

CASE STUDIES

Cooperative-structured businesses serve the needs of their members. A cooperative must first aggregate members with the desire to work together to achieve a common goal. During the formation of the cooperative, members share similar values regarding the need for the cooperative. In many cases the location, size of the members' farms, the crops grown, even the ownership, management, and labor requirements can be very similar from one member to another. All businesses change through time. Externalities such as government regulations, consumer trends, price of inputs, consolidation within the sector, etc., will impact the cooperative business and the members' businesses. As member businesses change the value of the cooperative to its members can remain the same, become more important, or less important. For the cooperative to remain successful the services that the cooperative provides and resources in which it invests should be in alignment with the needs of the members. This case study focuses on Tuscarora Organic Growers Cooperative.

TUSCARORA ORGANIC GROWERS COOPERATIVE

Tuscarora Organic Growers Cooperative serves 44 member-owners mostly located in central Pennsylvania. The cooperative is a wholesale market channel for farm members. The economic goal of the cooperative is to provide service at cost to members and provide high quality organic produce, berries, eggs, and plants to retail grocery stores, food cooperatives, and restaurants mostly in the Baltimore-Washington, D.C. area. All farms are certified organic and adhere to additional guidelines developed by the cooperative, which describe the protocols in harvesting, grading, packing, and storing the product prior to delivery and safe food handling practices. These guidelines meet or exceed industry standards. There are no signed contractual agreements between the member and the cooperative as to what the member shall supply to the cooperative. Cooperative staff works with each farmer to develop a pre-season Commitment Plan of product to be delivered to the cooperative at specific times. The Plan is not a contract but rather describes the good-faith effort on the part of the member to deliver the designated product at the designated time and the cooperative to sell the product at the designated time. Members sell product to the cooperative and most sell to other customers as well. Members may purchase product from the cooperative to enhance their product line. The cooperative is also a mechanism by which farmers pool orders for potting soil, boxes, labels, seed potatoes, and organic pest and weed control products.



Figure 1. Tuscarora Organic Growers Cooperative, Hustontown PA

BACKGROUND

Tuscarora Organic Growers Cooperative began in 1988 as an informal group of 3 neighboring farmers who harvested organic fruits and vegetables, which were transported to and sold at farmers markets in the Baltimore/Washington, D.C. area, approximately 150 miles from their farms. During the first growing season they sold 1,500 cases of product over 5 months. Three circumstances converged near the same time which provided the impetus to expand the collaboration from 3 farms to 7 farms. First, customers (consumers, chefs, food cooperatives) had increased awareness and desire to purchase organically grown produce. This demand and market opportunity could not be adequately supplied by the three individual farms. Second, organic production techniques had become more standardized and third-party verification allowed for products to be labelled “certified organic.” Third, changes came in the wholesale market channel. Early on, organic produce sold through the channel was not of sufficient quantity to meet the needs of buyers. Organic produce was not differentiated from conventional produce. As a result, organic growers received prices similar to conventional farmers. A wholesaler who sold organic produce closed his business providing an opportunity for someone else to serve his customers. The seven farms working together achieved economies of scale, which allowed them to act as a produce wholesaler to meet the increasing demands of restaurants and food cooperatives and to sell product at a premium price in the marketplace. The experience of the group working together increased through time. They came to realize that the marketplace was predictable. Farmers coordinated plantings to level the supply and meet demand. One part time employee was hired to aggregate, market, and distribute the product allowing farmers to focus on growing the product. They developed a reputation in the marketplace for the delivery of high quality product. Sales doubled from \$75,000 to \$150,000 from 1991 to 1992. The group continued the informal collaboration for 5 years.

Pivotal changes occurred in 1992-93. Leadership emerged in the group. Cooperatives need a strong leader and advocate in their early years. Jim Crawford, Early Morning Farms provided this leadership. The group purchased a used refrigerated trailer (tractor trailer box) and placed it inside of a rented garage to serve as an aggregation hub. Employees were to be self-directed. It became apparent that the facilities and employee performance would not support the long term goals of the farmers. A full time employee was necessary. The group needed a building to aggregate product. Ownership of assets required that the collaboration of farmers become a formalized business. In 1993 the cooperative was formed and Crawford offered space on his farm to construct the building with an office and loading dock to receive and refrigerate produce. Crawford had trucks which could be used to transport product to buyers. Over the next 5 years the number of growers doubled.

