



PILOT MOUNTAIN PRIDE FORGES LINKS BETWEEN GROWERS AND BUYERS

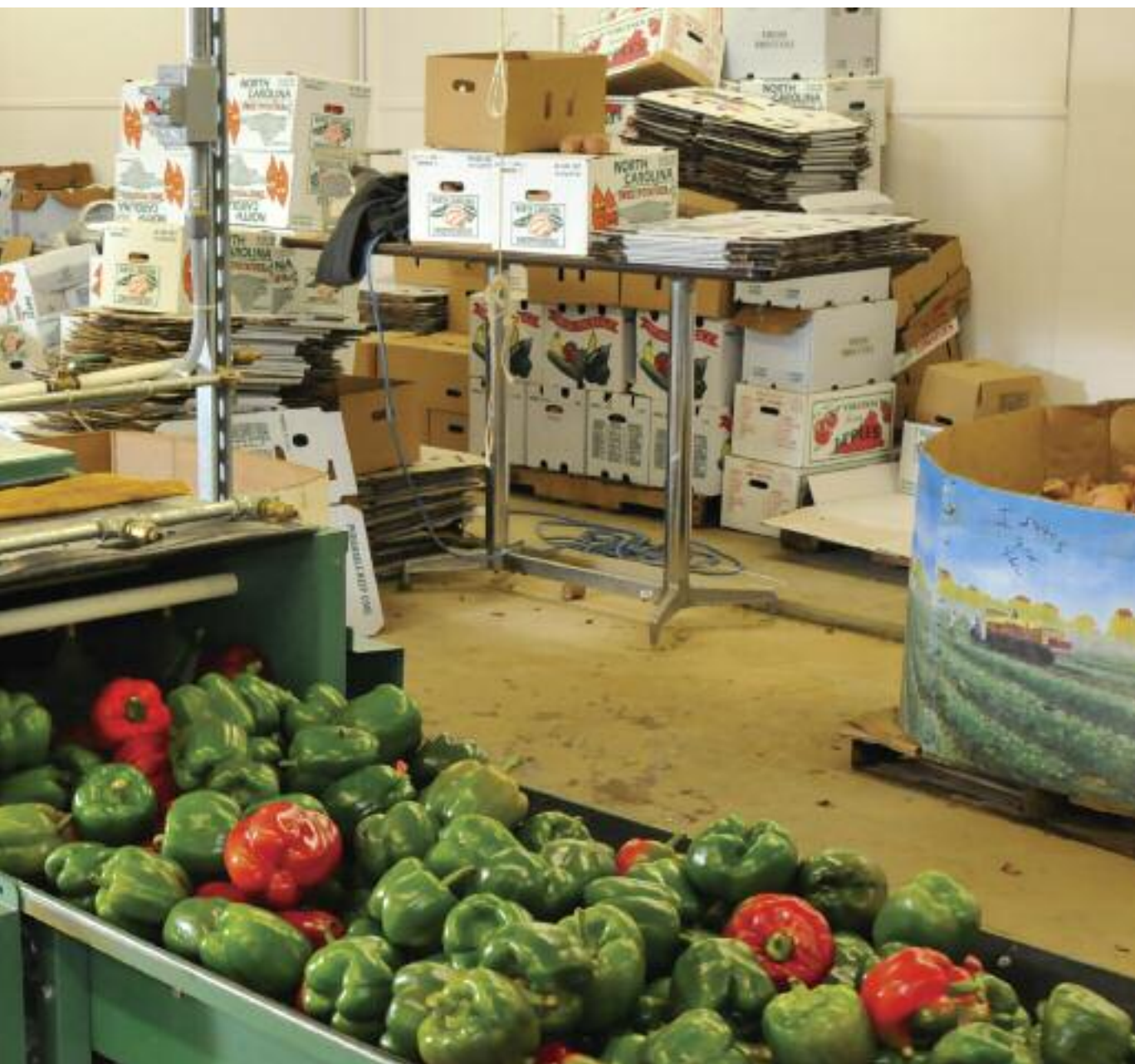
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Pilot Mountain Pride (PMP), in Pilot Mountain, N.C., was launched in the summer of 2010 to help small- to medium-sized family produce farmers gain access to retail, service and institutional markets in the Winston-Salem area. Many of the farmers involved with the co-op (organized as a producer-run limited liability company, or LLC) are former tobacco farmers who have suffered economically from the decline in the

tobacco industry. PMP is helping them to transition from tobacco into other crops and meet the burgeoning demand for more local foods.

