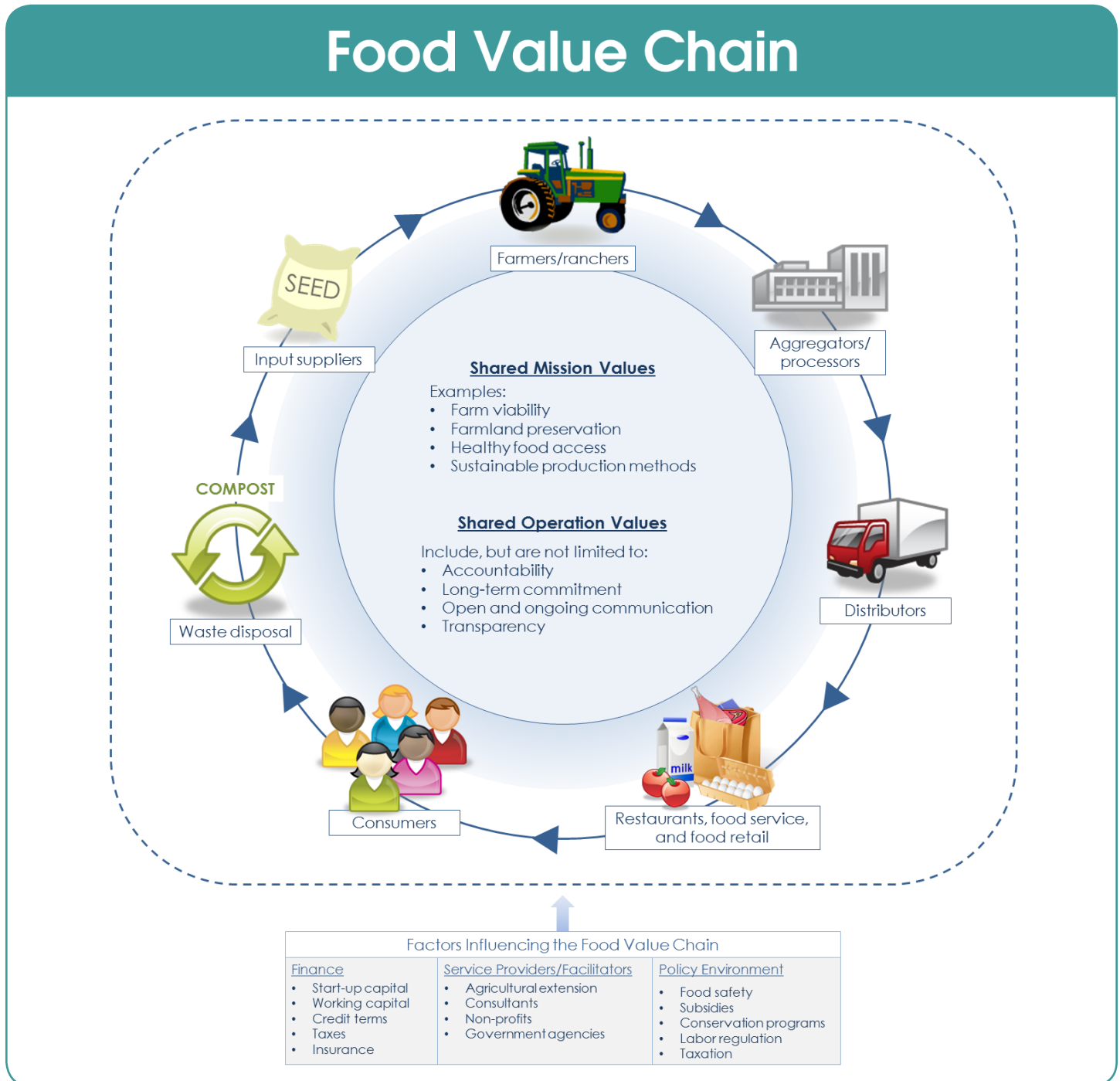
11 Ibid.

# Food Value Chain Characteristics and Benefits

As shown in the image in figure 1, three simultaneous dynamics are at work in any given food value chain. One, the relationships between value-chain actors facilitates the ongoing movement of food from farm to table. Two, such relationships are

governed by shared operational and mission values. Three, the operational design, set of values, and ultimate success of a food value chain are conditioned by a multitude of external factors, including market demand, availability of support services and physical assets, access to capital, and the policy environment.

Figure 1: Components of a food value chain





Food value chains are most effective when the enterprises involved in the value chain can agree upon a set of mission values, such as farm viability, farmland preservation, healthy food access, and sustainable production practices, and a set of shared operational values, such as accountability, long-term commitment, open and ongoing communication, and transparency, and use these shared mission and operational values as a means to differentiate and add value to the products they are offering to their customers. Figure 1 represents this with mission and shared values located at the core of the value chain, integrated into all activities within the value chain through deliberate intentions of the actors.

Key characteristics of food value chains include:

- Coupling economies of scale with sales of differentiated food products that are designed to attract consumer demand and obtain premium prices in the marketplace
- Using cooperative strategies to achieve competitive advantages and the capacity to adapt quickly to market changes
- Emphasis on high levels of performance, trust, and responsiveness throughout the network
- Emphasis on shared vision, shared information (transparency), and shared decision-making and problem-solving among the strategic partners
- Commitment to the welfare of all participants in the value chain, including providing adequate profit margins to support the business and its owners, fair wages, and business agreements of appropriate and mutually acceptable duration

Additionally, farmers, ranchers, and other agricultural producers in food value chains:

- Know their production and transaction costs and are able to negotiate prices based on acceptable profit margins above those costs.
- Perceive contracts and agreements as fair, having been freely agreed to, providing equitable treatment to all partners, and including appropriate timeframes.
- Are able to own and control their own brand identity as far up the supply chain as they choose. This may involve co-branding with other strategic partners.
- Participate fully in the development of mechanisms to resolve conflicts, communicate concerns about performance, and alter directions within the value chain.



*Workers sorting locally grown food at the Oklahoma Food Cooperative for distribution. Oklahoma Food Cooperative has more than 4,000 different items available to its members every month provided by 90-plus Oklahoma producers.*



*Products being unloaded at La Montañita Co-op's Distribution Center.*

The outer circle in figure 1 that encapsulates the mission and operational values of a food value chain shows the basic set of activities, which in some cases represents different business enterprises carrying out distinct functions. It is not unusual for one enterprise to assume several functions within the value chain, such as a producer-owned marketing cooperative that takes on production, aggregation, distribution, and marketing functions. Producer cooperatives and other forms of agricultural-related cooperatives (such as producer-consumer cooperatives like Oklahoma Food Cooperative in Oklahoma City, OK, multi-stakeholder cooperatives like Fifth Season Cooperative in Viroqua, WI, and retail food cooperatives like La Montañita Co-op in Albuquerque, NM) may be synonymous with food value chains as long as all value chain actors (producers, aggregators, processors, distributors, buyers) adhere to the same set of mission and operational values with the aim of distributing rewards equitably across the chain, coupled with advances in certain social or environmental outcomes.

Figure 1 also depicts a number of external factors that may play a constraining or facilitating role in influencing food value chain formation and performance. These include but are not limited to the policy and regulatory environment, the availability and capacity of service provision to support value chain formation and development, and the conduciveness of the financial system to value chain investment opportunities. In recent years, external factors that have contributed to the rise of food value chain enterprises include the growing segmentation of the consumer market, escalating demand for specialized, highly differentiated food products—even at higher price points, and the increasing appeal of food items that are produced in accordance with desired social or environmental welfare standards. The advent of low-cost communications technology has made possible new collaborative approaches to business management and oversight that operate according to a set of shared operational and ethical principles, founded on the idea of maintaining steady and open communication among all chain partners.

## Farmers as Strategic Players



*Free range chickens at Good Natured Family Farms ("GNFF"). GNFF currently has Local Meat programs in beef, free range chicken, and bison.*

In food value chains, farmers are not anonymous, interchangeable suppliers of homogeneous ingredients and food, as they are in traditional commodity supply chains. Instead, they are *strategic collaborators* in the chains, which are deliberately designed to allow the farms, the distributors, and others involved to earn a profit. Each needs the others to thrive in business so that the whole group can succeed while maintaining their values and delivering the product attributes customers want. An intentional strategic interest in each participant's well-being and performance sets up win-win terms for everyone. The shared commitment

to transparency, communication, and engagement embedded in food value chain operating principles creates a steady foundation from which trust builds and opportunities for targeted strategic collaboration flourish, often leading to mutually satisfactory outcomes for all chain partners.<sup>12</sup>

One of the best examples of this dynamic can be seen in the example of Good Natured Family Farms (GNFF). GNFF is an alliance of more than 100 farmers in Missouri and Kansas City that works closely with Balls Food Stores (BFS)—a regional grocery chain—on both aggregation and marketing of source-identified meats and produce items to BFS's 28 stores. BFS managers go on tours of GNFF farms; in-store signage at BFS promotes local origins and unique production practices behind GNFF products; GNFF farmers come to BFS stores to showcase their products and meet consumers as they shop in the stores, and the two parties troubleshoot and brainstorm on how to manage logistical challenges and optimize outreach to consumers. This collaboration is largely responsible for the \$3 million in sales for GNFF in 2011 and has become a central component of BFS's local food marketing.<sup>13</sup> See Appendix 1 for more information on GNFF and its relationships with BFS.

The tangible economic benefits of strategic coordination between farmers, distributors, and wholesale buyers in food value chains accrue to both the supply chain partners directly involved in business transactions and those located further upstream and downstream in the chain. The advance planning and coordination of planting intentions and production schedules with partnership with wholesale buyers that food value chains facilitate allows producers to respond more directly and efficiently to specific buyer requirements and preferences and to orient their production mix and volume so that it conforms more closely to fluctuations in consumer demand. As a

12 Stevenson, G.W. & Rich Pirog. "Values-Based Supply Chains: Strategies for Agrifood Enterprises of the Middle" *Food and the Mid-Level Farm: Renewing an Agricultural of the Middle*. Eds. T.A. Lyson, G.W. Stevenson, & R. Welsh. Cambridge: The MIT Press, 2008. 119-143.

13 Dreier, Shonna, and Minoos Taheri. *Innovative Models: Small Grower and Retailer Collaborations: Good Natured Family Farms and Balls Food Stores*. Wallace Center at Winrock International. March 2008. Web. <<http://wallacecenter.org/our-work/Resource-Library/wallace-publications/Good-Natured-Family-Farms-Innovative-Model.pdf>> (PDF), accessed July 10, 2013.

result, farmers are able to benefit from improvements in the market value of their production, exercise greater influence in price negotiations, and better protect themselves against sudden market downswings than they could in more conventional wholesale market transactions.

## Strategic Collaboration and Economic Benefit

Upstream and downstream partners in food value chains can derive significant economic benefits from value chain transactions in comparison to more conventional business arrangements. Value chains allow producers and buyers alike to participate in coordinated marketing and distribution activities that maximize product value through strategic responsiveness to buyer demand and consumer preferences and to enjoy the transportation savings

associated with shorter supply chains. In addition, a significant portion of the economic benefits of food value chain participation accrue directly to food producers, who often end up retaining a greater percentage of consumer expenditures on food than most U.S. farmers experience.

To illustrate how food value chains can enable food producers to receive a greater percentage of the consumer food dollar, figure 2 depicts the division of consumer food dollar expenditures between the average sales proceeds received by farmers for raw commodity transactions in 2011 and the total amount of market value embodied in a food dollar expenditure, measured as \$1.00 minus the farm share.<sup>14</sup> In calendar year 2011, the farm share of consumer food dollar expenditures comprised only 15.5 cents, while the post-farm component of market value (the marketing bill) accounted for 84.5 cents of each consumer dollar spent.

Figure 2: Farm Share of 2011 U.S. Consumer Food Dollar



Source: <http://www.ers.usda.gov/data-products/food-dollar-series/documentation.aspx>

14 Food Dollar Series, "Documentation." U.S. Department of Agriculture, Economic Research Service, July 2012. <<http://www.ers.usda.gov/data-products/food-dollar-series/documentation.aspx>>.

In contrast, farmers who participate in food value chains, especially those that offer aggregation and source-identification services, such as food hubs, are often able to capture a greater proportion of the total market value of each agricultural transaction. These farmers are able to merchandise products to accentuate the underlying market value through targeted differentiation strategies. They also tend to participate in shorter supply chains that lead to overall reductions in the portion of the marketing bill devoted to energy and transportation costs, which accounted for 5.5 percent and 3.5 percent of each consumer food dollar spent in 2011.<sup>15</sup> By focusing on a broad conception of “shared value” that incorporates the social mission preferences of consumers and maintains a commitment to continuous improvement in operational practices with the support of producers and employees, food value chains are able to cultivate a loyal and satisfied customer following that gives producers greater power in pricing their merchandise.

