Values-based food supply chain case study: Home Grown Wisconsin

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Home Grown Wisconsin was a cooperative, multi-farm food marketing enterprise founded in 1996 in south central Wisconsin. This co-op sold fresh produce to upscale restaurants and Community Supported Agriculture (CSA) customers for more than 10 years. Its goal was to expand the market for fresh, local, organic produce through the distribution of high quality products that conveyed the variety and value of Wisconsin's harvest. In 2009, after being significantly impacted by floods, an economic downturn and mounting overhead costs, the cooperative closed its business operations. The story behind this business is potentially useful for other farms that wish to market produce cooperatively.

Origins and membership

Home Grown Wisconsin was created in 1996 as a result of research conducted by the University of Wisconsin Center for Cooperatives (UWCC) and Center for Integrated Agricultural Systems (CIAS). During interviews and meetings, restaurants and other food buyers said that purchasing from local farms would be easier if it could be accomplished with one phone call, one availability list, one invoice, standard delivery days and professional service. With help from the UWCC, the Home Grown Wisconsin cooperative was created to link growers and restaurant chefs with consolidated ordering and delivery.

At its peak, Home Grown Wisconsin included over 25 member farms, although eight to 10 farms accounted for most sales. A few growers sold through the co-op as non-members. Farms ranged in size from small market gardens under an acre to farms with more than 50 acres in vegetables. All of the members followed organic practices, although not all were USDA certified organic. Home Grown Wisconsin was a closed cooperative. New members were invited and accepted after a vote by a board of directors representing the co-op's membership. Seven people—five voting members (farmers) and two advisory members—served on the board.

Customer base and products

Home Grown Wisconsin began by selling to Madison restaurants, but this did not provide a large enough market. And although many Madison chefs had said they would like a consolidated produce source, they actually preferred working directly with individual growers. The co-op's main customer base grew to include upscale Chicago restaurants, with additional sales to Madison and Milwaukee restaurants. In 2005, Home Grown Wisconsin started a Chicago-based CSA, which generated a new income stream and eased cash flow constraints. Members were prohibited from selling to existing Home Grown Wisconsin customers outside the co-op, unless they were marketing an item the co-op didn't usually sell.

Home Grown Wisconsin sold an array of vegetables, herbs and edible flowers, offering more than 150 items at peak season. The co-op also sold berries, apples, cider and eggs. Specialty vegetables, greens, root crops and tomatoes dominated sales.

Organization and sales

Home Grown Wisconsin delivered fresh produce to Chicago restaurants twice a week during the growing season and once a week during the winter. Growers sent product availability lists to the co-op's general manager. These were compiled and faxed or e-mailed to customers, who then placed orders. Growers had one and a half days to pick, pack, cool and deliver their orders to the Madison warehouse where the co-op rented space.

Until 2003, the co-op employed only a general manager, who handled all management, marketing and accounting. From 2003 to 2006, they hired additional staff to help with accounting, trucking, and CSA sales and coordination. Use of members' trucks and facilities kept expenses low early on. The co-op had almost no capitalization costs in its early years—the only item they owned was a fax machine. But growing costs hurt Home Grown Wisconsin's bottom line. By the time the last manager was hired in 2005, the enterprise's staff included a full-time manager, a salesperson, a CSA coordinator, a dock

Tomatoes, specialty vegetables, greens and root crops dominated Home Grown Wisconsin sales.

assistant and a truck driver. Personnel expenses grew from $97,000 in 2006 to $138,000 in 2008.

Farmer sales in the co-op were prioritized through an allocation system in which co-op members were prioritized as "A" or "B" growers for specific products. "A" growers were given the first opportunity to fill the order, followed by "B" growers. Farmers who were not members of the co-op could sell items through the co-op if no members had that product or if sales exceeded what members could provide. Growers maintained their priority status based on their history and success of supplying quality product. Priority growers set prices based on their experience, production costs and required profit margins. If two or more priority growers offered the same product at different prices, the lower price prevailed.

Home Grown Wisconsin sales grew from about $12,000 in 1996 to about $300,000 in 2002 to $757,000 in 2008. The co-op marked up produce 50 percent to cover overhead expenses, which translated into a 33 percent margin.

Challenges

Home Grown Wisconsin faced some significant challenges prior to closing in 2009. Some of the challenges had been building for several years but didn't fully manifest themselves until 2007, when the co-op was confronted by both internal issues and external forces related to weather and the economy.

While Home Grown Wisconsin succeeded in getting high prices for its farmer members, the co-op struggled in terms of the overall economics of the enterprise. The seasonal nature of the produce business led to uneven cash flow. The margins originally set by the co-op were enough to cover expenses in its lean early years, but were insufficient as transportation, warehousing and personnel costs rose. The original 33 percent margin shrank due to restaurant discounts and the high cost of CSA produce. In the co-op's final year of operation, the actual gross margin was just 30.44 percent, including CSA sales.

The co-op's pricing system was often at odds with the market. Typically the larger growers with priority status set the prices. There was little incentive for others to offer lower prices because of the allocation system. Furthermore, the co-op's managers and sales staff were not empowered to negotiate prices with customers, nor were they expected to convey realistic price and market information to the co-op's board or farmer members. This institutionalized resistance to the market's signals impacted Home Grown Wisconsin's resilience during 2007-2009.

Two external circumstances, in combination with the forces described above, forced Home Grown Wisconsin to close in 2009. In both 2007 and 2008, record flooding in southern Wisconsin destroyed much of the co-op farmers' produce. For two years, Home Grown Wisconsin had a significant shortage of product for its customers. Supply shortages hurt the co-op's already precarious cash flow and overall profitability. Their shorted restaurant customers found other regional organic producers who were selling at lower prices. In addition, the recession of 2008 had a negative impact on Chicago-area restaurants. Home Grown Wisconsin lost restaurant business to competitors who sold at lower prices. Facing cash flow problems of their own, restaurants did not pay invoices on time.

The true picture of Home Grown Wisconsin's degraded economics became clear during the winter of 2008. The co-op's board proposed shifting the co-op's business model to 100 percent CSA, but was unable to subscribe sufficient members in the Chicago area to make it work. When this attempt failed, Home Grown Wisconsin closed and sold its assets.

Home Grown Wisconsin's original business model based on selling high quality, organic food products was sound, as long as the business kept overhead modest and maintained margins. But as expenses rose, the co-op used its growers' equity fund to cash flow the enterprise. This only served to camouflage fundamental profitability challenges, which in the end proved too difficult to overcome.

A longer version of this case study (and related research) is available at two locations:

www.cias.wisc.edu/economics/case-studies-profile-mid-scale-food-enterprises/
www.agofthemiddle.org/

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