

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 Upstate New York Growers & Packers.

UPSTATE NEW YORK GROWERS & PACKERS

Upstate New York Growers & Packers is a cooperative business located in Central New York State in Oriskany, NY, approximately 40 miles east of Syracuse. The cooperative was formed in 2004 as a mechanism to develop value-added products utilizing raw produce from member farms and to aggregate products to access large retail outlets. The cooperative is owned by 18 members who provide a variety of organic and conventionally grown vegetables and fruit during the growing season to wholesale and retail outlets. Other products available from the cooperative include gourds, honey, and hops. The cooperative has value-added products available including bakery products, vegetable soup, fresh and Moon Brine pickles made from product grown by its members. The majority of produce is sold to local buyers within 300 miles of the Oriskany aggregation facility. All members have adopted minimum USDA food safety standards. Most members practice Harmonized Good Agricultural Practices and will move to Global Food Safety Initiative (GFSI) standards. The cooperative serves as a wholesale market channel for its members. Members are not required to sell all of the produce they grow through the cooperative.



Upstate New York Growers and Packers Oriskany, NY

BACKGROUND

Early organization efforts of a cooperative usually fall to one or two persons who will ‘champion’ the project to secure a membership base and organize the business. Originally UNYG&P was to be an organization for Oneida County farmers. As a result of a request made by a local farmer and county legislator, Cornell University Cooperative Extension, Oneida County secured grant funding through the NYS Department of Agriculture and Markets to form the cooperative. The cooperative was formally organized in 1 year. The 12 original producers were located within 20 to 30 miles of one another. The cooperative was formed to provide small- and mid-size farms the ability to achieve economies of scale in the marketplace to sell fresh fruits and vegetables and develop and sell branded cooperative products. The cooperative partnered with Nelson Farms, a value-added, food processing incubator to develop a vegetable soup and the Golden Butternut cookie from raw ingredients sourced from member farms. The cooperative also secured grant funding to develop a wash and packing line for green and yellow beans.



Upstate New York Growers and Packers logo.

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Upstate New York Growers and Packers is a ‘farmer-owned, statewide marketing cooperative selling all grades of produce from all sizes of farms to all types of wholesale and retail buyers.’ The cooperative contracts with a local wholesaler, who serves as the general manager and is responsible for aggregation, marketing, and distribution of member produce. Membership has increased from 12 to 18 growers located from Albany, NY to Buffalo, NY within 50 miles of Interstate 90 (NYS Thruway). Member farms average between 50 and 500 acres. Some farms have increased in size to accommodate next generation family owners. Members have the capacity to expand production when they are confident that the cooperative can market the product at a price point that will provide an acceptable margin. In 2013 the cooperative shipped over 45,800 packages.

Most of the organization’s members are multi-generation farm businesses with standing buy-sell relationships with local buyers prior to the formation of the cooperative. The culture of the organization is that the cooperative will not compete against an individual member for the same account. The purpose of the cooperative is to serve as a wholesale market channel for its members, secure access to customers not currently served by members, build economies of scale to serve new customers, and develop value-added products sourced from member’s raw ingredients. The cooperative has had interest in and development of value-added products since its inception.

AGGREGATION

There is no formal supply or marketing contract between the member and the cooperative. Farmers receive a supply template in January-February of each year with the request to list the crops or products to be sold through the cooperative, approximate availability dates, crop/product capacity, crop/product package (amount and type) and the estimated

“Managing expectations of the farmer is critical to maintain the relationship between the cooperative and its members.”

-General Manager, Upstate New York Growers & Packers

wholesale asking price. Farmers return these forms in April. The forms are then tabulated to estimate what product will be available for delivery and when delivery can be expected. The actual product delivered may or may not be the same as the earlier estimate. Differences are

influenced by weather conditions that impact the quantity and quality of the product available and market prices. Members are not obligated to sell product through the cooperative if they can receive a higher price elsewhere. Ninety-five percent of the product handled by the cooperative is sourced from member farms. Most of these farms are within 40 to 60 miles of the aggregation facility with the furthest 220 miles away. Each grower is located in a micro-climate, which influences the growth and harvest of the produce. The micro-climates expand the season, level supply of product available, and reduce risks to the cooperative for crop loss from extreme weather events.



Packing equipment stored at George's Farm Products, Inc. Oriskany, NY

Product sold through the cooperative is sourced from current members, new members and non-members. “Managing expectations” of the farmer is critical to maintain the relationship between the cooperative and its members. Net price quotes are provided on a daily basis. Based on the supply template, management contacts growers and shares the expected price that day. The farmer then chooses whether (s)he will sell. When demand for product exceeds anticipated supply, management will consider which growers planned delivery of the product, which growers may have surplus available, which growers ‘need the business’, and the price point that the grower might be willing to accept. Upstate New York Growers & Packers is open to accepting new members. To be a member, a farmer should grow product lucrative to sell and, or product that will diversify the product line currently offered by the cooperative. A new member may have additional skills and experience (e.g. public relations, accounting, marketing) useful to the cooperative and should be enthusiastic about the cooperative business model. If member farms are unable to fill the demand, product will be sourced from non-member farms, many located within 100 miles of the Oriskany aggregation facility. Approximately 2 percent of the product is sourced from Ontario, Canada. Product is graded and packaged at the farm to industry standards. When it arrives at the aggregation facility it is inspected and when accepted is given a

sticker with a lot number. Upstate New York Growers and Packers services two large retail accounts. Product for the large retail accounts is brought to the Oriskany aggregation center where it is repackaged to customer specifications. If members have surplus product available they have the option to sell the product through the cooperative. They contact the cooperative manager to receive a price quote and then make the decision to sell.