The USDA Economic Research Service compared local and national food supply chains for five products and found that producers participating in local supply chains received a greater share of the retail price than they did when they participated in the mainstream food supply chain. Producer net revenue ranged from roughly equal to more than seven times the price received per unit from mainstream chains.<sup>16</sup> The USDA Agricultural Marketing Service published a resource guide that provided examples of food hubs—one type of food value chain—that passed on 75 to 85 percent of wholesale revenues back to their suppliers.<sup>17</sup> These value chains concern themselves with fairness and supplier satisfaction as indicated in these examples:

- Tuscarora Organic Growers (TOG), based in Hustontown, PA, uses a cooperative business model that directs 75 percent of its revenue to participating growers and 25 percent to food hub operations. It also surveys its producers every year to make sure they are satisfied with the prices TOG offers them, and it evaluates market pricing twice a week to determine a competitive and fair price for its producers.
- Intervale Food Hub, based in Burlington, VT, works collaboratively with its producers to determine prices for their products based on actual production costs for the producers and what the market can realistically bear. As a result, Intervale producers generally net about 60 to 70 percent of the revenue obtained from CSA (Community Supported Agriculture) sales and 85 percent of the revenue from wholesale distribution through the hub.
- Local Food Hub, based in Charlottesville, VA, ensures that 80 percent of the sale price of products goes back to the farmer. It surveys its producers annually to make sure they are satisfied with the prices they receive. In its 2010 survey, where producers were asked to rate the prices from poor to excellent, Local Food Hub found that 100 percent of its producers rated product pricing from fair to excellent.

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15 Ibid.

16 King, Robert P., Michael S. Hand, Gigi DiGiacomo, Kate Clancy, Miguel I. Gomez, Shermain D. Hardesty, Larry Lev, and Edward W. McLaughlin. Comparing the Structure, Size, and Performance of Local and Mainstream Food Supply Chains, ERR-99, U.S. Dept. of Agr., Econ. Res. Serv. June 2010. <[http://www.ers.usda.gov/media/122609/err99\\_1.pdf](http://www.ers.usda.gov/media/122609/err99_1.pdf)> (PDF)

17 Barham, James, Debra Tropp, Kathleen Enterline, Jeff Farbman, John Fisk, and Stacia Kiraly. *Regional Food Hub Resource Guide*. U.S. Dept. of Agriculture, Agricultural Marketing Service, April 2012. Web. <<http://dx.doi.org/10.9752/MS046.04-2012>> (PDF).

## Greater Returns to Producers: The Red Tomato Example

Red Tomato—a regional food hub based in Canton, MA, that coordinates the aggregation, transportation, and sales for roughly 40 farmers to grocery stores in the Northeast—has developed a competitive pricing model that has brought significant returns to its growers compared to traditional supply chains. By employing a number of product differentiation strategies that appeal to consumers—regional branding, source identification, and the verified use of sustainable production practices—coupled with attention to supplying product that meets consistent specifications, Red Tomato has been able to negotiate higher prices from retail customers without jeopardizing its sales volume. By examining ways to cut the intermediary costs of marketing and distribution with complete transparency for potential retail buyers, Red Tomato has developed a very competitive pricing model that often matches or even beats more traditional suppliers.

In the November 2009 Harvard Business School case study “Red Tomato: Keeping It Local,” founding Co-Director of Red Tomato, Michael Rozyne, recalled that one of the retailers he approached preferred to sell large tomatoes for a retail price of \$1.99 a pound but was willing to work with Red Tomato on a higher price point of around \$2.79 a pound given the unique attributes of the product and the assurance that the retailer would still be able to move enough product to cover his target gross margins. As illustrated in the case study, the combination of cost savings in intermediate handling and a higher wholesale price led to roughly three times higher returns for Red Tomato’s producers than they received for comparable items sold outside their value chain.<sup>18</sup>



financial stability. The product aggregation services offered by many food value chains allow small and medium-sized producers to access commercial and institutional food service markets they would be unable to supply individually, creating opportunities for selling additional volumes of product or greater ranges of product than are possible through their existing marketing channels.

Some market opportunities allow producers to sell, at a profit, food items that they were unable to find a market for previously—enabling them to both save costs in waste removal and to develop new revenue streams. For example, in Washington, DC, the D.C. Central Kitchen purchases lower priced “seconds”—

## Market Expansion and Food Recovery

Beyond enhancing the intrinsic market value of local and regional farm production, many food value chains are also structured in a way that allows their producer members access to new larger volume markets, which contributes to greater farm revenue, cash flow, and

18 Alvarez, Jose B., Mary Louise Shelman, and Laura Winig. “Red Tomato: Keeping It Local.” Harvard Business School Case 510-023, May 2010. (Revised from original November 2009 version.) <<http://hbr.org/product/red-tomato-keeping-it-local/an/510023-PDF-ENG>>.

lesser grade produce of equivalent nutritional value as top-grade produce—from fruit and vegetable growers operating within a 200-mile radius of the city and processes it for use in the DC Public School System and municipal social service agencies. Although the produce does not meet cosmetic and size standards desired by buyers for fresh sales, processing the seconds creates a product that is indistinguishable from that made from top-grade fruits and vegetables. Farmers benefit by selling product that they may not have had a commercial outlet for previously, and institutional buyers (and ultimately consumers) benefit from access to lower priced high-quality raw ingredients.<sup>19</sup> This produce might formerly have been disposed of as waste in the absence of the processing end use.

## Transfer of Market Intelligence

The efficient exchange of customer feedback and market intelligence gathered at the point of sale that value-chain partnerships generate permits suppliers to match their product assortments and advertising messages to customer desires with ever-greater precision. Such arrangements enable wholesale buyers to build greater customer loyalty and enjoy a greater share of customer spending, while customers enjoy greater levels of product satisfaction and an easily accessible mechanism for using their spending power to support desired social and environmental outcomes.

## Community Benefits

Improvements in farm income gained through value chain participation can also lead to enhanced economic activity on a community level. Farmers who retain a higher share of consumer expenditures through food value chain participation tend to have more discretionary income to spend on local suppliers of goods and services. This spending directly benefits ancillary businesses that depend on agricultural producers for a portion of their revenue, such as purveyors of fertilizer, seed, and animal feed; agricultural equipment dealers; and contract labor. To the extent that the increased demand for goods and services translates into additional spending at independently owned and operated local businesses, these purchases also inject additional money into the community. Regional studies over the past decade have documented the fact that spending at locally owned independent businesses generates greater direct local economic benefit than equivalent spending at chain-operated establishments. The American Independent Business Alliance found in its October 2012 literature review of 10 community-based retail studies that spending at independent retailers generates 3.7 times more direct local economic benefit than spending at national chain stores.<sup>20</sup>



*An employee from DC Central Kitchen loading donated potatoes into their truck. For more than two decades, DC Central Kitchen has been preparing and distributing local food to other nonprofits in need of assistance to feed their clients.*

19 Nierenberg, Danielle and Amanda Strickler, "Shortening the food chain: We can feed the world's hungry—and local consumers—by improving the efficiency of harvesting, shipping, and selling food," Baltimore Sun, Baltimore, MD, August 22, 2011.

20 Ten New Studies of the "Local Economic Premium," American Independent Business Alliance, October 2012. Web. <<http://www.amiba.net/resources/studies-recommended-reading/local-premium>>.

# Embedding Values in Food Value Chains

This section discusses the process by which food value-chain actors agree on a particular set of operational principles to guide their interactions with each other, decide which mission values to emphasize for the purpose of product differentiation, and develop processes for institutionalizing these principles and mission values into their core business practices.

## The Values Universe of Food Value Chains

Product differentiation has most often been articulated as identifying and marketing a meaningful set of differences in product design, performance, or quality characteristics in an attempt to distinguish a company's offerings from those of its competitor. Firms in food value chains augment these traditional aspects of product differentiation with social or environmental *mission values* that reflect the objectives of the chain participants and resonate with the targeted group of consumers. These mission values range from advancing high animal-welfare standards to supporting local economies, because different values appeal to different consumer segments and localities. Food value-chain partners must reach consensus on what their mission values are, building on the joint objectives of the supplier and buyer networks and the perceived preferences of their targeted consumers. Participants across the food value chain work together to define and develop their individual set of core operating principles and the specific product attributes they agree to offer and enforce.

### Examples of Mission-Based Marketable Values That Serve as Points of Differentiation

- Provides for humane treatment and animal welfare
- Supports investment in local economy
- Demonstrates environmental stewardship
- Ensures equitable business or ownership structure
- Supports family farms
- Supports fair wages and working conditions
- Offers specific nutritional benefits
- Grown or raised locally
- Promotes diversity and inclusiveness by accounting for differences in household income, cultural preferences, etc.
- Promotes community self-empowerment





## Start Where You Are



*Buy Fresh Buy Local food display jointly sponsored by Sysco and Good Natured Family Farms.*

Many organizations seeking to implement values-based marketing start from the values that make sense for the businesses and markets involved. In many cases, “regionally produced” is the marketable value that initiates a values-based food supply chain’s development. For example, Sysco’s “Buy Local, Sell Fresh” program, active at more than 20 of its 170 branches around the United States and Canada, was originally developed to meet demand for local food and has embedded values such as “sustainably produced” as food value chain relationships and sales have grown.<sup>21</sup> Regardless of where a business is starting from, it must first take stock of what it is already doing by identifying elements of its mission and operations that are “values-based” that may be teased out and further examined. Subsequent steps include defining and redefining these values, institutionalizing and documenting them, and reviewing and evaluating their performance. These steps and more details on how and where to start are described in the succeeding sections.

<sup>21</sup> *Buy Local, Sell Fresh.* Sysco. Web. <[http://kc.sysco.com/aboutus/aboutus\\_buylocal.html](http://kc.sysco.com/aboutus/aboutus_buylocal.html)>, accessed June 28, 2012.

<sup>22</sup> Stevenson, Steve. *Values-based food supply chains: Organic Valley*, Agriculture of the Middle, June 4, 2009. Web. <<http://www.agofthemiddle.org/pubs/ovcasestudyfinalrev.pdf>> (PDF), accessed June 28, 2012.

## Clear Principles

The strongest food value chains are those forged with a clear understanding of, and consistent communication about, their underlying values. A successful food value chain defines values clearly, integrates them throughout the chain, and communicates them to the customer.

The chain is built around participants that honor certain values and can work together to implement them, such as farms that follow agreed-upon values-based production standards. For example, the Organic Valley<sup>22</sup> (La Farge, WI) brand of dairy and meat products is built upon the values-based foundation of a cooperative of organic dairy farmers that follows a specific set of environmental and animal welfare practices and links these practices with family farm stories in their branding material.

Working together, businesses involved in food value chains are able to create new synergies and innovative marketing strategies that they would not have been able to accomplish on their own. For example, Sysco, a major national foodservice distributor, benefited from its pilot efforts to incorporate regional supply



*Cattle from Organic Valley. All livestock from Organic Valley are raised in accordance with certified organic agricultural methods.*

values into its standard operations. Committing to add new apple varieties from Michigan farms to its Grand Rapids regional inventory led to developing smaller packs and variety packs that generated new business relationships with convenience stores and hotels, who liked being able to source more Michigan-grown produce.<sup>23</sup>

## Shared Values

Incorporating a values-based approach into food supply chains involves three steps: defining the shared operating principles and mission values, building them into the corporate culture, and documenting them in contracts, agreements, and marketing arrangements.

- **Define:** Business owners, employees, and other value-chain partners identify and explicitly articulate the chain's operational and mission values in writing as a means of forging a business relationship that consciously works towards the advancement of shared-values-based principles.
  - **Institutionalize:** Businesses work to embed their chain values into their organizational cultures and operating procedures. The core values must become permanent features of daily business life so the chain can sustain itself and stay on course through critical turning points, such as a transition in leadership.
  - **Document:** Food value chain managers take the step of explicitly referencing and upholding these values in written agreements between chain members, such as standard operating procedure documents, business protocols and marketing arrangements, to facilitate the adoption and implementation of shared operating principles and agreed-upon business practices. In the case of the national food distribution company Sysco, the company attempted to accomplish this goal by creating standardized language for a food value-chain partnership charter. This charter could serve as a template for the regional offices to follow as they work to develop customized value-chain partnerships with individual suppliers and customers.
- The template in Appendix 2 outlines the goals of Sysco in establishing value-chain partnerships, including maximizing its use of in-season fresh produce and supporting all participants in the value chain. The template also establishes the principles upon which such partnerships are established, including trust, price negotiation based on the cost of production, and building value by telling stories of the people, land, and practices behind the product.
- **Review:** To resolve any difficulties or bottlenecks that may occur in implementing agreed-upon business practices or meeting planned goals in a timely manner, stakeholders of well-managed food value chains arrange for regular progress reviews to ascertain how well chain participants are performing in terms of meeting their planned goals and objectives in a way that supports their commonly shared set of operating principles. Such reviews provide an opportunity to assess whether or not planned performance standards are being met, whether the core operating principles of the business are being upheld and properly communicated to chain members and their upstream and downstream partners, and whether current business practices are satisfactory or need adjustment. Such reviews can also be used as a platform for determining whether any of the value chain's existing aspirational principles need revision, or whether additional principles should be incorporated into the system, keeping the value chain closely aligned to a model of continuous improvement and healthy reinvention.

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23 Falat, Stacia M. "Scaling up "Buy Local, Sell Fresh:" Lessons from Michigan Growers, Suppliers, and Sysco." (master's thesis, Michigan State University, 2011).

## Defining and Maintaining Values in the Food Value Chain: The Case of Oklahoma Food Cooperative

The Oklahoma Food Cooperative (Oklahoma City, OK) sets clear guidelines on what can be sold through the Co-op in line with the organization's core values of environmental sustainability, social justice, and economic viability and its goal of creating a local food system. These marketing guidelines include:

- All products offered for sale through the Co-op must be grown or produced in Oklahoma.
- Producers must conform to production standards set by the Co-op's standards committee.
- No hormones may be administered to livestock.
- The prophylactic use of antibiotics in livestock is banned.
- Grains and crops containing genetically modified organisms are prohibited.
- Reselling of farm products is not allowed; producers are only allowed to sell farm products they have produced themselves.
- Processed and prepared foods may be sold through the Co-op, but such items must incorporate significant alteration of the original ingredients, not just repackaging for resale.