Poor infrastructure for local distribution of high-value specialty crops, including vegetables and fruit, has long created marketing challenges for farmers in Surry County and the surrounding area. For many years, Surry County officials worked with producers to develop local “tailgate markets,” small-scale farmers markets where there are no middlemen and the farmer sells his or her own produce. While these efforts met with some success, the unknown number of buyers at any given sale made this a less-than-



This former North Carolina hosiery factory has been converted into the Pilot Mountain Agricultural Center. Initial sales have been much better than expected, but finding a market for slightly off-grade produce has been a challenge for Pilot Mountain Pride. USDA photo by Bob Nichols

optimal business practice, especially for more commercial, medium-sized producers.

Today, the Pilot Mountain Pride network is connecting producers to a wide variety of end users in the region, including hospitals, restaurants and supermarkets. These buyers are benefiting from consistent delivery, better prices and certified safe handling while producers realize improved income.

Pilot Mountain's roots

Pilot Mountain Pride is a limited liability company owned by Surry County's nonprofit Economic Development Foundation. It was designed to play a

role in the local foods movement in the Winston-Salem region by linking local producers with end consumers by providing them with an aggregation center to ready their produce for market.

In 2006, North Carolina's Small Towns Economic Prosperity Program identified a need for a community agriculture center in the area to help producers. The idea for an ag center eventually grew into the Pilot Mountain Pride business model.

Surry County subsequently secured a location — the old Amos and Smith Hosiery Mill building at 612 East Main Street. Funding was received through a variety of state and county programs to help with the

purchase, building renovations and needed equipment. The 6,000-square-foot facility is now known as the Pilot Agricultural Center. USDA Rural Development was one of the agencies supporting the project, providing Pilot Mountain Pride with a 2010 Rural Business Enterprise Grant for a refrigerated truck to deliver the produce throughout the region.

PMP's goals are to:

- Increase sales and economic opportunity for area growers of specialty crops;
- Provide farmers with crucial training and education in post-harvest handling of their crops, including grading, packaging and distribution while increasing the long-term viability of their family farms, and
- Raise awareness of local foods in the greater community

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Market for 'seconds' proves elusive to date

Rural Cooperatives interviewed Chris Knopf, Surry County Assistant Manager for Economic Development and Tourism, to learn more about Pilot Mountain Pride. Knopf, along with Surry County Cooperative Extension Director Bryan Cave, worked to get the Pilot Mountain Pride business up and running. Knopf developed the grant proposals that helped provide seed funding for the project.

Q. What has been the biggest challenge facing PMP? Biggest obstacle overcome?

A. Keeping the cost of operating PMP within the 20 percent it retains for operations. Packaging has been the biggest obstacle to overcome. Costs last year were 250 percent higher than estimated.

Q. What do you consider to be the greatest strength and weakness of the PMP business model?

A. The biggest strength is providing an outlet for family farms to sell local produce where they are not burdened with marketing their products or acquiring the necessary infrastructure to wash and grade their produce. Also, PMP has provided its farmers with GAP (Good Agricultural Practices) training. Its biggest weakness has been finding markets for "seconds" — produce that is slightly irregular in shape or appearance but will be rejected by grocery outlets purely on physical characteristics.

Q. Has your marketing strategy evolved or changed? Any major additions or changes at the plant?

A. Marketing last year revolved around brand awareness utilizing print media, radio, Internet and television. This year it is focusing on advertising at locations where the product is being sold or consumed.

Q. What do your members want and expect from PMP?

A. They expect PMP to find markets for their produce. However, they understand that they also need to develop other markets as well to protect themselves.

Q. Is the recession affecting PMP growers? If so, is it able to make any special efforts to help in such tough times?

A. Not especially, other than that growers have not been able to develop their secondary markets as well as first hoped, due to the economy.

Q. Do you have any long-term plans to expand into new markets?

A. PMP desires to access more of the institutional markets, such as universities and hospitals.

Q. How many fulltime employees do you have?

A. One full-time, three part-time.

Q. What are your plans for the future for the company?

A. To have sustainable growth in markets, growers and produce volume.

Q. Tell us about the commitment the PMP has made to the community. How much overall impact does the PMP have on the area's economy?