MARKETING

Primary customers of the cooperative are wholesalers, national retailers, and food banks. Demand inside each of these channels has broadened and the cooperative works to aggregate sufficient product to meet the demand. When members complete the supply templates in early

When entering a market channel or a new customer the board of directors asks, "What are the margins? How soon will we be paid? Can we get the desired price? Do we have the experience to grow the product? Can we do this well?" – President, Upstate New York Growers & Packers

April, they indicate the price range in which they are willing to sell. Product pricing is based on the supply and demand in the marketplace. Prices paid for product in the Northeast are mostly influenced by prices paid in New Jersey and Pennsylvania as product from those locations comes to market two to three weeks in advance of produce in New York

State. Prices are also influenced by product from the Ontario, Canada greenhouse industry. Management contacts the member and quotes a net price on a daily basis. The farmer then makes the decision to sell or not sell the product through the cooperative. A 10 percent fee is attached to the sale price of each package with half to pay the manager for marketing and handling the product and half returned to the cooperative.

Organized as a Sub Chapter T cooperative, the law allows the opportunity for members to talk openly about trends and prices they see in the industry from both production and market perspectives. The growers and cooperative management have access to price quotation services and trade magazines from which to base decisions on how they can achieve the best price in the marketplace. The board and management consider the price point, the margin on the product, time of payment, interest and experience in growing and handling the product, and the logistics in product delivery when making decisions to enter or exit a market channel or develop and maintain a relationship with a new or existing customer. Success is measured through year to year growth and appropriate margins. Ultimately the cooperative asks, "Can we do this well?"

Buyers' expectations influence the actions of the cooperative and its individual members. Historically growers planted with the expectation of 10 to 15 percent product surplus, which may never have been harvested. The surplus was a hedge against a poor growing season. This 'surplus' may or may not have been desired by produce buyers. In some cases buyers made promises to purchase product before or during the planting season. Many times these promises did not come to fruition. Today, growing produce is expensive and farmers "no longer get excited about the retail promise that does not come to pass." The cooperative has been successful in securing several larger accounts that now "absorb the surplus." The mindset of the

growers has changed. They continue to grow the “surplus” but grow it based on the needs and expectations of these larger buyers.

Upstate New York Growers and Packers has noticed and benefited from large retailers interested in tapping into the local food movement. The cooperative was approached by C. H. Robinson, a company that manages supply chains and coordinates and tracks shipments between clients such as Upstate NY Growers & Packers and client’s customers such as BJ’s Wholesale Clubs interested in acquiring locally sourced products. Produce is brought to the Oriskany aggregation facility where it is repacked into co-op branded packaging to the retailer’s specifications and then transported to the buyer’s warehouse. A grower whose product is repacked receives a pooled price. Similar fruits and vegetables from each grower will be ‘pooled’ or commingled, marketed, and sold together over a specified time. 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. The members of the cooperative readily admit that as individuals they did not have the size and scale necessary to serve these accounts.

Growers in Upstate New York (outside of New York City) see tremendous opportunities to serve an increasing demand by New York City residents (Downstate) for locally grown products. GrowNYC , a non-profit wholesale operation, located in Long Island City, NY has engaged in several efforts to forge relationships between Upstate growers and Downstate consumers. GrowNYC opened the Wholesale Greenmarket on the Hunts Point Peninsula in 2013 and provides an opportunity for the members of Upstate NY Growers and Packers to provide product to NYC buyers. Food cooperatives and cooperatives formed by restaurant owners interested in procuring locally grown products provide new marketing opportunities for Upstate New York Growers and Packers.

The cooperative developed value-added products which include the Golden Butternut Squash cookie and vegetable soup. The cookie includes squash, applesauce, and honey sourced from member farms. The applesauce is produced at a member farm and squash is pureed at a company located in the Hudson Valley. The cookie was developed to be used in school food service. The cookie’s product content meets standards that allow the cookie to be classified as either a vegetable or a fruit. The recipe was perfected to reduce the number of food additives found in bakery products. One local school regularly purchases the cookie made by a bakery located in New York City. The cooperative introduced the cookie to a local grocery store chain. The chain chose not to stock the cookie. The cooperative faces two challenges. Neither the cookie nor the vegetable soup can be produced and sold at a price affordable to school food service. The investment in research and development of value-added products is high. The retail grocery store was interested in a product line rather than a single product. As a result sales of value-added products have been limited.