To enforce these guidelines, the Co-op arranges for intermittent inspections of the Co-op's producer members by fellow farmers to verify that they are, in fact, producing the crops or animals they are selling through the Co-op.<sup>24</sup>



<sup>24</sup> Diamond, Adam, and James Barham. *Moving Food Along the Value Chain: Innovations in Regional Food Distribution*. U.S. Department of Agriculture, Agricultural Marketing Service, March 2012. Web. <<http://dx.doi.org/10.9752/MS045.03-2012>>.

# Leadership Approaches for Successful Food Value Chains

The leadership necessary to embed values within and between organizations can make or break an organization. As equitable relationships are intrinsic to food value chains, so is a values-based leadership approach vital to harnessing the full potential of these relationships; it enables them to effectively succeed in ways that are productive, mutually rewarding, and beneficial.<sup>25</sup> With a values-based approach, a leader intentionally and proactively listens, has open-door communication, and empowers people to contribute to the success of the overall organization. This approach also requires effective communication flows between all chain partners, with everyone—not just the leaders—actively participating in providing input and feedback to the food value chain planning and decisionmaking process. By encouraging everyone to contribute, organizational assets are maximized, and productivity and success are achieved. While key individuals ultimately may have final responsibility for decisions, the process by which they come to such decisions is inclusive, participatory, and transparent.

## What Is Values-Based Leadership?

Values-based leadership in and of itself is not new, but combines the elements of other similar participatory leadership strategies, the difference being that the values-based leadership approach is built into the design, management, and often the branding of the business. This kind of leadership approach depends on strong relationships, mutual trust and respect, participation by all, accountability by all, investment by all, strong communication, and an environment that encourages and promotes these principles. Getting everyone involved, understanding the day-to-day realities of all members of the organizations'



*Wholesale buyers, like Bi-Rite Market in San Francisco, see value in marketing local products.*

network, and enabling employees to participate fully in the communication process, can lead to improved processes, new insights, untapped opportunities, and overall positive organizational transformation.<sup>26</sup>

The food value chain must identify, develop, monitor, maintain, and communicate all the relationships that define the enterprise and its products and services. Most business enterprises already have roles and relationships articulated through organizational

25 Romero, Jose Luis. *Value Based Leadership*. Web. <[www.skills2lead.com/value-based-leadership.html](http://www.skills2lead.com/value-based-leadership.html)>, accessed July 11, 2012.

26 Groysberg, Boris and Slind, Michael. *Conversations Can Save Companies*, Harvard Business Review, HBR Blog Network, April 12, 2013. Web. <[http://blogs.hbr.org/cs/2013/04/turnarounds\\_turn\\_on\\_conversations.html?referral=00563&cm\\_mmc=email-newsletter-daily\\_alert-alert\\_date&utm\\_source=newsletter\\_daily\\_alert&utm\\_medium=email&utm\\_campaign=alert\\_date](http://blogs.hbr.org/cs/2013/04/turnarounds_turn_on_conversations.html?referral=00563&cm_mmc=email-newsletter-daily_alert-alert_date&utm_source=newsletter_daily_alert&utm_medium=email&utm_campaign=alert_date)>, accessed April 16, 2013.

charts, strategic plans, and position descriptions. In a values-based leadership model, these elements are intentionally mined and brought together, examined, and communicated, so that everyone understands what they and others do, how they relate to one another, and what overarching goals they contribute to. Once the roles are clearly defined and communicated, each member of the chain understands his or her value to the shared mission. By purposefully standardizing and documenting these roles and connections, organizations reduce risk of failure and costs associated with rapid changes in leadership or other major shifts in personnel. Succession plans or contingency plans should be in place, as described elsewhere in this section. Many business enterprises already have what is needed to adopt a values-based leadership and management approach. All that is now required is formally embedding the approach in the value-chain activities and communicating directly with stakeholders about it.

## What Makes Values-Based Leadership Distinct?

To further illustrate the values-based leadership approach, it is helpful to understand which leadership attributes are compatible with the approach—and which are not. Table 1 shows key attributes of a traditional, top-down or command-and-control style of leadership compared to the key elements of a values-based leadership approach that aligns with food value chains. In a command-and-control model of leadership, leaders stand apart from those they are leading, dictate orders, and expect people to follow without questioning them, while values-based leaders listen, are present, and encourage and facilitate action by others. While the command-and-control approach may seem extreme, and is declining as businesses favor more inclusive leadership styles, it is offered here as an illustration, as a contrast to the value-chain leadership approach.

Table 1: Traits for Different Leadership Paradigms

	Command & Control	Values-Based Leadership
<b>Business Metaphor</b>	Organization is a machine	Organic structure of relationships
<b>Authority</b>	Top down	Participation by entire group
<b>People</b>	Instruments of production	Greatest assets and sources of creativity
<b>Leadership Style</b>	Distant and detached	Connected and present
<b>Supervisory Approach</b>	Dictate, control, punish	Listen, facilitate, encourage
<b>Service Orientation</b>	Self-serving: What can you do for me and the organization?	Other-serving: What can I do to help you fulfill your goals and mission?

Copyright © 2004 Heroic Journey Consulting. Used with permission.<sup>27</sup>

27 Hubbard, Marion Moss. *Servant Leadership: Serving Employees, Customers & the Community*. Heroic Journey Consulting. Web. <<http://www.heroicjourney.com/pages/orgtransformation/servantleadership.htm>>, accessed July 12, 2012.

Ultimately, the success of food value chains depends on human and social capital that make up the links in the chain—people, networks, and the quality of interconnecting relationships and linkages. Successful leaders from the businesses affiliated with the chain agree upon values, desirable outcomes, and measures and are able to speak with one voice about them. Communicating with employees and people at all levels ensures there is a common vision and messaging across the chain. Leaders must be embedded in and committed to the process and parts and must be brokers for both business interests and other negotiated, shared social and environmental goals.

Leaders commit to open discussion and deliberation so participants in the value chain can identify shared values, strategize responses to risk, and respond honestly to power asymmetries within the chain. Advance planning for known risks, such as price, volume, and logistics, can be made explicit through a Memorandum of Understanding or a Letter of Intent (See Appendix 3). The explicit sharing of risk throughout the chain cushions the chain against catastrophic change.

## Values-Based Leadership in Practice

In the context of food value chains, traits of values-based leadership take on particular resonance with farmers, who often feel as though they have little influence over price setting with buyers or cannot participate in strategic decisions related to supply-chain development. In many sectors, negotiating power is tilted in favor of a limited number of large-volume buyers over more numerous farmers, who individually may produce in volumes insufficient to meet buyer demand. In contract negotiations farmers compete against each other to make a sale, driving their received prices lower. However, in food value chains, market power dynamics are transformed as farmers become strategic partners whose costs of production are explicitly accounted for in price negotiations, and who have equal input into key decisions. Although some chain members necessarily take leadership roles with greater influence, all value-



*ALBA supports new farmers through its Farmer Education and Small Farm Incubator Programs.*

chain participants—farmers, processors, distributors, marketers, and retailers—have a say in the workings of the chain. Authority and information move up and down the chain, and the decisionmaking is transparent, inclusive, and dialogic.

Businesses that practice inclusive governance have a competitive market advantage in that broad-based involvement provides ample feedback within the system to inform and guide the business through periods of intense change. Yet, inclusive participatory governance can come at the expense of business efficiency and nimbleness. Leaders must be vigilant to protect against this potential drag on the system and carefully weigh potential tradeoffs between efficiency and inclusiveness.

## Case Study: Sysco, Grand Rapids, MI

When global food distributor Sysco added agricultural sustainability to its social responsibility goals in 1999, it paved the way for a new program emphasizing local produce called “Buy Local, Sell Fresh” (BLSF). Launched by Sysco headquarters in 2005, more than 20 Sysco branches have BLSF programs led by regional produce managers. Many work with regional aggregators, who consolidate and transport products from farms to Sysco. Some produce managers have even developed a value-chain framework to guide their relationships with local growers and suppliers. Sysco Grand Rapids was one of the first branches to develop a “Value-Chain Partnership Charter,” which establishes partnerships between all businesses in the value chain. The produce manager for the Grand Rapids office and his aggregator, Walsma & Lyons (Grand Rapids, MI), regularly make farm visits and communicate with suppliers to learn about their operations, to discuss new opportunities for products and packaging, and—most importantly—to build trust. In 3 years, Sysco Grand Rapids has almost doubled the number of cases of Michigan-grown produce it moves, from nearly 60,000 in 2008 to more than 100,000 in 2010, and has increased the number of participating family farms from 16 in 2008 to 22 in 2010. Through strategic planning, Sysco and Walsma & Lyons have helped some farms and suppliers expand sales to other Sysco branches in the region, increase the range of local products they offer, and boost their profits.<sup>28</sup>

For more information, visit Working With Local Farms and Producers.<sup>29</sup>



## Leadership Succession

Businesses can reduce risk by having a contingency plan, or in the case of start-up companies founded by charismatic leaders, an exit strategy. By documenting and institutionalizing a values-based approach, a business is better equipped to handle change and external influences. In the case of the visionaries and

innovators who design and scale up an enterprise, they tend to be entrepreneurs and visionaries who excel at helping others see the value of collaboration from their individual perspective and are adept at getting people to “come along for the ride.” However, the needs of leadership shift as chains lengthen and develop more complexity. One of the leader’s jobs, therefore, is to scout for new talent and new territory. Leaders must have the ability to communicate risk and reward in terms that an organization’s larger leadership (such as a board of directors) understands and values. In longer supply chains, leadership may be synonymous with intervention. Helping those who control the organization to let go of ingrained thinking habits and adopt new means of operating can be challenging.

<sup>28</sup> Falat, Stacia M. *Scaling up “Buy Local, Sell Fresh:” Lessons from Michigan Growers, Suppliers, and Sysco.* (master’s thesis, Michigan State University, 2011).

<sup>29</sup> Watson, Craig. *Working With Local Farms and Producers.* Sysco, 2010 Sustainability Report. <[www.sysco.com/investor/OnlineSustainabilityReport/localfarmsandproducers.html](http://www.sysco.com/investor/OnlineSustainabilityReport/localfarmsandproducers.html)>, accessed July 12th, 2012.

## Case Study: The Oklahoma Food Cooperative and the Challenges of Leadership Development

Bob Waldrop was the driving force behind the creation of the Oklahoma Food Cooperative, an innovative, Internet-based buying club that is cooperatively owned by producers and consumers and which has grown more than 500 percent since its founding almost 8 years ago. For the organization's first 5 years, Waldrop was the general manager, dealing with everyday management issues, and was also the Co-op's president, developing strategies for long-term development in consultation with the board of directors.

As the years passed, it became clear this was too much work for one person. Looking back at the early days of the Co-op, Waldrop admits that he should have worked harder to find more senior administrative people and sought alternatives for replacing him should he no longer be able to lead the cooperative.

After 5 years, to relieve Waldrop of the "one-man show" that many entrepreneurs must endure as part of starting and growing a business, the Co-op hired its first employee, a part-time paid manager who later changed to a full-time position as the growing size and complexity of the organization demanded more professional resources. The Cooperative continues to grow and prosper, and the professionalization and diffusion of its leadership structure has been a success. The board, with some prodding from Waldrop, took the necessary steps to reduce the organization's reliance on one person.



Founders' skill sets may become outdated as the organization grows. Leadership development and plans for succession are critical during this growth stage. To assist with these transitional needs, formalized governance structures—such as stakeholder boards, employee committees, and advisory councils—allow an organization to continue after the business founders are gone. The extent to which information is shared—especially risk and benefit information—across the chain will create either a resilient or brittle organization.



# Preparing To Enter a Value Chain: Look Before You Leap

**B**efore a farmer or business decides to enter into a value-chain partnership with other businesses, it is critical to perform due diligence. Conducting thorough assessments of the market, the strengths and weaknesses of prospective partners, and one's own capacities will go a long way towards making good decisions and building strong, long-lasting partnerships.

## Know Yourself, Know Your Market

Entering or building a values-based food supply chain requires an understanding of how each business fits into the chain and why they are part of it. Questions that should be considered by the chain leaders and partners include:

- How does each partner organization contribute to the chain, and how does it help the chain support its core operating principles?
- What motivates each partner organization to work within the chain?
- What does the chain require of each partner organization?
- What does this food value chain look like structurally, and how do the organizations' structures mesh with this?

By coordinating business planning and operational strategies, businesses within the value chain can maximize the benefit they receive from natural synergies resulting from their overlapping scope of activities, needs, and interests. Zingerman's Community of Businesses is an example of a democratic and dynamic food value chain. The

original business, a delicatessen, chose to "grow deep" rather than franchise outward and away from its Ann Arbor, MI, home base. Its business model involves pursuing new market opportunities and ideas through related spin-off businesses including, among others, a coffee roastery, bakery, and creamery, that the founders co-own with other partners and which operate collaboratively. The co-branded group of 8 businesses employs more than 500 people.<sup>30</sup>



*The produce section at the new Fairbanks Community Cooperative Market, Alaska's first member-owned community grocery store, is filled with fresh, healthy, local food.*

30 Shuman, Michael, Alissa Barron, and Wendy Wasserman. *Zingerman's Community of Businesses*, Community Food Enterprises Case Studies, 2009. Web. <[www.communityfoodenterprise.org/case-studies/u.s.-based/zingermans-community-of-businesses](http://www.communityfoodenterprise.org/case-studies/u.s.-based/zingermans-community-of-businesses)>, accessed July 12, 2012.

