



# **Demystifying Alternative Food Production and Marketing Systems**

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# Four themes

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



*more than Beef*  
Our Product Is More Than Beef

*... it's the smell of sage after a summer thunderstorm,  
the cool shade of a Ponderosa Pine forest.*

*It's 80 year old weathered hands saddling a horse in the Blue Mountains,*

*The future of a 6 year old in a one room school on the High Desert.*

*It's a trout in a beaver built pond, haystacks on an Aspen framed meadow.*

*It's the hardy quail running to join the cattle for a meal,*

*the welcome ring of a dinner bell at dusk.*

*Doc Hatfield & Becky Hatfield Hyde*

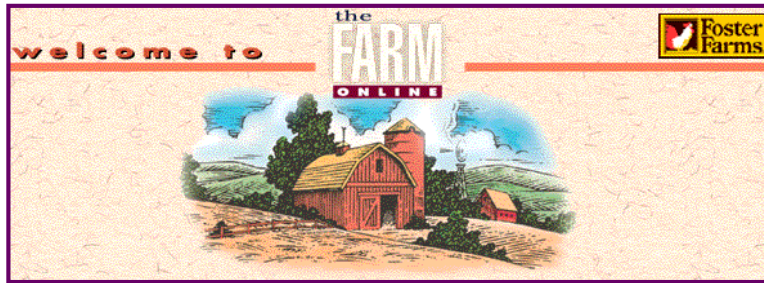


# Oregon

- **Population: 3.8 million**  
(Ireland: 6.4 million)
- **Area: 254,805 km<sup>2</sup>**  
(Ireland: 81,640 km<sup>2</sup>)
- **Climate: Varied**
- **Agriculture: Diversified**
- **Farm Sales: \$5.3 Billion**  
(Ireland: \$7.0 Billion)
- **# of “Farms”:** 38,000  
(Ireland 140,000)



# A Tale of Two Food Systems



**MAINSTREAM  
(90-96%)**



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



Start with a fish tale.....



Alternative/Fringe Markets:

## It's Not About Food as Food

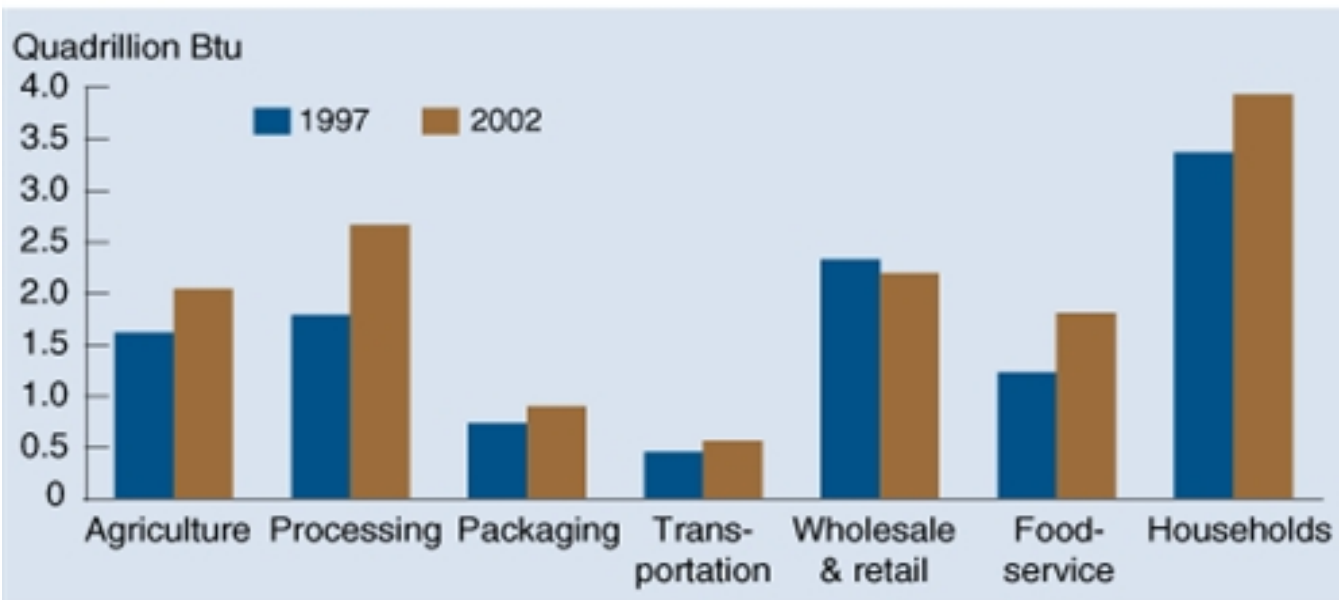


- Food as pleasure
- Food as entertainment
- Food as a way of building community
- Food as a means to reduce environmental impact of consumption