In 2013, Tuscarora Organic Growers Cooperative had sales of \$3.3 million. Sales have increased 10 to 15 percent each year. Over a twelve month period they market over 100,000



Sign post at Tuscarora Organic Growers located at New Morning Farm.

cases of product from 44 members and 15 non-members. The average member farms 8 to 10 acres. Originally the cooperative handled 50 products. Today the product list includes 1,200 items from 200 products. Ninety percent of the product offerings are considered “standard stuff.” Size of the packaging builds diversity of the product available to customers. Produce is sold mostly to retailers, restaurants, and to their own members. A Commitment Plan developed by the farmer denotes amount of produce to be delivered to the cooperative. Tuscarora Organic Growers has developed Quality Guidelines which stipulate the quality of product to be delivered to the cooperative. In addition to aggregation, marketing, and distribution of the product from member farmers, members pool purchase of input supplies to receive quantity discounts and hold seasonal trainings where members learn from industry experts or share information with each other. The cooperative is staffed by 4 full time employees. During the harvest season 18 part time employees will be hired, with one-third of them working on the dock and the remainder serving as truck drivers or as a “driver’s helper.”

AGGREGATION

Tuscarora Organic Growers Cooperative does not have a contractual supply agreement with its farmer members. The cooperative sales staff recognizes that customers are not willing to commit to future product purchases. “Buyers want to shop around.” Staff examines the records of previous sales to predict the amount of product needed at any given time during the growing season. They also generate a production history of product delivered by the member to the cooperative. Tuscarora Organic Growers has created a customized database from which to generate these reports. Individual members and co-op staff meet in mid-winter to review the history of products delivered to the cooperative and then build a Commitment Plan for the coming growing season. The plan includes the produce to be grown, the amount to be delivered, and the time of delivery. The Commitment Plan represents a good faith effort on the part of the farmer to deliver the desired product at a designated time period to the cooperative. Product is graded and packed at the farm. Product



Aggregation facility of Tuscarora Organic Growers Cooperative.

“Having one or more conversations with individual farmers is important when developing the Commitment Plan.”

- General Manager, Tuscarora Organic Growers

exceeds industry quality standards as it is graded to the Quality Guidelines established by the cooperative. Farmers located close to the cooperative’s aggregation facility deliver produce twice each week. The majority of members are within 50 miles of the facility. Two

other farms serve as collection centers for farms further away. They provide delivery services to the aggregation facility. Tuscarora Organic Growers Cooperative’s aggregation facility includes over 3,800 sq. ft. with partitions that can be set at 6 different temperatures. The facility also includes 1,800 sq. ft. to store dry goods.

Approximately half of the cooperative's members market all of the produce they grow through the cooperative. Cooperative staff is in constant contact with farmers and buyers during the growing season. They contact farmers to see if they are on target to deliver the product specified in the Commitment Plan. Shortfalls of product can occur. The shortfall can occur because poor weather conditions reduced crop yields or buyers wish to purchase additional product. When a shortfall occurs, co-op staff first contact members whom they understand might fill this need. If the members cannot fill the need they will contact selected non-members who grow to the cooperative's specifications to procure the needed product. At other times, farms may have a surplus product available above the Commitment Plan, which they offer to sell through the cooperative. Farmers cannot automatically deliver surplus product to the cooperative. They must contact the organization's sales staff in advance to see if there is a market for the produce. The staff will work aggressively to find a buyer for the product and notify the farmer to deliver the product once they know it can be sold.