# Know Your Collaborators

The best food value-chain collaborators are those that have similar values, different competencies, and compatible business structures and scale. They also need to be willing and able to participate fully in information sharing, decisionmaking, and investment. In short, are collaborators willing to be forthcoming and engage with questions, conflicts, and new perspectives? To answer this question, businesses building values-based food supply chain relationships should determine if potential collaborators have these characteristics:



*Workers harvesting locally grown organic cilantro at Lakeside Organic Growers.*

- Commonalities and mutual interests
- Compatible values
- An understanding of the rights and benefits of each partner
- An appreciation of the obligations and responsibilities of each partner
- The capacity to interact and consult extensively with others in the chain
- A willingness to consider new collaborators and perspectives
- Equal risk exposure
- A willingness to share brand identity or allow for a separate identity (carrying the farmer's story through to retail packaging, for example, can be important for the farm's business but difficult for the marketer's business to accommodate)

Potential collaborators should prepare to make the investments and commitment required by answering such questions as:

- What resources, infrastructure, or products is each party willing and able to contribute?
- How much time is each party willing and able to invest? It is important that all parties are honest and realistic about their schedules and are able to balance available time with the work of maintaining and building the relationship.
- How committed is each party to the values-based food supply chain? Values-based food supply chains require reliable collaborators, the kind who will stand firm by their commitments even when another opportunity or better price beckons.

## Do the Research To Protect Assets

In a values-based food value chain, the greatest asset is business reputation. Customers want to trust that what they see is what they get. Researching business partners is a necessity, just as an individual who is hiring a new employee would perform a background check on the potential employee. Checking into a potential collaborator's past can uncover warning signs. Sample issues to investigate might include looking at the prospective partner's record on:

- Upholding agreements
- Meeting orders and coming through with products
- Paying suppliers on a timely basis
- Reputation for fair business dealings

The time may come when the relationship is clearly not working. One way to prepare for that possibility is to plan for failure—that is, develop an exit strategy upfront for all collaborators. A third-party mediator can also help parties reach a mutually acceptable arrangement. Another option is to identify other, more beneficial, ways in which the relationship might evolve.

## Strong Value-Chain Relationships: Some Indicators for Success

- The business collaborator keeps the triple bottom-line (economic, social, and environmental outcomes) in mind consistent with the value chain's criteria.
- Collaborators are able to offer and accept constructive criticism.
- Collaborators with more economic power do not wield and abuse it but check their power in favor of balanced relations with value-chain partners.
- The food value-chain enterprise is flexible enough to quickly make business decisions, adjust to market downturns, and capture new market opportunities.
- The food value-chain scale, structure, and locale fit its purposes (big enough, nimble enough, close enough to key suppliers or buyers).



## Weak Value-Chain Relationships: What To Avoid

- Unmeasured goals and expectations of collaborators
- Switching loyalties, such as to outside buyers
- Inability to make effective decisions
- Inability to accept criticism
- A lack of trust, which can build resentment and an adversarial relationship
- Unwillingness to share risks and benefits
- Unbalanced distribution of work, risk, and benefits

## Value-Chain Facilitators: Finding One's Niche

Values-based food supply chains are mission-oriented business propositions, combining a desire to effect social or environmental change with a desire to create viable businesses. Facilitating organizations, institutions, and individuals, such as nonprofits, agricultural extension services, economic development agencies, and independent consultants, often play key roles in conceiving of food value chains and developing the linkages with farmers, processors, and buyers. However, it is critical that value-chain facilitators think carefully about what they have to offer and avoid overextending themselves into areas where they may not be best suited.

For example, one area that businesses have tried to address is when demand and supply exist but businesses are not yet able to capitalize on it because of a lack of capacity, capital, or other challenges. Organizations can help match pent-up demand and supply by building capacity (such as with market research or training) and bridging gaps (such as supplying shared-use commercial kitchen space). Value-chain facilitators additionally must recognize their limitations when working in the for-profit business space. In particular, they must recognize how subsidies (grants or donations) can distort market reality.

The following two sections outline a few key roles that value-chain facilitators are particularly suited to fill, and those roles for which they are often ill-suited. Value-chain facilitators should consider what roles are most appropriate given their organizational capacities and recognize how their limitations can be mitigated through building strategic partnerships with other value-chain actors.



## Facilitating Success: Effective Roles for Value-Chain Facilitators

**Matchmaker**—Identify and connect key stakeholders through referral services and other forms of short-term or one-off engagement. This “public interest broker” role is key to development of values-based food supply chains because many businesses are stepping outside their normal channels to find new collaborators.

**Relationship builder**—Build the necessary relationships across the values-based food supply chain by engaging key stakeholders (farmers, processors, distributors, and buyers), maintaining communication channels, and fostering a trusting environment. Some examples of this are convening stakeholder meetings, forming working groups, and implementing other forms of longer-term engagement.

**Technical assistance provider**—Work with food value-chain members to build capacity, such as education and training programs for farmers, food buyers, and food preparers.

**Third-party certification**—Develop certification programs that build consumer confidence. Examples include offering certifications for land stewardship practices, product quality, fair trade practices, etc.

**Policy advocate**—Raise policy issues and partner with others to address policies and procurement requirements, such as bidding procedures and preferred-vendor practices that may interfere with the ability of food value chains to access certain marketing channels.

**Resource prospector**—Identify and pursue resources, such as grants, loans, and services to support value-chain collaborators as they develop their enterprise.

**Catalyst/Innovator**—As a resource prospector, value-chain facilitators can also utilize grants and other external resources to test new business models and thus lower the financial risk of the businesses engaged in the value chain.

## Caution: Problem Areas for Value-Chain Facilitators

**Mission blinders**—Value-chain facilitators may focus more on the social and environmental aspects of the mission than on the economic sustainability of the food value-chain enterprises. A common trap, for example, is to pursue a distribution model that emphasizes fair pricing for growers without appropriate consideration of consumer demand and the variable and fixed costs of running a distribution operation.

**A “need” focus**—Value-chain facilitators often approach business from what is not there (no distribution) as opposed to an asset-based approach (what opportunities exist). This focus on need can put the facilitator on a path of starting from scratch, for example, when it could have tapped into existing resources, such as farmers in the area with unused storage or distribution capacities.

**Market distortion**—Value-chain facilitators often secure grants and other subsidies to fund supply-chain activities, such as food aggregation and distribution activities. Unfortunately, this dynamic can put the entire food value chain in jeopardy, particularly when grant funding changes or stops. Such subsidies also can distort the market such that retailers develop unrealistic expectations about price (for example), which puts other, non-subsidized chains at a disadvantage, as it does with other farm suppliers that are not part of this food value chain.

# Market Readiness: Components of a Food Value-Chain Business Plan

**B**eyond assessing the suitability of potential value-chain partners in terms of expertise, capacity, and philosophical compatibility in adhering to shared operating principles, an essential step in creating a viable food value chain is developing a comprehensive business plan. At minimum, the plan should include research on the prospective target market and the identification of key market opportunities, a solid calculation of expected production costs, and a forecast of business revenues, based on reasonable assumptions about the expected business environment. Timely action on these issues can save money down the road and arm value-chain actors with knowledge of the market they are about to enter and appropriate strategies for successfully exploiting market opportunities. The following paragraphs provide some overarching considerations for developing the primary components of a well-crafted food value-chain business plan.

## Market Research

Before starting any business, operators need to have some data indicating that an effective market exists for their products. This is especially important in the case of mission-driven businesses, which are attempting to incorporate social or environmental objectives into viable business plans.

One example is the Browse and Grass Farmer Association in Boyceville, Wisconsin, which ran into problems when its target market population of Somali refugees could not afford the grass-fed, Halal-slaughtered goat meat products that Browse and Grass offered. The plan was to make traditional food available to this low-income population, but the business side of this particular mission failed because the refugees' market demand was weak. Market



*Grass-fed goats from a member farm of the Browse and Grass Farmer Association.*

opportunities did not materialize because target customers could not afford the product. Another example is the Tallgrass Prairie Producers Co-op in Kansas, which tried to market grass-finished beef in the early 1990s, before the environmental and health benefits from such meat were widely known by consumers.<sup>31</sup>

Market research can also help participants in a values-based food supply chain develop their sales and marketing approach. In particular, market research can help pinpoint which segments of the market identify with the food value chain's core principles and what those values represent to them. For example, Organic Valley<sup>32</sup> identified that a major selling point for consumers was the story of the farmers and ranchers involved in the cooperative, so it began including family farm stories customized for each regional market on its product packaging.

31 Stevenson, G.W. & R. Pirog, R. "Values-Based Supply Chains: Strategies for Agrifood Enterprises of the Middle" *Food and the Mid-Level Farm: Renewing an Agricultural of the Middle*. Eds. T.A. Lyson, G.W. Stevenson, & R. Welsh. Cambridge: The MIT Press, 2008. 119-143.

32 Stevenson, Steve. *Values-based food supply chains: Red Tomato*. Agriculture of the Middle, June 2009. Web. <[www.agofthemiddle.org/pubs/rtcasestudyfinalrev.pdf](http://www.agofthemiddle.org/pubs/rtcasestudyfinalrev.pdf)> (PDF), accessed June 28, 2012.



*Shepherd's Grain has developed artisanal flours made of blends of wheat and grinds for specific purposes.*

Market research is also essential for identifying the specific product attributes that will be attractive to buyers. Shepherd's Grain (Ritzville, WA),<sup>33</sup> a group of roughly 40 growers producing high-end wheat flour from wheat grown in the Pacific Northwest using soil conserving practices, provides a good case example. When they first got started in 1999, the founders identified three key wheat flour attributes desired by the marketplace: consistency in baking, protein quality, and good taste. This led Shepherd's Grain to develop several specialty flours that use different wheat varieties or blends of two or more varieties to achieve functional characteristics, such as high or low wheat gluten content, that make flour desirable for different end products, such as cookies, pastries, pizza, and

bread. With a further understanding of the market's desire for sustainably and locally grown products, Shepherd's Grain has built a successful business that distinguishes itself in the marketplace by offering high-quality, regionally identified flour, which is strengthened by a good story about the conservation farming practices employed by its wheat growers.<sup>34</sup>

## Know Your Production Costs

Profitability is the ultimate factor in the long-term success and sustainability of food value chains, as it is with any business enterprise. In food value chains, each chain member must make a profit, and the entire chain must operate profitably over time (or at least break even if it has nonprofit components that consistently rely on some degree of external funding).

It is essential, therefore, to pull together solid information about the existing, expected, or potential revenues and costs associated with the individual business and with the full chain enterprise. This means all participants must analyze and understand their true costs of production. That's especially true in the case of farms, which often fail to take family members' labor resources fully into account when determining net production costs. In addition, each participant needs to analyze costs in the same way, so the results are comparable. This is especially important if the food value chain bases payments to chain participants on a cost-plus pricing system. Cost-plus pricing is a fundamental component of most food value chains. In cost-plus pricing, price negotiations with buyers are predicated on the assumption that farmers will receive prices for their products based on their actual costs of production plus a reasonable rate of return and profit margin.<sup>35</sup> Key to this method is factoring in all the costs that went into producing a product, whether direct costs such as labor used to handle cattle and feed, or indirect costs such as the cost of recordkeeping, farm infrastructure, and other costs

33 Stevenson, Steve . *Values-based food supply chains: Shepherd's Grain*, Agriculture of the Middle, [www.cias.wisc.edu/wp-content/uploads/2009/07/sgcasestudyfinalrev.pdf](http://www.cias.wisc.edu/wp-content/uploads/2009/07/sgcasestudyfinalrev.pdf).

34 The Shepherd's Grain Newsletter. "The Shepherd's Grain Story." August 10, 2012. Web. <<http://www.shepherdsgrain.com/home/quicklinks/newsletter/2012/the-shepherd-s-grain-story/>>.

35 Formentini, Marco, Pietro Romano, and Thomas Bortolotti. "Managing Pricing in a Supply Chain Perspective." Paper presented at the Production and Operations Management Society's 22nd Annual Conference, Reno, NV, 2011.

incurred by the overall farm business that need to be apportioned among the farm's various outputs in order to accurately reflect each product's cost of production.

By using cost-plus pricing methods, food value chains attempt to ensure that all chain participants enjoy acceptable levels of profitability. In order for this arrangement to work optimally, however, there must be sufficient willingness and trust among chain participants to share cost-of-production and other sensitive financial data across various links of the chain—including downstream chain participants such as distributors and marketers—to create a foundation of transparency and uniform buy-in.

Shepherd's Grain provides a good example of cost-plus pricing and transparent discussions with key customers on a semi-annual basis. Once the Shepherd's Grain producers set prices for their products through these negotiations, they do not change for 6 months. This commitment to a price level for a period of time is advantageous for both the farmers and the customers that make pasta and other products from their grain.

## Projecting Revenues

In the case of Shepherd's Grain and other values-based food supply chains, prices paid for grain and other agricultural commodities on the global market become irrelevant. In most cases, the values-based food supply chain is operating in an environment of trusting and long-term relationships, not in the purely transactional commodity market environment where price is the only factor. The chain also offers products with unique product and production-process characteristics that command a premium in the marketplace because of the additional value it brings directly to the customer, such as taste or quality attributes, and mission values such as environmental protection that customers and business owners may share.