# Transport Energy Use Relatively Minor

**Energy use by food processors surpassed wholesale/retail energy use in 2002**



Source: USDA, Economic Research Service.



# Alternative Marketing Categories (FRINGE)

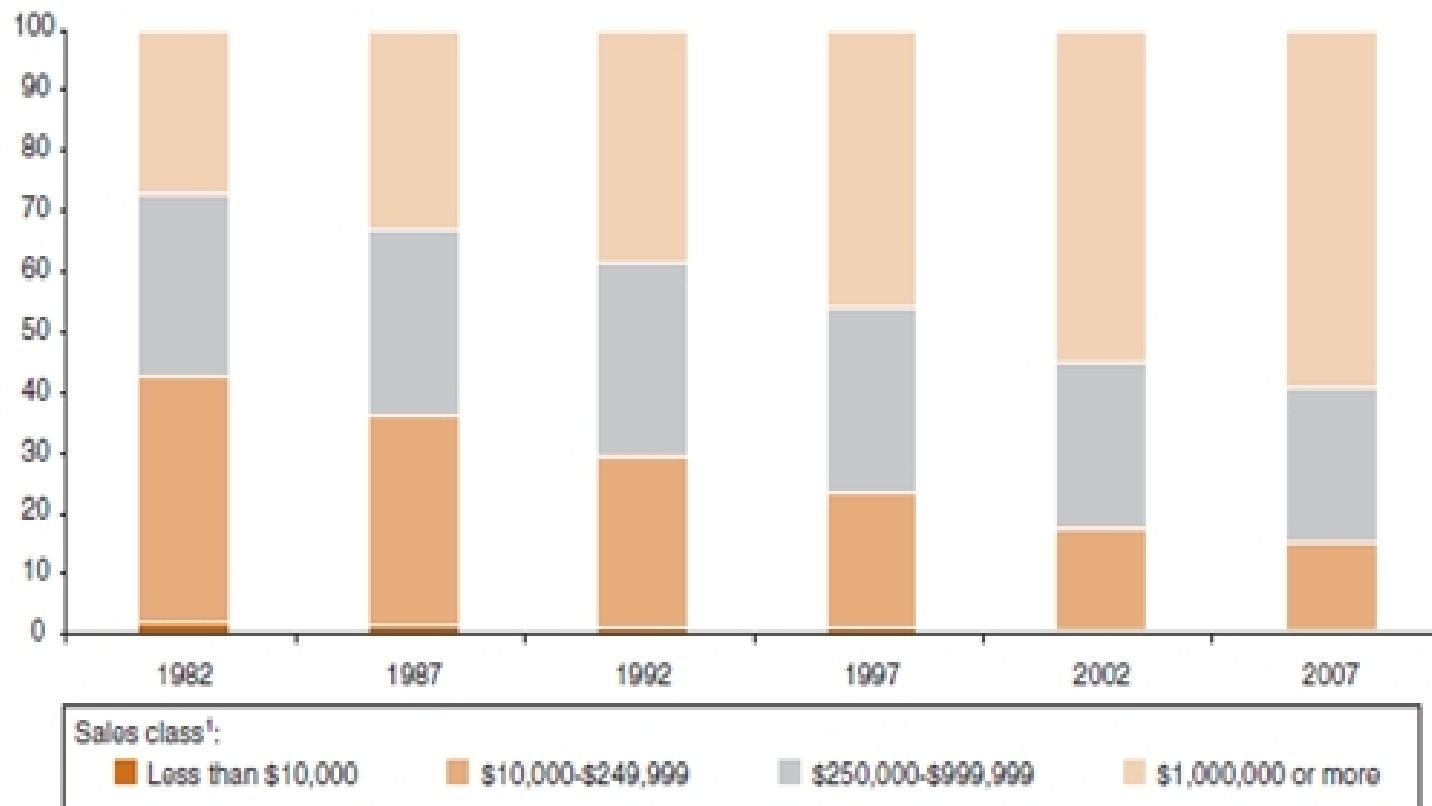
- Direct marketing - Selling products directly to customers
- Semi-direct marketing/intermediated- Sell to retailers, restaurants or institutions but products retain their farm identity