A. PMP has brought enormous attention to both the town and the county. More attention to the concept of buying local has emerged due to PMP's existence, which benefits small businesses across the board in our area.

Q. Has PMP produce won any awards and, if so, do these awards help influence sales?

A. No awards, but it has received a great deal of positive press over the past 13 months. PMP has been the recipient of grants from eight different business organizations or local, state and federal governments. ■

Hogs on the Range

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meal, in its pork. From birth, hogs must never receive antibiotics, a stricter standard than pork labeled “natural,” which permits no antibiotics 30 days prior to slaughter. Hogs must have continuous outdoor access, wallows, shaded areas and corn stalks for bedding.

Other rules pertain to how hogs are unloaded at the packing plant, which can be problematic when dealing with hogs that have never seen a concrete floor. Experienced cooperative members share information on standards and how to meet them, especially with new members with less experience in pasture-based hog production.

Manager coordinates efforts

The cooperative’s management is carried out by Jones, NC NHGA’s president, who acts as coordinator between growers, the packing plant and buyers. It can be a monumental task

pulling together enough hogs from among the membership that meet the weight ranges demanded by buyers. Smaller growers, for example, may have only a few hogs in the weight range ready for slaughter in a given week.

Jones contacts other board members occasionally if problems arise. His wife, Jessica, does the billing for growers and is paid for her time. There are no other paid employees. At this time, there are no plans to hire a part-time manager, although the topic has been discussed.

The current fee of \$1 per head, plus \$250 per member per year, may not be sufficient to cover the cost of employing a manager. If the day comes when a part-time manager is hired, Jones says the co-op will need someone who knows the industry to help ensure the cooperative’s continued viability.

Since the membership is scattered over six counties, holding member meetings can be difficult. Even so, until recently there have been monthly meetings held in conjunction with the Niche Pork Grower School session held at Duplin County Extension office. Members vote on accepting new buyers

and other cooperative issues. Some have been turned away because they appear more likely to be short-term buyers.

The co-op’s future

Jones foresees an expanding market for the cooperative’s pork, with little effort needed from the cooperative to obtain new buyers. He thinks the additional hogs needed to meet increasing demand will come from existing members who will increase their operations, as opposed to adding new members to the cooperative.

Only five new members have been added to the co-op during the past two years. New members will always be welcome, Jones says, if they are willing to work hard to meet the demanding standards of pasture-based hog production.

***Author’s note:** The author wishes to thank Bruce Pleasant, director of Business and Cooperative Programs, USDA Rural Development/North Carolina, and Michelle Eley, Ph.D., North Carolina Agricultural and Technical Cooperative Extension Program for their input to this article. ■*

Pilot Mountain Pride

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and increase market share of locally grown goods in the region.

The program is open to farms in the greater Winston-Salem area. Pilot Mountain Pride gives 80 percent of its revenue back to farmers. The other 20 percent goes to supplies, labor and other costs.

GAP training required

An important part of the PMP project is that, to participate, all growers must receive Good Agricultural Practices (GAP) training on food safety handling and harvesting techniques. This training gives growers logical guidance in implementing best management practices that will help to reduce the risks of microbial contamination of fruits and vegetables.

GAP training includes worker hygiene and health, proper use of manure and protecting water quality throughout the production and harvesting process. Growers, packers and shippers are urged to take a proactive role in minimizing food safety hazards potentially associated with fresh produce.

Being aware of, and addressing, the common risk factors outlined in the GAP training results in a more effective, cohesive response to emerging concerns about the microbial safety of fresh fruits and vegetables. Furthermore, PMP growers also encourage the adoption of safe practices by their partners along the farm-to-table food chain. This includes distributors, exporters, importers, retailers, producer transporters, food service operators and consumers.

Early returns encouraging

PMP managers initially expected sales last year of around \$30,000 to \$50,000, but sales dramatically exceeded expectations after PMP partnered with Lowes to sell members’ local produce. That deal resulted in gross sales of about \$250,000 in 2010. Sales for this season are ongoing, but the “buy local food” movement seems to be going strong in the greater Winston-Salem area, thanks in big part to Pilot Mountain Pride.