To project revenues accurately, therefore, it makes sense for food value chains to develop revenue projections based on cost-plus pricing rather than on available commodity price data. They should also:

- Make contingency plans for peaks and valleys in market demand and other changes in the market, such as input prices and the larger economy's cyclical nature.
- Make supply management imperative. The values-based food supply chain should not add new products or producers until markets are available. In addition, having a sales channel open to commodity markets can also make for an important safety net; it may not be profitable, but it allows for the disposal of excess product if needed, and some monetary return.



*The Romanesque Revival market house, pictured above, was built in 1889. Today, Central Market is home to many families that have been coming to the market for generations.*



- Manage liabilities and risks, such as requiring all participants to carry appropriate insurance and establishing equitable buy/sell agreements.
- Pay attention to policy, whether the policies of retailers and others, or those of local, State, national—and even international—government. Values-based food supply chains must be concerned with policies that affect what they value economically, environmentally, and socially.
- Stay on the leading edge of the differentiation curve. Businesses can count on competitors catching up to them sooner or later. A special feature one day can become a common characteristic the next. The best strategy is to keep moving down the differentiation path, finding product attributes that appeal to buyers and consumers, and communicating them well.

## Melding Social Goals With Business Success: Triple Bottom Line Accounting

Food value chains require innovative approaches to pricing and planning because most account for three bottom lines—economic, social, and environmental—in measuring their success in reaching their goals. Triple bottom-line accounting, for example, may allow a youth training program to contribute to the positive side of the ledger for a food value chain, even if the cost of the program subtracts from net income. In this case, close accounting is needed on all three fronts (economic, environmental, and social) to ensure that the chain is meeting both its goal to develop new farmers and its need to make a profit.<sup>36</sup>

Food value chains are frequently able to remain competitive despite their broader commitments to a triple bottom line because they gain efficiencies and opportunities through collaboration, which can more than pay for the extra costs incurred by triple-bottom-line commitments. Shared equipment, bundled services, and group purchasing are examples of many ways in which food value-chain enterprises can make costs and revenues balance. Skillful branding and target marketing also help them remain competitive because they can result in strong sales to customers who understand, appreciate, and will buy into the goals of values-based food supply chains.

## Market Selection

Different outlets require different handling, grading, packaging, and delivery schedules to meet customer needs. Institutional food service buyers, for example, will be focused on contract pricing, volume, and consistent delivery. Retail buyers may place more emphasis on attractive packaging, shelf life, and the use of universal product codes (UPCs).



*Eastern Market makes Michigan-grown fresh products readily available to consumers.*

36 For examples of triple bottom line accounting indicators, see Nancy Stark and Deborah Markley, "Rural Entrepreneurship Development II: Measuring Impact on the Triple Bottom Line, Wealth Creation in Rural America," Wealth Creation in Rural America initiative, July 2008, <<http://www.yellowwood.org/Rural%20Entrepreneurship%20Development%202.pdf>> (PDF).

In deciding their sales and marketing strategies, participants in food value chains need to ask themselves whether they are willing and able to meet the demands of one or more potential markets. Businesses must also be in agreement about the ability of all chain participants to deliver what the different customers need and expect.

Deciding the number and types of markets to serve also involves understanding the logistics, volume, and pricing involved with each market. It may be possible for a single food value chain to meet the collective demand of three different markets, such as independent grocers, colleges, and chain supermarkets. To meet the demands of all these markets at the same time, however, may be difficult given their varying product requirements and specifications.

A food value chain's ability to diversify its market will also depend on its current and potential production capacity. Participants in a food value chain must evaluate the potential for the chain to accommodate increased demand from new customers and determine how much the chain would be able to ramp up production within a given timeframe to meet that new demand. They should also develop a good sense of their limitations—at what point would increases in customer demand be too great, extending beyond the chain's capacity to stretch and satisfy it? The chain should also consider whether it might be possible to have access to more infrastructure, such as storage and distribution to manage the product flow or to coordinate efforts with other potential partners in order to respond effectively to sudden demand shifts.

Serving several markets can be an opportunity as well as a challenge. Access to additional market channels and increasing the range of products sold can diversify a values-based food supply chain's portfolio of customers, reducing risks associated with problems in any one market, and softening the financial blow associated with losing a particular customer account.

## Value-Chain Management and Logistics

Decisions about how many and which markets to pursue may also result in hiring help, which must be accounted for in financial planning. Many food value chains hire professional staff, such as logistics, pricing, and financial managers, to help them successfully access multiple market segments.

Transportation and logistics issues also arise with each specific market segment and client. Businesses working within a food value chain must assess their individual and combined capacity to fill and deliver orders. Red Tomato, a food hub based in Plainville, MS, is a good example of an organization that has learned how to efficiently organize and coordinate deliveries by leveraging the transportation and storage assets of producers and other collaborators to manage the



*Appalachian Harvest trucks at a loading dock in Duffield, Virginia.*

distribution process for its grower members. It came to this practice after first taking on full responsibility for arranging and coordinating transportation, complete with its own warehouse and fleet of trucks, and eventually found that it made more business sense to contract out transportation and storage services to vendors who could meet these needs at a lower cost.<sup>37</sup>

Decisions like these also raise additional questions about *how* to make those deliveries. Reducing the chain's carbon footprint by making transportation more efficient may produce direct savings on fuel, labor, and maintenance, while advertising such practices may attract customers concerned about environmental impacts of food supply chains.



*The main facility at Tuscarora Organic Growers (TOG) Cooperative, Hustontown, PA. TOG is a farmer-owned cooperative that sells certified organic produce from its 40+ members to restaurants and grocery stores in the greater Washington, D.C. area.*

Some food value chains have sought to reduce their carbon footprint and reduce per-unit transportation costs through better coordination of delivery routes with outside partners. For example, since 2010, Appalachian Harvest (a food hub based in Abingdon, VA) has made great strides in reducing the number of empty backhauls on produce deliveries to its customers. On the return leg of deliveries to a customer in Richmond, VA, Appalachian Harvest trucks pick up produce from Virginia Produce, a produce aggregator in Hillsville, VA, that is 2 hours from its warehouse in southwest Virginia. This arrangement provides additional revenue for Appalachian Harvest with almost no additional transportation expenses, helping to shore up the bottom line and reducing the carbon footprint of its distribution operation. Efficient logistics can save money, reduce fossil fuel usage, and improve product freshness, if such coordination leads to less time expended in transit.<sup>38</sup>

Tuscarora Organic Growers (TOG), based in Hustontown, PA, provides another example of how value-chain efficiencies can reduce an enterprise's carbon footprint. TOG attempts to reduce the amount of waste the cooperative generates by paying very close attention to maintaining a consistent quality product which both reduces the level of waste the cooperative generates and minimizes the volume of product returns it must handle. Because of its high quality standards and excellent production coordination, TOG has managed to achieve an impressive product shrink rate of 1 to 2 percent. The comparatively small amount of food waste TOG does generate is virtually all composted and used by TOG's member farmers.<sup>39</sup>

37 Stevenson, Steve. *Values-based food supply chains: Red Tomato*, Agriculture of the Middle, June 2009. Web. <[www.agofthemiddle.org/pubs/rtcasestudyfinalrev.pdf](http://www.agofthemiddle.org/pubs/rtcasestudyfinalrev.pdf)>, accessed June 28th, 2012.

38 Diamond, Adam and James Barham. *Moving Food Along the Value Chain: Innovations in Regional Food Distribution*. U.S. Department of Agriculture, Agricultural Marketing Service, March 2012. Web. <<http://dx.doi.org/10.9752/MS045.03-2012>> (PDF).

39 Barham, James, Debra Tropp, Kathleen Enterline, Jeff Farbman, John Fisk, and Stacia Kiraly. *Regional Food Hub Resource Guide*. U.S. Department of Agriculture, Agricultural Marketing Service, April 2012. Web. <<http://dx.doi.org/10.9752/MS046.04-2012>> (PDF).

# Values-Based Communication and Branding

To successfully market their goals, food value chains must be able to transmit their values to consumers, suppliers, and other stakeholders. This section looks at the role of communication within and outside food value chains in building trust, commitment, and business success. Internal consensus among food value-chain participants generates coherent, values-based branding that differentiates the products in the minds of consumers, thus creating sales opportunities. Strategies for branding food value chains include showcasing the farmer's face on store displays and packaging, co-branding, and the development of process or product standards confirmed by a certification process.

## Telling the Values-Based Story

Food value-chain enterprises need to engage in both external and internal communication in order to build a strong brand—one that tells the product's story and the values behind the story. The story must be simple, compelling, and credible. Only if the story is true can the chain build trust and loyalty in its customers and all those involved in bringing the product to market. Everyone involved in the values-based food supply chain must understand and agree on the story, which defines the chain as a whole and its constituent parts. When collaborators in a food value-chain enterprise know their shared story inside and out, they are also better able to promote their message effectively.

As the food value chain develops its story, it must refer back to the values upon which the entire enterprise rests. What the participants stand for has to be told through the story. For example, Organic Valley values preservation of family farms through organic farming and tells stories on its milk cartons, its website, and other marketing materials that reference these values through stories and photos of its farm suppliers.



*Red Tomato uses farmer stories and information about growing practices to position Eco Apple as an identifiable brand.*

## Branding for Differentiation

The product's story—its brand—is how the food value chain differentiates itself from others in the market. While it is true that other businesses may try to catch up with or imitate the value chain's initial level of differentiation, it is also true that a food value chain can keep differentiating itself

successfully by incorporating additional product or quality attributes that convey meaning to buyers and consumers. For example, the Red Tomato food hub in Plainville, MA, developed its regionally grown Eco-Apple brand in the Northeast to occupy a niche between conventional apples and organic apples, which come almost exclusively from the West Coast. Standards were developed in concert with scientists at several universities in the Northeast that reflect the latest advances in controlling pests through minimal use of pesticides. Growers that supply apples marketed under this brand to Red Tomato must adhere to these production standards, subject to third-party verification. The brand is a way to highlight the environmentally friendly farm-management practices of participating growers. It conveys the message that the apples are safe and healthy, as well as regionally grown.

## Identity Preservation

Values-based food supply chains are different from other business strategies because they are founded on the philosophy that the roles, responsibilities, and contributions of participants in the chain are needed for the chain to carry out its business mission. All participants in the supply chain, from production to consumption, should be acknowledged and rewarded.

Respecting and preserving the farmers' identity all the way through to the customer can be an important branding element for values-based food supply chains. The fact that farmers are valued members of the chain resonates with customers who want to know more about the source of their food and to know that their purchases support certain types of farm operations and their surrounding communities. This customer preference for direct ties to farmers can also translate into a stronger market position for farmer participants in food value chains during business negotiations with buyers.

Some food value chains have sought to maintain—and even heighten—consumer awareness of their farm members and their products by facilitating more direct connections between consumers and the farmers that serve them. An example of this is Country Natural Beef's (Hines, OR) requirement that its member ranchers spend 2 weeks a year at retail outlets, talking with customers in the meat section next to their products. Ranchers vouch for the authenticity of Country Natural Beef's products and their high quality directly to eaters, thus retaining the rancher's identity with the product all the way through the value chain. These visits also provide an opportunity for ranchers to receive direct feedback from consumers about the product, both positive and negative.<sup>40</sup>

Food value chains also often combine more traditional types of product differentiation, such as taste, convenience, and value-added processing, along with information about the originating farm(s), in order to maximize the product's appeal to targeted consumers.



*Country Natural Beef members put on a cooking demonstration.*

40 Stevenson, Steve. *Values-based food supply chains: Country Natural Beef*. Agriculture of the Middle, June 2009. Web. <<http://www.agofthemiddle.org/pubs/cnbcasestudyfinalrev.pdf>> (PDF), accessed June 28, 2012.

41 Stevenson, Steve. *Values-based food supply chains: Organic Valley*. Agriculture of the Middle, June 2009. Web. <<http://www.agofthemiddle.org/pubs/sgcasestudyfinalrev.pdf>> (PDF), accessed June 28, 2012.



*A sample of products offered from Organic Valley. Organic Valley offers over 200 premium quality certified organic products, including milk, cream, cheese, butter, eggs, meat, soy, and produce.*

Organic Valley, for example, produces a line of flavored, shelf-stable single-serving milk containers that target children, while retaining a compelling story about Organic Valley farmers on each package.<sup>41</sup>

## Co-Branding

Co-branding is another way to tell the whole story. Co-branding identifies two or more enterprises that have key roles in the story. It brings different elements of the story together. Some common co-branding approaches include:

- Identifying separate enterprises in the values-based food supply chain together on the product or with the product, such as a sausage maker and a pork producer making a joint television commercial.
- Two associated brands are mentioned on product packaging, such as the inclusion of “Shepherd’s Grain” on flour packages sold by the Stone Buhr Flour Company. Stone Buhr seeks to add credibility to its claim of sourcing “certified sustainable flour from family farms” by including Shepherd’s Grain on its product packaging.<sup>42</sup>

42 Stone Buhr: <[www.stone-buhr.com](http://www.stone-buhr.com)>.

43 National Organic Program: <[www.ams.usda.gov/AMSv1.0/nop](http://www.ams.usda.gov/AMSv1.0/nop)>.

- Behind-the-scenes co-branding, where a third-party certifier might be highlighted in information about the product, such as on the company’s website. An environmental certification logo will convey a message by itself and can provide a route to more information about that part of the story. The most prominent example of such co-branding is the USDA Organic label.<sup>43</sup>

While co-branding can be a powerful form of communicating the core operating principles of a food value chain to buyers and consumers, it is also important to note that it has the potential of diluting elements of the chain’s story if not done well. Care and attention should be paid to ensuring that the food value chain’s name and the most outstanding value-based features of its core operating principles are prominently displayed.