## Market value of agricultural products sold, by constant-dollar sales class,<sup>1</sup> 1982-2007

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

Percent of U.S. total

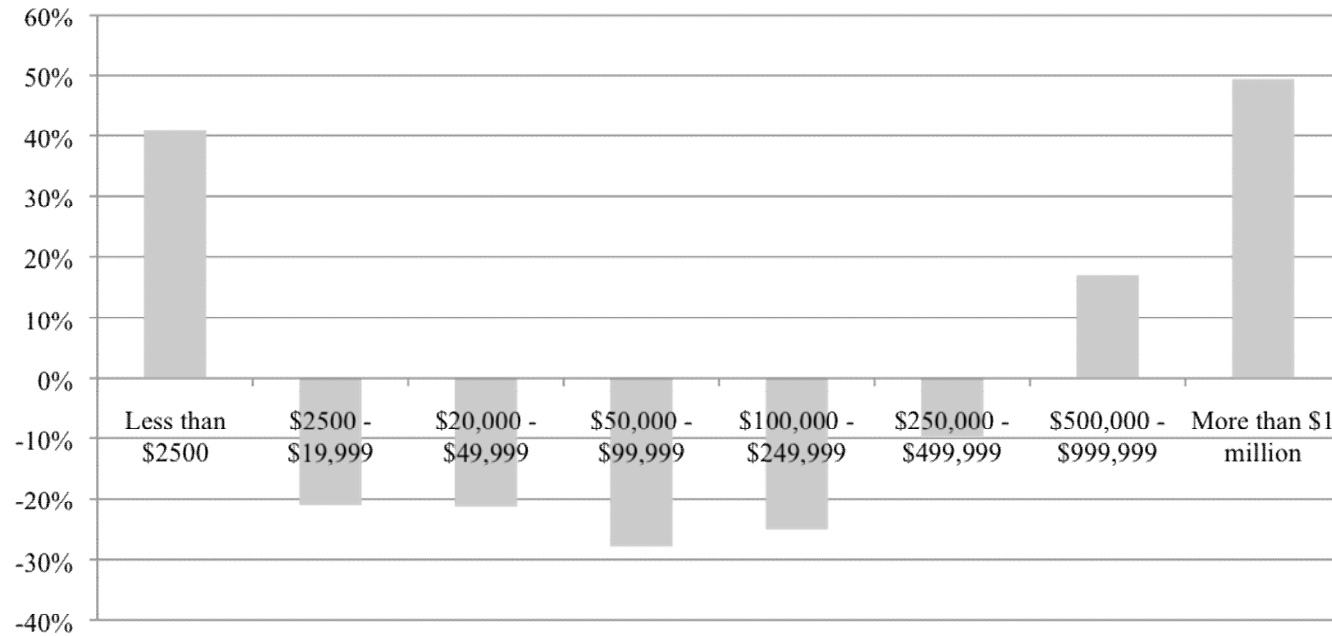


Note: Sales classes are expressed in constant 2007 dollars, using the Producer Price Index for Farm Products (PPIFP) to adjust for price changes.

<sup>1</sup>Sales class is based on the market value of agricultural products sold.