“This is a new beginning,” Pilot Mountain Mayor Earl Sheppard said of PMP. “I’m excited because I’m a farmer. This is going to be a new beginning for our young farmers.”

To learn more about Pilot Mountain Pride, visit: <http://pilotmountainpride.com>, call (336) 444-8000 or e-mail sales@pilotmountainpride.com. ■



Food co-op's warehouse/distribution division a key cog in developing regional food system

By Adam Diamond

Editor's note: Adam Diamond is an agricultural marketing specialist with the Marketing Services Division of the USDA Agricultural Marketing Service. This article is adapted from a larger forthcoming report on the challenges and opportunities facing local and regional food distributors. For a copy, contact the author at: adam.diamond@usda.gov.



The Wedge Community Cooperative opened in 1974 in Minneapolis as a small store operating out of a basement apartment. Today, one move and three expansions later, the Wedge has 14,000-plus members and more than \$40 million in annual sales from its retail store, from Co-op Partners Warehouse (CPW) — its distribution arm — and

from Gardens of Eagen Farm, an organic farm on the outskirts of the Twin Cities. The farm was purchased in 2006 by the Wedge and now supplies \$600,000 worth of produce to the store every year.

The Wedge is one of the highest grossing consumer cooperatives in the country. CPW, one of the only cooperative food distributors in the country, serves the Wedge and dozens of other retail outlets throughout a five-state region in the Upper Midwest.

Warehouse goal: better quality produce

Co-op Partners Warehouse was started in 1999 as a way to obtain better produce for the Wedge and, in so doing, to give the co-op a competitive leg up on its competitors. For several years, CPW primarily served as the Wedge's "back office,"

providing co-op members access to a greater variety of products than would be the case if the Wedge's retail operation had to physically store its entire product inventory.

As CPW developed and more warehouse staff was hired, the Wedge leased two refrigerated trucks and started making deliveries to other cooperative groceries in the area. However, even after four years of operation, 80 percent of the warehouse's sales were being made to the Wedge; overall sales were fairly stagnant.



In addition to its retail food store (facing page), the Wedge Community Cooperative also operates Co-op Partners Warehouse, a wholly owned subsidiary that supplies the Wedge and dozens of other retail outlets in the Upper Midwest. All photos courtesy The Wedge

Starting in 2005, a combination of key personnel changes, favorable market conditions and new infrastructure investments contributed to rapid sales growth, helping CPW become a significant catalyst for the development of a regional food system. A key turning point was the purchase, in July 2005, of a worker-owned organic distributor in Minneapolis that had been the primary source of organic produce for food stores in the area by a large (non-cooperative) national organic food distributor.

In the wake of that co-op buyout, many customers switched to CPW for their organic produce. CPW also picked up some skilled staff members who left the co-op after the buyout. This influx of experienced personnel helped professionalize what had been a fairly informal operation at CPW. These new employees drew on their skills and industry relationships to bring new business to the firm.

In the next three months, business at CPW increased by 60 percent. This meteoric sales growth meant that more warehouse space would be needed before long.

CPW management discussed different options with its

landlord and with Wedge management. It was decided in late 2005 to triple warehouse space to 45,000 square feet. While the 30,000 additional square feet was more space than needed to handle CPW's immediate needs, the rental rates were low enough to make it affordable. It made sense to secure this additional space to allow for future growth.

Expanding the warehouse allowed CPW to vastly increase its ability to serve farmers in the region and to increase its customer base far beyond the Wedge. Sales were \$2 million in 2003, with the Wedge accounting for 80 percent of the total. In 2010, annual sales had climbed to \$17 million, with the Wedge's share being only 23 percent. Sales growth was particularly rapid from the period just prior to expansion and in the next few years afterward, increasing 300 percent from 2004 to 2007, to \$13 million.

Business structure

CPW is a wholly owned subsidiary of the Wedge Cooperative, which, as a retail food cooperative, is owned by its consumer members. Consumer cooperatives, like all cooperatives, are controlled by their members and are obligated to serve them. The Wedge's mission statement says the co-op will:

"...provide a diverse selection of highest quality, fairly-priced products and a deepening understanding of their importance to our members, employees, and community. To achieve this, we will: 1) Earn the loyalty of our member-owners through an ongoing commitment to service; 2) Forge a deepening bond between sustainable local producers and the co-op community; and 3) Build upon cooperative principles and values."