## Brand Development

Branding strategies are most effective if the basic rules are followed:

- The product’s logo is only the symbol of the brand; it represents but does not by itself tell the story. The logo only gains meaning over time as people become familiar with and enjoy the qualities associated with the product.
- Keep it simple. If branding is complicated and confusing, customers won’t connect with the product. The brand needs to speak directly to the most prized values of the targeted customer base.
- Know your customer. What drives and motivates them to buy the values-based food supply chain’s products? To which of the chain’s values do they subscribe? Talk with target customers and craft a message that fits their motivations and perceptions. Basic market and customer research is a must.

## Using Technology To Communicate Value Chain Transparency

It is not coincidental that the emergence of food value chains is occurring at a time when technology is increasingly accessible and portable, making it easier and quicker than ever for anyone to implement cost-effective communication, data sharing, and inventory management tools that are tailored to meet specific local needs. Food businesses are taking advantage of these technological tools, enabling the value-chain partners to share information almost instantaneously, have a “real time” profile of their business operations, and carry out transactions at the click of a button. Such technology platforms not only create enhanced supply chain efficiencies but also increase the flow of information exchange among value-chain partners and heighten the level of transparency along the chain, particularly to the end buyer/consumer.

Patagonia, the international outdoor clothing manufacturer and retailer, provides an excellent example of using technology to enhance supply chain transparency. Patagonia’s The Footprint Chronicles®<sup>44</sup> is an interactive website that lets customers follow a specific piece of clothing through its entire lifecycle, from production to recycle. As stated on its website, “The goal is to use transparency about our supply chain to help us reduce our adverse social and environmental impacts—and on an industrial scale. We’ve been in business long enough to know that when we can reduce or eliminate a harm, other businesses will be eager to follow suit.”



- Use relevant and understandable language.
- Keep it up. Companies must repeat images and themes, and keep them consistent, in order for customers to remember them.
- Find the right style. Colors, graphics, and other components of communicating the brand need to fit together for an overall appeal. However, one should not overdo it with more colors, lines, and words than needed.
- Make it easy to find more information. Consider a label with further detail, a website address, contact information and other ways that customers can get answers. This is especially important for connecting the end consumer with the farms and others that produce the product, including photos and personal elements of the farms’ stories.
- Consider providing third-party certification. Third-party certification is often used to provide consumers a shortcut to detailed information about a food value chain’s environmental or social practices or impacts. See Appendix 4 for examples of third-party certification used by value chains.

44 Patagonia, *The Footprint Chronicles*: <<http://www.patagonia.com/us/footprint>>.

- Use guerilla-marketing techniques creatively; that is, seek as much exposure as possible by using (free) news and social media outlets and by use the marketing power of value-chain collaborators.
- Make sure all actors in the value chain understand and agree on the values underlying the brand, and the marketing strategies used to sell the food value chain's products.

## Standards and Certifications

Standards are often used by food value chains to ensure that all producers supplying product through the chain adhere to a minimum threshold of quality, environmental sustainability, or some other attribute relating to the production process or the finished product. Certifications are systems by which producers, processors, and retailers are held accountable to a given set of standards. Standards in combination with certifications can produce highly valuable points of product differentiation, such as dolphin-safe tuna or fair-trade coffee.

By mutual agreement, food value chains may develop their own standards for product quality and for other values to which the chain is committed. They must then measure, evaluate, and communicate performance on those standards. The chain can use a range of tools and techniques to measure, monitor, and communicate its adherence to its product claims. This could include instituting protocols that participants agree and adhere to, as Shepherd's Grain does in requiring all of its participating farmers to use no-till crop planting techniques to limit soil erosion, or keeping detailed logs of important quality factors, such as harvest and storage temperatures or time between harvesting and retailing.

Often, such internal standards are supplemented with externally created standards that have widespread name recognition, such as "organic" or "grass-fed." These external standards generally are subject to third-party verification, in which a person or

business is charged with verifying that the farmer or company is following a set of standards created by an organization separate from the certifier and the entity being certified. Such standards generally take two general forms: fixed standards indicating what is and what is not allowed, and benchmark standards that facilitate continuous improvement. The USDA's organic standards fit largely in the former category, while the Food Alliance certification is a mix of fixed and benchmark standards; producers have to meet specific thresholds pertaining to animal welfare, ecosystem stewardship, and good working conditions to get Food Alliance certified, and they also have incentives to improve their performance on a series of environmental and social metrics over time.



*These carrots were raised according to standards that enhance their value in the marketplace.*



In many instances, the third-party-verified standard serves to backstop the internal standards already in use by farmers and ranchers and helps them broadcast their unique practices to the consuming public, as is the case with Shepherd's Grain (Ritzville, WA), which is Food Alliance certified (see the Food Alliance certification in Appendix 4). For larger food value chains, where there is little direct interaction between producers and consumers, third-party certification can be helpful in providing assurances to buyers of compliance with the chain's agreed-upon standards.

A credible, meaningful, third-party certification scheme substantiates claims made by players in the food value chain. When combined with branding, third-party certification can validate the farm-to-table story, particularly when the original producer is far away, as in the case of U.S. sales of fair-trade coffee from South America or beef that is produced on one side of the country and consumed on the other. However, caution is in order with third-party certifications. More than 100 eco-labels exist. It is important for a values-based food supply chain to select one or a small number of certifications that provide the most value to businesses in the chain and to customers at the end of it.

## Consumers Union Scorecard for Eco-Labels

Consumers Union<sup>45</sup> has developed a clear and concise eco-label report card for evaluating green product claims. The following six questions address credibility of the label for consumers and are important in product differentiation:

- How meaningful is the label?
- Is the label verified?
- Is the meaning of the label consistent?
- Are the label standards publicly available?
- Is the organization free from conflict of interest
- Was the label developed with broad public and industry input?



45 Consumer Reports GreenerChoices: <<http://www.greenerchoices.org/eco-labels/>>.

# Conclusions

An innovative business model for the ever-changing and increasingly fragmented marketplace of the 21st century requires an unprecedented level of responsiveness to and knowledge of the target customer. The food value-chain business model provides such a tool for building lasting, productive partnerships between agricultural producers, food processors, marketers, and consumers that can strengthen farm viability through additional revenue streams, higher prices for quality-differentiated farm produce, risk-sharing with buyers, and reduced costs through efficiency gains in logistics. The strategy can generate capacity to meet the needs of larger commercial customers, such as foodservice and retail buyers, for consistent and reliable supplies of values-differentiated food products.

Value chains explicitly acknowledge that more equitable partnerships—in which all involved parties share in risk and financial gains—are not only good for business but also produce positive social and environmental benefits. Depending on the values promoted, value chains can address community quality-of-life issues such as land conservation and rural economic development, promote the adoption of environmentally sound practices in agriculture, institutionalize cost-plus pricing for farmers, generate quality-differentiated products for buyers, and plan for efficient logistics that reduce fuel usage.

The strength of negotiated foundational values permit food value-chain participants to respond rapidly and consistently to shifts in market demand as individual firms and as a supply unit. Sharing information and resources allows farmers, processors, and retailers to anticipate and meet consumer needs, minimizing surplus inventory. Attention to the entire supply chain offers new market opportunities for previously unsellable products, such as seconds, resulting in additional revenue and lower disposal costs—a double financial gain.

Complementing the ways that food value-chain participants benefit from greater collaboration, local communities benefit from enhanced business prospects for farmers and greater circulation of revenue in local and regional economies. When farmers earn more from their businesses, they spend more at local businesses and hire more employees. Value-chain farmers invest in additional infrastructure if they engage in activities such as processing, storage, and transportation as part of the chain.

Food value chains depend upon strong relationships among those involved in growing, processing, and selling food to consumers. Creating these relationships in a spirit of transparency, trust, and mutual power sharing can lead to surprising results. To establish and maintain the integrity of the chain, it is critical that:

- All parties involved are in fundamental agreement about the mission of their food value chain and their commitment to it.
- Benefits are distributed equitably to all parties within the value chain.
- Chain values are communicated effectively both within the chain and to buyers.

Food value chains have tremendous potential to expand access for participants to existing markets and to create new market opportunities. The deliberate inclusion of participant values into the marketing and branding strategies is a strong selling point for like-minded consumers. In the broadest application, with the aim of creating a healthier, more sustainable food system, food value chains can provide benefits that improve community well-being as well as business viability.

# Appendix 1: Farm-to-Grocery: Good Natured Family Farms and Balls Food Stores

**G**ood Natured Family Farms (GNFF) is an alliance of more than 100 small and mid-sized farms that markets a diverse set of food products (meat, produce, and poultry) under one umbrella brand to the largest regional grocery chain in the Kansas City metropolitan area—Balls Food Stores. An unprecedented partnership between local growers and a regional supermarket chain, their story is a model for how supermarkets support local farms by creating year-round outlets for local and regional food.

The story of GNFF begins in 1997 with Diana Endicott and her husband Gary, owners and operators of Rainbow Organic Farm, who had a bumper crop of grown tomatoes and limited sales channels. To keep her tomatoes from going to waste, the Endicotts approached Hen House Market, a regional grocery chain owned and operated by Balls Food Stores (BFS), and gave samples of her locally grown tomatoes to produce managers. Hen House Market bought her tomatoes, and soon thereafter, the Endicotts became one of its regular tomato suppliers.

This was the start of an open and mutually beneficial relationship between the Endicott family and BFS, with both parties committed to supporting family farms and increasing access to local, high-quality food. In addition to tomatoes, the Endicotts started selling their hormone- and antibiotic-free beef to BFS's Hen House Markets. Demand for local beef quickly exceeded supply, so the Endicotts found other producers in their community who produced food with the same quality standards and were interested in new sales outlets. The Endicotts began to aggregate beef supply and created the All Natural Beef Producers Cooperative. In an effort to differentiate the cooperative's beef from other suppliers' beef, convey these differences to the consuming public, and justify higher retail prices, they also created the GNFF umbrella brand for cooperative members.

Today, GNFF's product line has grown to include a diverse range of food products from more than 100 family farms within a 200-mile radius of Kansas City that are sold in 11 Hen House Markets and 17 Price Chopper stores (another chain owned by Balls Foods) on a year-round basis. GNFF members all agree to a memorandum of understanding that communicates their strategic vision, outlines quality standards, and specifies roles, responsibilities, and obligations for farm members, GNFF, and BFS. GNFF's food items are produced with these same common values in mind: they are all free of growth hormones and sub-therapeutic antibiotics and promote respect for human, animal, and plant life.

GNFF aggregates its products at BFS's central warehouse. Individual farmers and groups of farmers bring their products to the warehouse, or BFS sends a truck to local farms for pickup. The warehouse does not have the cooling capacity to house meat products, so GNFF distributes the meat products directly to individual retail stores. In 2000, the Endicotts



*Hen House Market, a regionally owned grocery chain that sells products from Good Natured Family Farms.*

increased the efficiency of their meat processing by purchasing a processing plant as the exclusive meat processor for the All Natural Beef Cooperative. Rainbow Organic Farm acts as the quality coordinator and manages processing services, including packaging and labeling, to ensure traceability. The value chain's educational, promotional, and consumer education activities currently include:

- One-day in-store promotions for farmers in the GNFF alliance to showcase their products and meet consumers as they shop in the stores.
- Farm tours for BFS managers.
- Chef collaborations with GNFF to create recipes that incorporate locally produced ingredients.
- Signage promoting local product at the point of sale.
- Radio spots, print advertisements, and TV commercials to promote local farms and locally grown food available at BFS.



*Locally grown produce from Good Natured Family Farms being sold at Good Natured Market.*

Beyond these promotional and educational activities, BFS personnel research what food products shoppers want to buy and use this information to encourage GNFF farmers to diversify what they produce. In addition, the "Buy Fresh Buy Local" (BFBL) campaign, a national campaign initiated by FoodRoutes Network, contributes to the overall success of GNFF by focusing shoppers' attention on local food, including providing in-store BFBL signage that directs shoppers to GNFF and other locally sourced food items.

Challenges for both GNFF and BFS include increasing efficiency within the supply chain. Diana Endicott hopes that, in the future, the BFS central warehouse will have cooling capacity to house GNFF meat products so they can streamline distribution using the warehouse. Distributing meat products to individual stores requires costly resources, including a refrigerated truck. She also hopes that a third party will take over packaging and labeling needs. To protect its ability to meet future demand, GNFF has a list of producers wishing to join the alliance if a member leaves, but it has had difficulties in the past finding new suppliers on short notice. BFS has had to make changes in distribution, merchandising, and training to accommodate GNFF aggregation at its warehouse. BFS continues to face challenges in the consistency of supply and ability to grow sales, which requires an increase in the GNFF supplier base and the diversity of local food products.