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

# Changes in Number of Farms 1997-2007



Source: USDA 1997 and 2007 Census of Agriculture

\*All farm sales categories adjusted for inflation using the Consumer Price Index


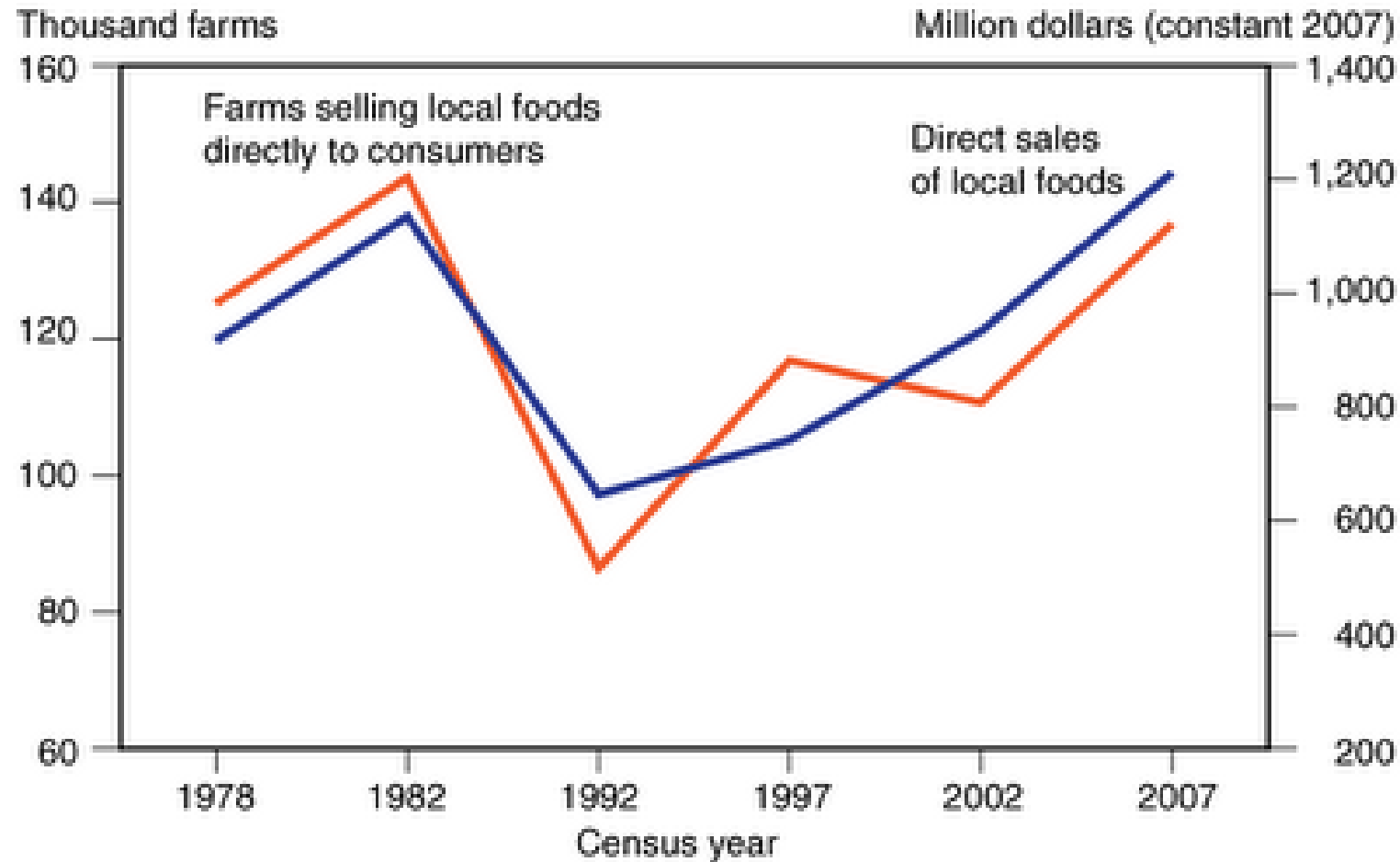
Market and Product Characteristics	Small Farms	Midsized Farms	Large Farms
<b>LOCAL</b> Differentiated; direct and short supply chains	X		
<b>REGIONAL</b> Differentiated; values-based supply chains		<b>Opportunity Zone</b> 	
<b>GLOBAL</b> Commodities; efficiency-based supply chains		<b>Troubled Zone</b>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