Slow incremental growth and matching the capacity of the cooperative with the needs of the buyer is important. Aggregating product for members builds sufficient quantity to fill niche

markets of various buyers at a price point appropriate for the farmer, the buyer, and the cooperative.

DISTRIBUTION

Upstate New York Growers and Packers own no warehouse facilities or truck fleet. The overhead charged to each package delivered to the Oriskany aggregation center (owned by the cooperative manager) pays for the cost of handling the product, warehouse storage, and repacking when necessary. The manager makes phone calls to sell produce to buyers and buy produce from member-growers. Product is scheduled for delivery to the aggregation center and local trucking companies are contacted to secure a truck to deliver the product to the designated buyer. Most of the product from the member farms is delivered to the Oriskany aggregation center. In some cases farms further from the aggregation center may share a truck to make the delivery to the center. In other circumstances farms with the desired quality, quantity, and packing capacity located closer to the buyer than the aggregation center will deliver directly to the buyer. Transportation costs are minimized as cooperative product will be loaded on the truck with produce from the manager's wholesale business.

Distribution can impact product quality. For example, sweet corn was picked and delivered to the aggregation facility. It was repacked, sold and transported to the buyer's warehouse, put on another truck and returned to the retail outlet for sale located near the original grower. The quality of the sweet corn had visibly deteriorated. The grower was embarrassed and upset to see the product branded with the Upstate New York Growers and Packers logo in a local store. Logistic changes were made to allow the product to move directly from the aggregation facility to nearby stores rather than pass through the buyer's warehouse. Product quality to the end user has improved.

COOPERATIVE GOVERNANCE

Upstate New York Growers and Packers has seven people who serve on their board of directors. The board officers include a President, Vice President, Secretary and Treasurer. There are no standing committees. Each member owns one share of stock valued at \$200. The cooperative is in its early stages of its life cycle. Sources of revenue for the cooperative include per unit retains of the product handled and grant funding. The board of directors has not paid any patronage refunds to the members nor has it revolved or expects to revolve any equity for the foreseeable future. One of the principle responsibilities of the board of directors is to hire a general manager for the cooperative. Several persons have served as general manager with most of the salary of the position paid through grant funds. The board of directors was dissatisfied with the performance of most of their general managers. They recognized that compensating a full time general manager through grant funding was not sustainable. They

"One can quickly become addicted to grants. There are consequences when the wrong people are hired and the board does not provide the necessary oversight." – President, Upstate New York Growers & Packers

recognized that the cooperative needed a professional manager with expertise in food wholesaling, preferably produce marketing and distribution. As a result the cooperative contracted with a local fresh market wholesale distributor to aggregate product when required, repack the product when necessary, and manage distribution logistics. This has proven to be a good solution for the cooperative to access expertise and facilities.

One of the goals of Upstate New York Growers and Packers was to develop value-added products from ingredients sourced from the members. The members hold several assumptions concerning value-added products. One assumption is that a formalized business structure would secure outside funds for development of new products utilizing raw ingredients from member farms. A second assumption is that a formalized organization would have the capacity to quickly respond to opportunities that might present themselves. The cooperative was successful in

“There has been evolution but no revolution. We have sold to large retail buyers because of the co-op. Everyone has gotten some benefit from the co-op. It is slightly different for each member and their circumstances.” – President, Upstate New York Growers & Packers

sourcing grant funds for green bean washing and packing infrastructure. Research and development to add value to a raw product can be costly and time consuming. Significant time can be invested before a new product and product lines are ready to market. Value-added products provide both challenges and

opportunities. The cookie and soup products are costly to manufacture. The product is only available in upscale markets. Upscale markets are interested in these products but prefer to carry a product line rather than a single product. A product line has not been developed.

The President noted that there has been “evolution but no revolution.” The members are not bound to sell all of their produce through the cooperative. Many of the members had long standing relations with local retail outlets prior to the formation of and membership to the cooperative. The culture of the membership is that the cooperative will not compete with the members’ sales accounts. This has forced the cooperative to seek out buyers further from the aggregation facility.

KEYS TO SUCCESS

Several reasons have led to the success of Upstate New York Growers & Packers to date. The supply template provides an estimated tabulation of the amount of product that will be available at a given price along with an indication of what the grower expects to be paid. Matching the capacity of the members to supply product with the demand of the buyers through slow incremental growth strengthens relationships between members and the cooperative and the cooperative and its customers. Aggregation of product from individual farmers cooperatively allows them to access larger buyers whom they could not have served individually. Good communication and price transparency is critical to “manage expectations” on the part of the farmers and buyers. Good communication strengthens relationships within each supply channel. Efficiencies within the system can be built by utilizing existing resources and expertise, in the

case of hiring a local wholesaler to serve as the general manager to coordinate the aggregation and marketing efforts on behalf of the cooperative and to coordinate the logistics of distribution.

For more information about Upstate New York Growers & Packers Cooperative, visit the following website: <http://www.unygap.com/>