In the face of these challenges, GNFF and BFS have created a food supply chain that supports family farms, encourages sustainable and humane production methods, and enables access to high-quality, locally produced food in grocery stores in Missouri and Kansas, with sales for GNFF products topping \$3 million in 2011. While the GNFF and BFS model of success is unique to their own community, their story exemplifies the key characteristics of food value chains and shows how they can involve farmers and ranchers in creating transparent, equitable, and profitable business relationships.<sup>46</sup>

46 For further details, see Dreier, Shonna and Minoo Taheri. *Innovative Models: Small Grower and Retailer Collaborations: Good Natured Family Farms and Balls Food Stores*. Arlington, VA: Wallace Center at Winrock International. March 2008. <<http://ngfn.org/resources/research-1/innovative-models/Good%20Natured%20Family%20Farms%20Innovative%20Model.pdf/view>>.

# Appendix 2: Sysco's Partnership Charter

## Guiding Principles: A Value-Chain Partnership Charter

**Preamble:** These Guiding Principles outline our intended common line of action to provide healthy produce and other good food from sustainable farms to local and regional foodservice distribution. We will do so in a trust relationship, using sound business practices and open communication to ensure the realization of a fair return for effort and investment to all participants in the value chain—fieldworkers, farm owners, packinghouse operators, aggregators and shippers, distributors, foodservice operators, and the consumers they serve.

We desire to maximize the use of local, in-season fresh produce in satisfying market needs and in telling the story of the production of the food to create strong links between consumers and the farmers/stewards of the land that grow the crops. We envision forging strong ties in this value-chain partnership that result in long-term relationships that benefit all participants with health, economic success, and a sense of community. We further envision creating economic and community benefit from season extension whenever possible through the application of new production, storage, handling, package, food safety, and distribution technology and practices to meet the appreciation and demand for good food. Furthermore, as a broadline food distributor and aggregator we desire to extend these benefits across product categories (preserves, dried food, packaged goods, meat, dairy, etc.) and seek to lead, with us and our neighbors, in creating new value-chain partnerships for these categories across the region.

### Principles:

Values-based food value chains are trust relationships and supply chains that:

- Are strategic alliances that deal in significant volumes of high-quality, differentiated food products and seek to distribute rewards equitably across the supply chain.
- Treat farmers as strategic partners, not as interchangeable input suppliers.
- Recognize that creating maximum value for the product depends on significant interdependence, collaboration, and mutual support among strategic partners.
- Build value beyond the product to include the story of the people, land, and practices.
- Specific agreements between farmers and other value-chain partners ensure:
  - Reasonable calculation of production & transaction costs, with price negotiated on that basis.
  - Fair agreements and for appropriate time frames.
  - Opportunity to own and/or control their own brand identity as far up the supply chain as they choose, possibly involving co-branding with other value-chain strategic partners.
  - Full participation in the development of mechanisms to resolve conflicts, communicate concerns about performance, or alter directions within the value chain.

#### For Sysco

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

#### For Walsma & Lyons

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

#### For Grower

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

*Created for the National Good Food Network by Originz, LLC, with input from the Association of Family Farms, and Sysco Foodservice*

# Appendix 3: Sample Memorandum of Understanding

## Producer Production Affidavit

Acme Dairy LLC

I, William Acme, am the owner and operator of Acme Dairy LLC, located at 4370 Vermont Terrace, Wellsville, KS 66092. The cows raised and milked for the Acme Dairy Glass Bottle Milk Operation, labeled under Good Natured Family Farms, are owned by both Will Acme and Travis Shuck, and the production and milking operation is under the operation and control of Travis Shuck. Will Acme and Travis Shuck hereby verify that the cows are raised without the use of any growth-promoting hormones including, but not limited to, rBGH and rBST and subtherapeutic antibiotics. The cows are fed a vegetarian diet, and the feed does not contain any animal byproducts. The cows are raised out of doors and not in confined milking facilities. The cows come in for milking twice a day. The cows are not raised in confined animal feed-out operations. The cows are raised under humane conditions. The cows are raised and milked on a local family farm located at 4370 Vermont Terrace, Wellsville, KS, 66092.

I understand that the milk I am producing is being bottled in glass bottles with the following label claims and agree to abide by such claims:

1. Locally raised on a family farm.
2. Raised without the use of growth promoting hormones including rBST and rBGH and antimicrobial feed additives.
3. Raised without the use of subtherapeutic antibiotics.
4. Feed contains no animal byproducts.
5. Processed and bottled on the farm.

### Definitions:

*Subtherapeutic antibiotics* are antibiotics used at low doses on a routine schedule or preventative basis rather than therapeutic use of higher dose antibiotics for treatment of a specific ailment for a short duration of time.

*Growth-promoting hormones* are specifically, but not limited to, rBST and rBGH used to increase milk production. Antimicrobial feed additives, referred to as growth promotants, are administered in the feed at low doses and are used to increase feed conversion.

I have read, understand, and agree to abide by the above specified milk production protocol and guidelines.

\_\_\_\_\_ Date: \_\_\_\_\_

By William Acme  
Member and authorized representative

\_\_\_\_\_ Date: \_\_\_\_\_

Travis Shuck  
Member and authorized representative

## Acme Dairy Raw Milk Plan for 2005

Acme Dairy is planning to buy an additional 75 head of lactating dairy cows. With this additional 75 head, Acme Dairy will have an adequate supply of milk to fill Ball Food Stores' milk orders.

Acme Dairy will milk 50–75 head of cattle that will produce an average of 3,750 pounds of milk per day. This is an average of 436 gallon per day. We will process milk on Sunday and Wednesday for Ball Food Stores Delivery. That will be 6,104 half gallons per week.

Currently, we are selling an average of 2,568 units per week in Balls Food Stores and about 1,500 units per week in outlying area stores (*attachment E*).

With adding the remaining Balls' Price Chopper stores, we would like to move around 3,684 units per week. This does not include eggnog or orange juice. This will give us average weekly sales of \$7,000. This will make distribution and production more efficient.

William Acme  
Acme Dairy Processing, LLC

## Acme Dairy Processing (ADP) Existing Accounts

### Hen House Markets:

#19  
#22  
#23  
#24  
#27  
#28  
#29  
#30  
#31  
#32  
#33  
#34

### Price Chopper Stores:

#11  
#14  
#18  
#21  
#26  
#36  
#39

### Other Acme Accounts:

Community Mercantile-Lawrence  
HyVee #1-Lawrence  
HyVee#2-Lawrence  
Baldwin City Market  
Gardner Price Chopper  
Ottawa Country Mart

# Memorandum of Understanding

## Supply-Purchase-Marketing Agreement

This Agreement is made and entered by and between Acme Dairy Processing, LLC, Rainbow Organic Farms, Inc., and Balls Food Stores. The entities will hereinafter be referred to as Acme Dairy Processing, LLC, as ADP, Rainbow Organic Farms, as ROF, and Balls Food Stores. This agreement is enforceable as of the effective date on the signature page of this agreement.

Whereas, Acme Dairy Processing, LLC (ADP) is a family farm-owned and operated production and processing facility and is in the business of producing, processing, delivering, and selling glass bottle milk. ADP is located at 4370 Vermont Terrace, Wellsville, KS 66092.

Whereas, Rainbow Organic Farms (ROF) is a family farm-owned operation in the business of raising beef cattle and poultry. ROF production farm is located at 1976 55th Street, Route 1, Bronson, KS 66716. ROF owns and operates a USDA Federal meat processing plant located at 208 Sherman Street, Uniontown, KS 66702. ROF owns and manages Good Natured Family Farms (GNFF) trademark brand program for the purpose of marketing and selling "local family farm" food products.

Whereas, Balls Food Stores is an 85-year-old company founded in Kansas City by Mollie and Sydney Ball. This locally family-owned and -operated supermarket chain is currently led by Chairman Fred Ball and third generation COO, David Ball. Balls Food Stores consists of 13 Hen House Markets, 15 Price Chopper stores, and 1 Balls Neighborhood Market, all located in the greater Kansas City area. The Ball Company also owns and operates the Tippins Pie Commissary and a 55,000 square foot warehouse. The company employs approximately 4,000 teammates. Balls Food Stores corporate office is located at 5300 Speaker Road, Kansas City, KS.

Whereas, it is important to the interest of all parties that terms are set forth on production, selling, and marketing of the product hereinafter referred to as Glass Bottle Milk:

### 1. Product Description

- A. The product is defined as milk from cows owned and/or raised and milked on the Acme Dairy Farm.
- B. The cows are raised according to bottle label claims "milk from cows raised without the use of growth-promoting hormones and subtherapeutic antibiotics."
- C. The cows are raised "free range" and not in confined animal feed-out operations (CAFOs).
- D. Cow production and raising label claim affidavit, Attachment A, is signed and dated by person responsible for milk production.

### 2. Product Line and Price

The product line will be of milk described in 1, A-D of whole, 2%, 1%, skim, and chocolate bottled in half gallons and/or quarts. A completed and up-to-date product list and corresponding price is identified in Attachment B. The price does not account for deposit as set forth in paragraph 6. An increase or decrease in the wholesale price listed in Attachment B will be agreed on in writing by all parties.



### 3. Supply

ADP agrees to supply and Balls Food Stores agrees to purchase the product line in "Good Natured Family Farms"-labeled glass bottle milk in quantities and prices set forth in Attachments B and C. ADP agrees to give priority to and completely satisfy and fill Balls Food Stores glass bottle milk orders prior to filling orders of any other company or individual sales. This includes any conditions that may cause shortage of ADP's other accounts in order to fully satisfy and fulfill the glass bottle milk supply obligations to Balls Food Stores. Balls Food Stores agrees to expand sales via additional stores or advertise sales in a plan in which ADP can meet the milk supply requirements and not affect ADP business in a detrimental manner. Conversely, if Balls Food Stores' consumer demand exceeds ADP milk supply ability, then all parties will identify additional milk supply sources, whereby determining a method of meeting consumer demand without a detrimental effect on ADP Attachment D. Attachment C sets forth a tentative plan of increasing glass bottle milk sales via increased store entry and advertised sales.

### 4. Orders

Balls Food Stores (i.e., Hen House Markets (HHM) and Price Chopper Stores (PC Stores)) will fax orders to ADP on attached Delivery Form A. Balls Food Stores and ADP agree that HHM and PC Stores will fax orders by the designated day and time identified on the order form. If the store does not need a milk order, the dairy manager is required to mark "no order" or a statement of equivalency on the ADP order form and fax to ADP. If store orders or statement of "no order" are not received by that day and time, then the store will not receive an order and cannot expect an order until the next scheduled delivery date. Due to the fact that Acme Dairy will have the orders in a timely manner, then all milk delivered to Balls Food Stores will have a code date sufficient for the stores to sell the product, which is a minimum of 10 days code.

### 5. Exclusivity

A. ADP shall not supply glass bottle milk to any person or entity for sale within the Kansas City metropolitan area where Balls Food Stores are located without the written consent of Balls Food Stores.

Exception: ADP will continue to supply glass bottle milk to existing accounts identified in Attachment E, including on-farm sales.

B. Balls Food Stores shall not sell in any of its stores, including Hen House Markets and Price Chopper Stores, any other glass bottle milk, without the written consent of ADP. The terms of this exclusivity are subject to terms set forth above in paragraphs 3 and 4-A.

Exception: Balls Food Stores will continue to sell Greenhills Harvest Glass Bottle 2% and nonfat Organic Milk in half gallons at Hen House Market #35, located at 2724 West 53rd, Fairway, KS.

C. ADP will have first right to package its milk in any competing environmental milk container such as, but not limited to, biodegradable and compostable plastics and paper containers.

D. In that ADP can meet the demand, ADP will remain the sole supplier of local farm fresh milk to Balls Food Stores.

## 6. Glass Milk Bottles

ROF will continue to purchase and provide glass bottles labeled "Good Natured Family Farms" to Acme Dairy for exclusive use in the Balls Food Stores. Upon request from ROF, ADP will agree to provide bottle inventory and estimated bottle breakage to ROF. ADP and Balls Food Stores agree to increase glass bottle milk sales via entry into additional stores or advertised sales in a plan by which ROF can meet the glass bottle supply requirements and not affect ROF business in a detrimental manner. Conversely, if Balls Food Stores' consumer demand exceeds ROF ability to supply glass bottles in a timely manner, then all parties will determine a method of purchasing the glass bottles without a detrimental effect on ROF. It is understood there is only one glass bottle supplier—Stanpac—and prices are drastically increasing; due to increasing demand, glass bottle orders can take up to 12 weeks to be manufactured and shipped. In addition, bottles must be paid for in full prior to production of custom printed bottles. Attachment F records GNFF glass bottle purchases to date, bottle deposit returns, inventory, and estimated breakage loss.

## 7. Deposit

Upon delivery thereof, Balls Food Stores shall pay to ROF a refundable deposit of \$1.50 per unit. Upon return by Balls Food Stores to ADP in suitable condition determined by ADP, ROF shall refund the deposit in full on a per empty unit returned basis. If for any reason Balls Food Stores or ADP terminates or reduces sales of Good Natured Family Farm Milk, the custom glass bottles for the exclusive sales of ADP milk to Balls Food Stores will have no value. All bottles and bottle deposits affected by the termination or reduction of ADP sales will be the equally shared financial responsibility of all parties including Balls Food Stores, ADP, and ROF.

## 8. Invoicing and Payment:

ADP will invoice Balls Food Stores on a per-delivery basis of the GNFF glass bottle milk. ADP will provide copies of invoices to ROF for payment. Balls Food Stores will make payment to ROF within 15 days of the signed invoice date. ROF will make payment to ADP (Citizens State Bank, Paola, KS). In order to keep accounts current, ROF agrees to pay ADP for all signed invoices, including unpaid invoices, from Balls Food Stores within the date pay agreement.