Customer demand for product during the early years of the cooperative exceeded supply. The organization sought to expand its membership base. Ten years following its organization supply and demand reached equilibrium and less emphasis was placed on recruiting new members. Presently the cooperative brings in 2 to 4 new members each year. Prior to acceptance the potential member must complete a Commitment Plan and grow product for one year to the specifications of the plan. The plan and subsequent performance will be reviewed by staff and the board of directors. If the potential member provides satisfactory performance based on the Commitment Plan, (s)he will be offered a membership to the cooperative. The average grower has 8 to 10 acres in production with smaller growers having 2 to 6 acres and the largest growers having 70 to 300 acres. Each member predicts that they will have small growth from year to year. The over-riding strategy of the cooperative is that a broad variety of product will be available over long periods of time. Small quantities of new products will be grown to meet the culinary innovations desired by the chefs and consumer demands through food cooperatives. More "new" product will be grown as increased demand is identified and the farmers gain experience in producing the crop.

When the product is delivered to Tuscarora Organic Growers, it is inspected for quality. Source identity is maintained for tracking purposes. Each case will include the name of the farm and the name of the certifying organization. The case is assigned a lot number that includes the date of harvest and date of delivery. Root crops lot numbers include the date it was packed at the farm (not harvested) and the day it was delivered.

Peak sales activity occurs during the harvest season. Farmers have adopted season extension technologies to expand the growing and harvest season. The cooperative has expanded its offerings to include grapes, mushrooms, and eggs from member farms. Outside of the growing season, Tuscarora Organic Growers Cooperative maintains its presence in the market place, by purchasing organic citrus fruit from organic growers located in Florida.

MARKETING

Individual farmers had established relationships with restaurant chefs and stores before the cooperative was organized. These chefs cared about organically grown food and wanted to buy from local farmers. This culture continues today. The cooperative encourages visits by potential customers to visit the cooperative and member farms and hosts annual farm tours. When trends indicate that new product may be desired or when customers express a desire for new products, Tuscarora Organic Growers Cooperative will contact members to learn if they are currently growing the product or if there is interest in growing the product. A small amount of product will be grown and offered to prospective buyers along with recipes using the product. The Tuscarora Organic Growers leadership team has noted that “the public is more curious in the foods they eat. They want to try new things.”

“We have a very aggressive staff on the phone to make sure product is sold and that product is delivered.” – General Manager, Tuscarora Organic Growers

Original market channels served by Tuscarora Organic Growers included restaurants and stores in the Baltimore-Washington, D.C. area. The cooperative continues to sell within these channels and sells to wholesalers and chain stores. The organization’s market niche is small scale customers who would normally purchase product from a large distributor with an organic line. The cooperative does not sell pallet quantities for the most part. The scale of operations of Tuscarora Organic Growers is aligned and similar to the scale of business of their customers. The cooperative can be more attuned to meeting the expectations of the buyer. The cooperative’s success is based on slow incremental growth with knowledge developed on small scale experience before growing to a large scale. Demand for locally-sourced products has increased along with the competition from businesses focused on meeting this demand. The cooperative’s competitive advantage in the marketplace is based on its reputation to consistently provide high quality produce. Each case sold is labeled with the grower’s name and the cooperative’s label. When marketing produce, Tuscarora Organic Growers Cooperative does not differentiate the product of one farm from another nor does it segregate product from one farm to be delivered to a specific customer. The cooperative does not brand the grower’s name intentionally.

Tuscarora Organic Growers Cooperative serves as a wholesale outlet to its members. On average, the cooperative pays approximately 40 percent of what the current retail price is for any given product. Retail buyers account for 45 percent of the product sold and restaurants another 45 percent. Approximately 20 percent of the members purchase product from the cooperative accounting for 10 percent of gross sales. The culture of the organization is that if a product is needed by a member and can be sourced from another member, the transaction will move

“Nothing is set in stone in the market place. We are now established and have the flexibility to move from market channel to another. Because of the quality of the product, it really sells itself.”
- General Manager, Tuscarora Organic Growers

through the cooperative, not circumvent the cooperative. Members will not compete against the cooperative for the same customer.

Approximately 50 percent of members market 100 percent of their product through the cooperative. The remaining members have established outlets for their product separate from the cooperative. Farmers are paid through pool pricing. Similar vegetables from each grower will be ‘pooled’ or commingled, marketed, and sold together. The members share of the pool proceeds is determined by the volume of product contributed and can be adjusted to reflect a premium or discount to account for quality differences. Each producer who participates in the pool is paid approximately 70 to 75 percent of the pooled price. The remaining 25 to 30 percent covers the costs of running the cooperative.