Figure 1

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



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

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



# There is something about local....



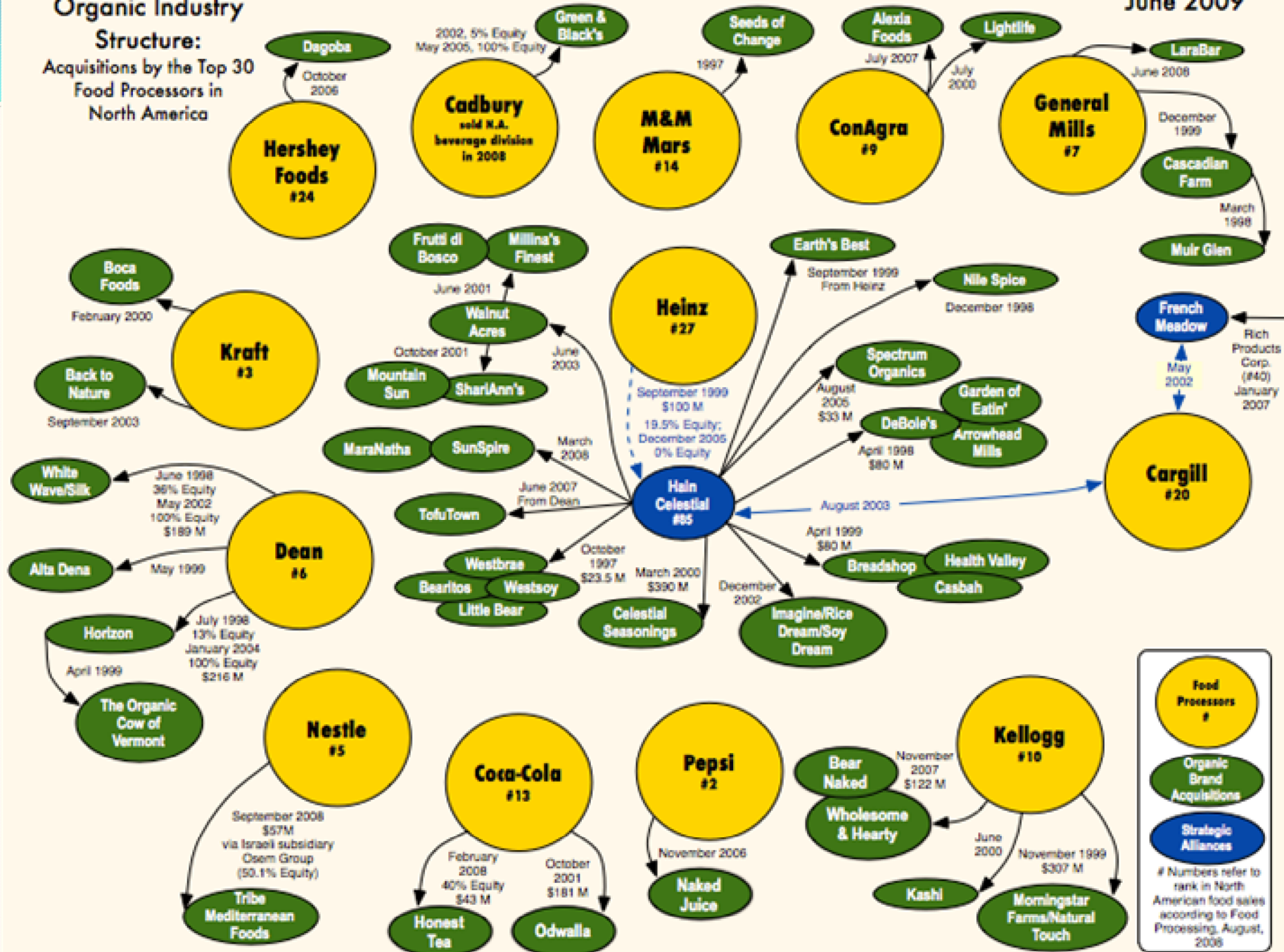




# Organic Industry

Structure:  
Acquisitions by the Top 30  
Food Processors in  
North America

June 2009



**Food Processors #**

**Organic Brand Acquisitions**

**Strategic Alliances**

# Numbers refer to rank in North American food sales according to Food Processing, August, 2008



EXCLUSIVELY AT GIANT EAGLE

# EUROPEAN SALAD BLEND

*Iceberg Lettuce, Romaine, Radicchio, and Endive*

QUALITY GUARANTEE  
commitment to quality  
100% satisfaction or  
our money back.  
REFRIGERATED