## 9. GNFF Marketing

ROF will receive 10 cents per bottle sold to Balls Food Stores. ROF agrees to promote GNFF glass bottle milk as an integral part of the GNFF product line. ROF will promote GNFF glass bottle milk at all promotional events including, but not limited to, health and wellness fairs, environmental events, Buy Fresh Buy Local Farmers Table, radio promotions, in-store sampling promotions, and GNFF newsletter. ROF agrees to assist ADP in diversifying and developing new dairy or related processed products and entry into Balls Food Stores with such products. ROF agrees to continue to assist ADP in any way possible to benefit all parties in delivering a consistent high-quality safe product to Balls Food Stores Customers.

## 10. Product Liability Insurance

ADP will maintain \$2 million product liability insurance. ROF will maintain \$2 million product liability insurance. Proof of product liability insurance will be provided to Balls Food Stores. Said insurance from ADP should name Balls Foods Stores as additional payee.

11. Notices

Occurrences of noncompliance or litigation that will affect product supply or salability will be communicated immediately to all other parties upon notification of such incident. If any party, for any reason, discontinues doing business or sells its business, all parties will be given a 90-day notice in writing.

12. Agreement Transferability

This agreement is between Balls Food Stores, ADP, and ROF and is nontransferable to any other parties. Agreement transfer will require a written and signed agreement of such transfer by all parties.

13. Entire Agreement:

This agreement and the attachments hereto constitute the entire and exclusive agreement between the parties hereto with respect to the subject matter hereof and supersede any prior agreements between the parties with respect to such subject matter.

In witness whereof, the parties have caused this Agreement to be executed by their respective authorized representatives as of the effective date.

**Acme Dairy Processing, LLC**

\_\_\_\_\_ Date: \_\_\_\_\_  
By William Acme,  
Member and authorized representative

**Rainbow Organic Farms, Inc.**

\_\_\_\_\_ Date: \_\_\_\_\_  
Diana Endicott  
Member and authorized representative

**Balls Food Stores**

\_\_\_\_\_ Date: \_\_\_\_\_  
Matt Jonas  
Authorized representative

Approved by \_\_\_\_\_ Issue Date \_\_\_\_\_  
Revision Date \_\_\_\_\_

# Appendix 4: Third-Party Certifications Used by Food Value Chains

To provide greater insight into the range of third-party certifications that are used in food retailing, this section contains a list of quality-differentiated certification programs and examples of companies that adhere to these certified practices.

## Fairtrade International<sup>47</sup>

Fairtrade International is responsible for setting International Fairtrade standards, providing a support system for producers, developing International Fairtrade's strategic framework, and promoting trade justice. The Fairtrade certification body for the International Fairtrade system is FLO-CERT.<sup>48</sup> Working in more than 70 countries, FLO-CERT is the leading International Social Certification Body and provides, among other services, inspections and audits for Fairtrade Certification.

- **Divine Chocolate<sup>49</sup>**  
Divine Chocolate is the only fair trade chocolate company that is owned in part by farmers. In addition to receiving a guaranteed price of \$1,600 per ton for its cocoa and a social premium of \$150 per ton that is invested into community projects, Divine's farmer owners receive a share of the company's profits and have input into how the company is run.

## Equal Exchange<sup>50</sup>

Equal Exchange started out in 1986 as a fair-trade, worker-owned cooperative that marketed fair-trade coffee to retailers and coffee shops. It has since expanded its product line to include tea, chocolate, nuts, and bananas, grown by small farmers in Latin America, Asia, Africa, and the United States. Equal Exchange seeks to build long-term trade partnerships with its suppliers based on assurances of reasonable returns to producers.

47 Fairtrade International: <<http://www.fairtrade.net/>>.

48 FLO-CERT: <<http://www.flo-cert.net/>>.

49 Divine Chocolate: <[www.divinechocolateusa.com/about/default.aspx](http://www.divinechocolateusa.com/about/default.aspx)>.

50 Equal Exchange: <[www.equalexchange.coop/](http://www.equalexchange.coop/)>.

51 WORC: <<http://www.equalexchange.coop/our-partners/farmer-partners/wupperthal-original-rooibos-co-operative>>.

52 Food Alliance: <<http://foodalliance.org>>.

53 Shepherd's Grain: <[www.shepherdsgrain.com](http://www.shepherdsgrain.com)>.

- **Wupperthal Original Rooibos Cooperative (WORC)<sup>51</sup>**

Located in South Africa, this tea cooperative sells its product through the Equal Exchange fair trade cooperative. WORC was founded in 2009 by 53 individual rooibos farmers. There are now over 90 members who all cultivate their own plots. At the cooperative, WORC is guaranteed a minimum price for its product that is considerably greater than the general market value, allowing it to stably earn a profit.

## Food Alliance<sup>52</sup>

The Food Alliance certification is focused on continuous improvement in three key areas: the assurance of safe and fair working conditions, the ongoing commitment to humane treatment of animals, and the protection of the environment. Managing over 5 million acres of range and farmland, there are currently 330 Farm Alliance certified farms and ranches in Canada, Mexico, and 23 U.S. States. This certification process is operated as a voluntary certification program based on sustainable agricultural practices standards defined by Food Alliance. It involves a third-party site inspection by a certified auditor that determines if the facility meets these standards.

- **Shepherd's Grain<sup>53</sup>**

Shepherd's Grain's mission is to build economically viable markets for local family farmers and reduce the environmental impact of grain production. The farmers who supply Shepherd's Grain employ no-till and crop rotation practices that enrich soil fertility and prevent erosion from wind, water, and tillage. Its unique pricing model is based on cost of production plus a reasonable rate of return that is comparable to that earned by other value-chain partners. Allowances are made

for inflation and price volatility in commodity markets. Farmers know their costs will be covered, and both customers and buyers are better equipped to plan for the future knowing that prices will only fluctuate modestly every 6 months. All of Shepherd's Grain's products are traceable through the milling and distribution process back to the individual farm.

- **Country Natural Beef**<sup>54</sup>

This 100-member rancher cooperative sells more than \$40 million worth of beef to restaurants and grocery stores across the Western and Southwestern United States. Country Natural Beef cattle are raised from birth without growth hormones, antibiotics, or animal byproducts. The cattle spend less time in the feedlot (90 to 95 days versus 120 to 150 days for conventional beef), making Natural Beef's meat leaner than that of its competitors. The rancher members are committed to developing pasture management practices that maintain grass, plant, and wildlife diversity; water resources; and healthy streams.

- **Eco Apple—Red Tomato Programs**<sup>56</sup>

Eco Apple TM orchards are family-owned, small to medium-size farms located in several New England States. Eco Apple farmers use an advanced integrated pest management protocol for pest control that is specifically designed for apple production in the Northeastern United States. The protocol was designed through a partnership between Red Tomato and several universities in the Northeast. Inspectors from the IPM Institute of North America audits the practices of Red Tomato growers annually and certifies their compliance with the Eco Apple standards. IPM growers encourage and rely on naturally occurring controls such as ladybugs, spiders, wasps, bacteria, and predatory mites. The Eco Apple program is an example of Red Tomato's network of orchards following sustainable production principles that use the strictest IPM standards possible in the U.S. Northeast to grow and market top quality regional fruit.

## IPM Institute of North America<sup>55</sup>

Formed in 1998, the IPM Institute is a nonprofit organization that certifies goods and services providers who practice integrated pest management (IPM). IPM Institute provides suppliers with information about pest biology to protect human health, the environment, and the economy through reduced pest-control hazards and costs. Compliance with IPM standards and strategies is required for many ecolabel programs and other certifications.

## Canada Organic<sup>57</sup>

Canada Organic is regulated by the Canadian Food Inspection Agency (CFIA) which is responsible for the monitoring and enforcement of its regulations. Accredited certification bodies inspect and audit suppliers in accordance with regulations defined by CIFA. Canada Organic was initially established to protect costumers from deceptive labeling practices, create a defined standard for "organic," facilitate international access of Canadian organic products to foreign markets, and support further development of the domestic market.

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54 Country Natural Beef: <<http://www.countrynaturalbeef.com>>.

55 IPM Institute: <<http://www.ipminstitute.org/>>.

56 Red Tomato: <[www.redtomato.org/](http://www.redtomato.org/)>.

57 Canada Organic: <<http://www.inspection.gc.ca/food/organic-products/eng/1300139461200/1300140373901>>.

- **Deep Root Organic Co-op**<sup>58</sup>  
Founded in 1986, this bi-national producer cooperative has 15 members in Vermont and Quebec and is certified under USDA Organic and Canada Organic standards. The cooperative promotes local, sustainable, and organic agriculture through its small, family-owned farms. Its members produce 60 different vegetables for sale to organic distributors and health food stores in New England and Quebec throughout the year.

- **Tuscarora Organic Growers**<sup>61</sup>  
Founded in 1988, Tuscarora Organic Growers, based in Hustontown, PA, is a wholesale distributor of in-season, organic vegetables, fresh flowers, cheese, eggs, and plants. TOG markets food produced by its 28 member farmers and 17 non-member farmers to retail grocery stores, food co-ops, and restaurants in the greater Washington, DC, metropolitan region. TOG farms range in size from 2 acres to 60 acres and are primarily family-run operations.

## USDA Organic<sup>59</sup>

USDA's organic program is coordinated by the National Organic Program (NOP), which regulates the standards for any farm, wild crop harvesting, or handling operation that wants to sell an agricultural product as organically produced. The standards assure consumers that the organic foods they purchase are produced, processed, and certified to be consistent with national organic standards. Suppliers are audited by USDA-accredited certifying agents to ensure compliance with USDA Organic standards. Currently, 84 certifying agents in the United States and internationally are authorized to issue an organic certificate to approved suppliers.

- **CROPP Cooperative**<sup>60</sup>  
The mission of CROPP Cooperative and its brands, Organic Valley and Organic Prairie, is to promote regional farm diversity and economic stability through organic farming and the sale of certified organic products. From its more than 1,600 farmer members, CROPP sells more than \$600 million worth of organic dairy products, meat, vegetables, and orange juice throughout the United States.

- **Veritable Vegetable**<sup>62</sup>  
Veritable Vegetable, based in San Francisco, CA, was founded in 1974 and is the Nation's oldest distributor of certified organic produce. This woman-owned company serves retail outlets throughout the Western United States. It grossed \$40 million in 2010. The company prides itself on promoting an organizational culture centered on strong communication, partnership, and involvement in causes such as farmland protection, sustainable agriculture, and increasing food access.
- **Organically Grown Company**<sup>63</sup>  
Founded by farmers in 1982, Organically Grown Company has grown to be the largest wholesaler of organic fruits, vegetables, and herbs in the Pacific Northwest. It sources product from more than 400 growers, of which 35 percent are in Oregon, Washington, and British Columbia. Its LADYBUG brand of organic produce is supplied exclusively by 42 Northwest growers. What started out as a cooperative owned by farmers was transformed into a company so that employees could be owners as well.

58 Deep Root Organic Co-op: <<http://www.deeprootorganic.com/>>.

59 USDA Organic: <[http://www.usda.gov/wps/portal/usda/usdahome?navid=ORGANIC\\_CERTIFICATIO](http://www.usda.gov/wps/portal/usda/usdahome?navid=ORGANIC_CERTIFICATIO)>.

60 CROPP Cooperative: <<http://www.farmers.coop/>>.

61 Tuscarora Organic Growers: <[www.tog.coop/html/general\\_info.html](http://www.tog.coop/html/general_info.html)>.

62 Veritable Vegetable: <[www.veritablevegetable.com/](http://www.veritablevegetable.com/)>.

63 Organically Grown Company: <<http://www.organicgrown.com/>>.

- **Co-op Partners Warehouse**<sup>64</sup>  
 Co-op Partners Warehouse (CPW), owned by the Wedge Cooperative, primarily distributes organic produce to retail food cooperatives, natural food stores, and restaurants in the Upper Midwest. Its St. Paul, MN, warehouse stocks 200–250 items, including some organic dairy products, soy products, and fresh juices. CPW sources food products nationally throughout the year but buys from regional growers as much as possible during the growing season.
- **Crown O’ Maine Organic Cooperative**<sup>65</sup>  
 Founded in 1995, Crown O’ Maine Organic Cooperative (COMOC) distributes locally produced fruits and vegetables, animal products, fish, and value-added products to buying clubs, restaurants, and grocery stores throughout Maine. COMOC seeks to improve access to locally grown and produced products. Since the fall of 2006, it has offered an expanded product line regularly delivered to specific neighborhoods.
- **Goodness Greeness**<sup>66</sup>  
 Goodness Greeness, based in Chicago, is the largest privately held organic distributor in the country. Founded in 1991 by CEO Robert Scaman and his brothers, Rodney and Rick, Goodness Greeness employs over 60 people at its warehouse in the Englewood neighborhood of Chicago. The company directly supplies over 300 retail stores, including the region’s largest supermarkets and independent retailers. Goodness Greeness is committed to supplying its customers with high-quality organic food from around the world, while working to increase its purchases from small-scale organic farmers in the Midwest. Goodness Greeness has developed a private-label brand of regional organic food, including a new Fresh Cut product line, which is being distributed throughout the Midwest.

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64 Co-op Partners Warehouse: <[www.cooppartners.coop/](http://www.cooppartners.coop/)>.

65 Crown O’Maine Organic Cooperative: <[www.crownofmainecoop.com/default.asp](http://www.crownofmainecoop.com/default.asp)>.

66 Goodness Greeness: <<http://www.goodnessgreeness.com/about/>>.

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