DISTRIBUTION

Cooperative staff schedules delivery and transportation of the product to the location desired by the buyer in the Baltimore-Washington, D.C. area. Six box trucks are available to move the product from the Hustontown aggregation facility to the Baltimore-Washington, D.C. area. The cooperative does not own any trucks to transport product. From its inception, Tuscarora Organic Growers Cooperative President and Early Morning Farm owner, Jim Crawford provided trucks for the cooperative to transport produce on a contracted rate per mile. The cooperative hires the drivers and the driver’s ‘helper’. The number of customers has increased to a point where the truck fleet does not have the capacity to make the necessary deliveries in a timely manner. To overcome this barrier product moves on the box trucks to the Baltimore-Washington, D.C. area where it is off-loaded to ‘jobbers’ contracted by the cooperative to make the deliveries.

COOPERATIVE GOVERNANCE

Tuscarora Organic Growers Cooperative has 9 persons serve on the board of directors. Officers include President, Vice President, and Secretary/Treasurer. There are no standing committees and ad hoc committees are rarely formed. As membership increased the number of directors increased from 7 to 9 persons. The board trusts the staff to manage the cooperative and staff identifies needs of the cooperative to the board. The board of directors is an “important source for overall planning” and makes all of the major decisions. There is a \$100 membership fee to join the cooperative. The purpose of the cooperative is to provide a wholesale market channel to its members at cost. Any profit realized by the cooperative is retained in allocated equity. There is no unallocated equity. Patronage has been returned to member 3 times since the inception of the cooperative. When it was returned it was through a qualified allocation.

“Farmers should farm. Managers should manage. When you decide to own assets, it’s time for an organized business.”

- Board Chairman, Tuscarora Organic Growers

Slow incremental growth has been the key to success of the cooperative. Changes are small and incremental, practiced and perfected before going to the necessary scale. A key question asked by the board of directors when making a decision is, “What is the simplest thing we can do to accomplish the goal?” Good management is important to success. The management team brings recommendations for change to the board. When members bring product to the aggregation facility they become aware of needed infrastructure and facilities changes. The board of directors will decide whether or not the cooperative should purchase an asset or contract for services.

Good management hired by the board of directors is important. Early on the cooperative recognized that they should hire staff to manage the cooperative. The observation of the early organizers was that ‘managers should manage’ so ‘farmers can farm.’ The cooperative has had 3 managers since its inception. The board of directors has found that the person serving as the general manager should be aligned with the vision and goals of the cooperative board. Cooperative staff need to be aggressive in selling the product to customers and assertive with members to meet the obligations of the Commitment Plan. The staff has developed a robust record keeping system that has enabled them to predict the supply and demand of produce during the growing season.

KEYS TO SUCCESS

Tuscarora Organic Growers Cooperative has between 10 to 15 percent growth each year since the original 3 growers decided to work together. Chris Fullerton was hired by the board of directors shortly after the cooperative was formed. He embraced the vision of the board and developed an implementation strategy to expand the number of members and buyers. There are several reasons for the success of the Tuscarora Organic Growers Cooperative. Minimal risk through slow incremental growth is key. The culture of the organization is to identify “the simplest thing you can do to accomplish the goal. Everything should be done on a small scale first to gain experience and if successful, then scale up.” A reputation of providing high quality product in the marketplace is critical and will make the business a preferred supplier and achieve higher price points. Aggregation, marketing and distribution are chaotic during the harvest season. Production coordination is critical. A Commitment Plan stating week that product will be expected for delivery along with the week that delivery will stop brings some order to the chaos. Good recordkeeping is important to build predictability. Hire staff and trust them to manage the day to day operations of the business. Recognize when it is time to hire additional staff and build a team with skills complementary to one another. Efficiencies within the system can be achieved by utilizing existing resources and expertise, in the case of contracting with a farmer with excess trucking capacity and trucking companies that can make timely deliveries in a specific sales area.

To learn more about Tuscarora Organic Growers, see the following website:

<http://www.tog.coop/>