This organizational mission directly supports the development of CPW as a vehicle for providing the kind of food members want and for supporting local agricultural producers and sustainable agriculture. The warehouse manager at CPW reports directly to the Wedge's general manager, and all the other employees of CPW report to the warehouse manager.

CPW has 32 employees, including: 7 drivers, 10 order fillers, 3 buyers, 9 sales associates, 1 bookkeeper, 1 quality-control manager and 1 manager. Profits earned by the cooperative, including the store and the warehouse, range from 1 to 4 percent. Profits are allocated in three ways: one portion is reinvested in the business for maintenance and expansion; another portion is returned as patronage dividends to the 14,000 members of the cooperative; the third portion is distributed to the Wedge's 262 employees as part of a profit-sharing plan that can add as much as \$2 per hour worked during the previous quarter.

The warehouse is self-supporting with operating revenue covering its expenses. It has been able to draw on the Wedge for capital infusions both when it initially started and when it has needed to purchase equipment.

Business operations

The vast majority of CPW's sales come from distributing produce to retail cooperatives. The firm distributes weekly price books to customers, takes orders, makes deliveries and bills customers. It charges customers 16-25 percent above farmgate prices, depending on the perishability of the commodity.

To satisfy year-round customer demand for fresh produce, "in season" the firm buys locally and regionally grown produce from more than 30 farmers in Minnesota, Wisconsin and other parts of the Upper Midwest (when available), but relies on California producers for the bulk of its fresh produce supplies.

Retail grocery cooperatives account for 88 percent of CPW's sales. The remaining 12 percent of sales is accounted for by restaurants, independent natural food retailers, buying clubs, community supported agriculture (CSA) co-ops or associations, and food manufacturers.

Additionally, CPW operates an unusual drop-ship program for farmers and other value-added food producers in Minnesota and Wisconsin. This service allows smaller producers to take advantage of CPW's superior logistical capabilities on a fee-for-service basis. This program preserves producer identity and visibility in supply chains by allowing farmers to handle the sales and marketing aspects of their business transactions, but entrusting CPW to handle the logistics portion of each transaction for a flat delivery fee.

Farmers drop off their products at CPW's St. Paul facility, including a packing list showing what each customer is supposed to receive. CPW then delivers the farmers' product to area stores. Producers pay CPW \$20 for each drop-shipment and invoice the buyers directly.

About 24 producers or value-added food producer companies are currently using the drop-ship program. This program is also helpful for co-op stores that want to buy product from local producers but would rather not have a dozen different trucks coming with small deliveries.

Overall sales for this program are not tracked, because CPW only collects the flat \$20 delivery fee per shipment, and because product volume is only a small fraction of the Warehouse's sales to cooperatives and other retail outlets through traditional distribution operations. Nonetheless, this program demonstrates CPW's commitment to helping local farmers find profitable outlets for their product.

Fair dealing with farmers

CPW is committed to building strong relationships with its producers and ensuring they receive a fair price for their products. As Wedge General Manager Lindy Bannister recently wrote in the store's newsletter:

Dean [the Wedge's produce buyer] and Rick [the buyer for Co-op Partners Warehouse] sign contracts to ensure our farmers receive a fair price for their product and that we have a reliable supply of vegetables and fruit to adorn your tables. Dean and Rick visit the farms,

watch the production methods and get to know the families. As we like to say, "we have smelled the dirt."

In general, CPW aims to set prices that enable farmers to cover their costs and are fairly predictable, with minimal variation throughout the season. Lori Zuidema, CPW's director of business development, clearly articulates how values of fairness to farmers are embedded in CPW's price negotiations with farmers:

"...a lot of people think it's the California market that influences it [prices], but it's more production-cost related.... They [farmers] figure out how much it's going to cost them.... and you know we want their product. We want to be able to present it to our customers. We want them to be in business. We don't want...them to sell to us so cheap that they can't make a living and then they have to fold in two years.... So that's our incentive for paying them a fair price."

Fair pricing becomes not only a point of principle, but also a pragmatic strategy for ensuring a stable supply of high-quality organic produce for CPW and its customers. Dean Schladweiler, the Wedge's produce manager, has made a point of working with small and new organic farmers to help them price competitively and realistically. Sometimes he has actually had to negotiate prices up with farmers because he knew they were underpricing themselves and that they could charge a higher price.