**No Preservatives  
Washed & Ready To Eat**

Net Wt. 12 Oz. 340g

INGREDIENTS: ICEBERG  
ROMAINE, RADICCHIO  
Distributed By: Giant  
Pittsburgh, PA  
©1998 Giant Food  
Visit us on the internet  
<http://www.giant.com>  
For comments call  
1-800-253-2533



## ARTISAN recipes

*Roasted Garlic & Black Bean*



*delicious 9 grain blend  
100% natural ingredients*

FLAVORED TORTILLA CHIPS  
NET WT 8 1/4 OZ (236.4 g)





# Farm-to-Retail Connections

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





# Sales to Restaurants

## ⌘CHEZ⌘PANISSE⌘

**Saturday, February 16     \$75**

An aperitif

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

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

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

Oro Blanco and blood orange soup with Meyer lemon sherbet

1517 Shattuck Avenue, Berkeley, California 94709

Reservations: (510) 548-5525

# Farm to Fork Dinners





# Farm-to-Institution Connections

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

# Fostering farmer- buyer connections



- Food Hub -- more than 2500 buyers and sellers  
<http://food-hub.org/>
- A food version of Craigs' List
- “Speed dating” and other workshop activities



# Food Hubs: the general concept

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

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



# Does the US “need” more meat processing plants (Gwin research)?

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

Most current small plants are failing or only marginally profitable.

Would opening more plants actually help?



## Current model based on convenience

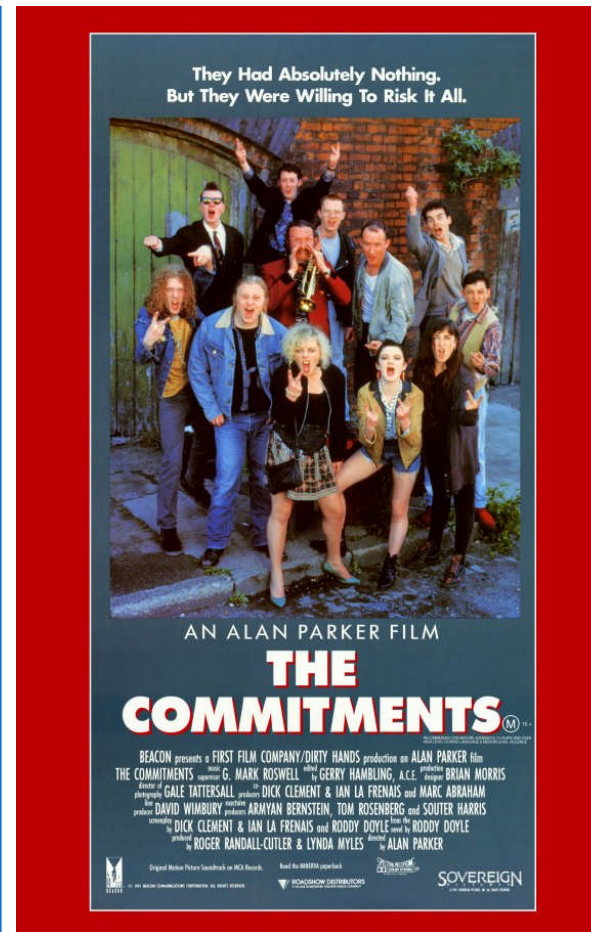
Producers say “I’ll call you when I need you”

Processors say “I’ll process for you if I have an  
**opening**”

# Positive change requires commitments

An ongoing partnership in which the parties:

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





# Product labeling as **THE** solution?

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



## Intriguing possibilities ARE out there

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



## Mainstream food supply chains usually have these characteristics:

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



# In contrast, values-based food supply chains

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





## Key Characteristics of These Supply Chains:

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



# The Role of Producers

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

# Must be able to demonstrate that

- Value-based supply chains can be both “Smart” and “Right”
  - 1) *Smart Business*: strategic partnerships (social capital) replace economic capital and expertise; nimbleness in the market; quality control efficiencies; safety efficiencies; geographical identities
  - 2) *Ethical Business*: equitable distributions; participatory organizations and alliances; ethical differentiations

# Challenges for values-based supply chains

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



# Challenges for values-based supply chains

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





# A Surprising Price Problem

Desire to Avoid  
**“Roller-coaster Prices”**

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



# Concluding thoughts

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