Farmers would tell Schladweiler that they were basing their prices on the California organic price. He would respond that they were not in California, and that they had to consider their own individual production costs and price their merchandise accordingly. His general point of view is that farmers need to be savvy about their market and stand firm on their pricing, otherwise they will not be able to stay in business.

Marketing: serving customers needs

In marketing to retail grocery cooperatives other than the Wedge, CPW emphasizes that it is also a cooperative and that one of the foundational principles of the cooperative movement is "cooperatives helping cooperatives." This emphasis on organizational solidarity with its retail cooperative customers is meant to demonstrate that CPW is committed to its customers' success not only to serve its particular business interests, but also as a means for furthering the cooperative movement in general.

However, recent feedback from customers indicates that cooperative solidarity alone will not determine sourcing decisions for most retail grocery cooperatives. A customer survey conducted by CPW about three years ago showed that product quality was the No. 1 criterion for picking a distributor; price ranked second while product availability ranked third in importance. Purchasing from a locally owned business or a cooperative did not make the list of top five

criteria, even though retail grocery cooperatives constitute CPW's largest group of customers.

With a competitive organic and natural foods sector in the Twin Cities, Co-op Partners Warehouse has worked hard to differentiate itself from its competitors by offering exceptionally strong customer service, reaching above and beyond what other organic and natural food distributors are willing to provide. This has included offering a Sunday delivery service and a "short delivery call" service for in-



CPW has 32 employees.

the same accounts that we're going to."

Co-op Partners has to be pragmatic in pursuing its mission of supplying co-ops and other customers with high-quality organic produce, with an emphasis on local procurement. If CPW insisted on only selling local produce, it simply would not be able to stay in business. Overhead is too high to run a full-service produce distribution operation seasonally, to say nothing about the

"Fair pricing becomes not only a point of principle, but also a pragmatic strategy for ensuring a stable supply of high-quality organic produce for CPW and its customers."

town customers, whereby orders received by 10 a.m. can be delivered that day for no extra charge.

The same-day delivery service was instituted because trucks often arrive late in the day after the price list has already been distributed. Customers can call the next morning, find out which products just came in (including those that weren't on the previous afternoon's supply list), place an order by 10 a.m., and have it delivered by 4 p.m.

Lessons learned:

Service is paramount; co-op solidarity won't keep you in business—For a time, Co-op Partners Warehouse (CPW) management thought just being a cooperative would go a long way towards building customer loyalty. Realizing this was not the case was a tough, but important, lesson. Food cooperatives need to be business savvy and conscious of costs as they compete with specialty food chains and supermarket chains that increasingly stock items such as organic produce and milk, soy milk and tofu that were once the stock-in-trade of food co-ops. Meeting customer needs for good service, competitive prices and high-quality produce has made for a winning combination.

Be pragmatic with local procurement—CPW is strongly committed to supporting small local growers and goes to considerable effort to buy as much produce as possible from small and/or local growers. However, this is often not possible, given the high demand for produce throughout the year. Tom Rodmyre, the warehouse manager, explains:

"Our mission has always been to support small local growers...but because we are pretty much a full-service organic produce warehouse, we have to supplement — there just isn't enough local product to fill the needs of what we are doing.... And then the local farmers themselves....want the direct connection with the people they are selling to; they'll be trying to sell their product to

high level of direct-to-consumer marketing to food cooperatives during the growing season in the upper Midwest that makes it hard for CPW to procure enough local produce for its customers even in season.

Even cooperatives are not going to buy from a cooperative distributor without being assured they are getting good value for their money. Absorbing this lesson and building the business with competitive pricing, unique services (such as Sunday delivery and short-delivery calls), along with a very strong commitment to organic and local food, has made for a winning formula.

CPW has demonstrated its continued commitment to local growers not only by buying their products and distributing them through its sales network, but also providing an extra level of service in the form of its drop-ship program. While not a significant revenue earner for CPW, it earns the organization good will with farmers, saves them the hassle of shipping products to stores, and smoothes relations with its retail store customers, who are relieved from having to deal with multiple trucks clogging up their loading docks.

This is a good example of how small business ventures can reap rewards far beyond their immediate impact on company sales.

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