



# Community Food Enterprise

*Local Success in a Global Marketplace*

*A project of the Wallace Center at Winrock International and  
the Business Alliance for Local Living Economies*



Community Food Enterprise: Local Success in a Global Marketplace

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Wallace Center at Winrock International  
Business Alliance for Local Living Economies

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# **Community Food Enterprise:** *Local Success in a Global Marketplace*

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## Executive Summary

The local food movement is now spreading globally, yet is not well understood. To many, local food is exclusively about proximity, with discriminating consumers demanding higher-quality food grown, caught, processed, cooked, and sold by people they know and trust. But an equally important part of local food is local ownership of food businesses. This report is about the full range of locally owned businesses involved in food, whether they are small or big, whether they are primary producers or manufacturers or retailers, whether their focus is local or global markets. We call these businesses community food enterprises (CFEs).

Some dismiss the recent rise of local food and CFEs as just a passing fad. We see it as the natural consequence of the improving competitiveness of CFEs. Not only are CFEs getting more market savvy, but they are also taking advantage of the growing diseconomies of global food businesses. Long, nonlocal supply chains, for example, are increasingly vulnerable to rising oil prices. It's true that CFEs face special challenges from their modest scale—in leadership, finance, secession, and technology, to name a few—but they are also developing impressive ways of overcoming them.

This report provides a detailed field report on the performance of 24 CFEs, half inside the United States and half international. We show that CFEs represent a huge diversity of legal forms, scales, activities, and designs. From these case studies, we address four questions:

- What strategies are community food enterprises deploying to heighten their competitiveness?
- What are the major challenges facing these enterprises and the ways they are overcoming those challenges?
- How well are these enterprises meeting the triple bottom lines of profit, people, and planet?
- To what extent are successful CFE models capable of being replicated worldwide?

Many economists and economic developers are resolute about helping companies in their jurisdictions “go to scale.” What our case studies reveal is that CFEs actually are “going to scale” but using unusual strategies consistent with their community character. We identified 15 such strategies:

- *Hard Work*—CFE entrepreneurs like Judy Wicks, who for 25 years practically lived in her restaurant, the White Dog Café in Philadelphia, compensate for their limited resources with exceptional industriousness.
- *Innovation*—Lance Nacio, of Anna Marie Seafood in Louisiana, developed an appropriate technology to flash freeze shrimp onboard his fishing vessel and deliver an exceptionally fresh product. Sylvia Banda, founder of

Sylva Professional Catering Services Limited and the impresario of local food in Zambia, invented and now manufactures for local farmers the Sylva Solar Food Dryer.

- *Local Delivery*—The Oklahoma Food Cooperative is showing how, through an Internet-based distribution system, fresh food can be delivered regionally at roughly a quarter of the cost of mainstream food distribution.
- *Aggregation*—Locally owned businesses need not be small. Large producer cooperatives owned by local members, such as the Cooperative Regions of Organic Producer Pools (better known as Organic Valley), have improved the competitiveness of 1,300 farmers across North America by aggregating their market power. A nonprofit, Appalachian Harvest Network, also has helped aggregate 70 former tobacco farmers to grow and sell organic fruits and vegetables collectively.
- *Vertical Integration*—The annual sales of Zingerman's Community of Businesses in Ann Arbor, Michigan, have mushroomed to nearly \$30 million through a strategy of “growing deep.” Rather than create a nonlocal chain, Zingerman's has stayed local and created eight businesses that localize its inputs and diversify its food products and services.
- *Shareholder Loyalty*—Like other consumer cooperatives, the Weaver Street Market has learned that broad local ownership increases the commitment of its 13,000 members to do their shopping at its supermarkets.
- *Speed*—Lorentz Meats in Minnesota provides affordable, mid-scale processing that enables family-scale ranchers to fulfill specialty meat orders with lightning speed.
- *Better Access*—Greenmarket in New York City demonstrates how CFEs are increasingly reaching low-income consumers living in “food deserts” with relatively inexpensive fresh food.
- *Better Taste*—Emphasizing quality over quantity, Akiwenzie's Fish in Ontario, run by a Native American family, sells award-winning smoked fish at farmers markets in Toronto.
- *Better Story*—One similarity between the White Dog Café and the Cabbages & Condoms restaurants in Thailand is their menus, both of which contain extensive descriptions of where the good served comes from and who exactly was involved in growing, raising, and processing it. Such stories enhance consumers' experience, and the market value, of local food.
- *Better Stewardship*—Many CFEs are becoming commercially successful without compromising their

social performance, and have turned their superior social performance into compelling competitive advantages. The loyalty of consumers who buy strawberries from Swanton Berry Farm is deepened by their awareness that 100% of the farm's employees are members of the United Farm Workers union.

- *Better Service*—The Self-Sufficient Organic Farm School in Paraguay, a high school for future farmers and CFE entrepreneurs, prides itself on giving—and teaching—exceptional service through its 16 student-run food enterprises, which help underwrite the institution.
- *Revitalizing Local Economies*—CFE entrepreneurs tap growing consumer interest in “buying local” to support local economies. The Intervale Center built a municipal compost company for Burlington, Vermont, and is now close to its goal of supplying 10% of the city's food locally.
- *More Community Spirit*—CFEs touch consumers' desire not just for good food but also for memorable experience and fun. One way the Mavrovic Companies have become ground zero for organic grain, bread, and meat production in Croatia is through its Eco-Center, which is an all-in-one research facility, education center, and community gathering place.
- *More Social Change*—Locals and tourists in Thailand descend in great numbers to one of a dozen Cabbages & Condoms restaurants and resorts not only for the excellent food and hospitality but also because the net revenues, currently about \$2 million per year, support the country's oldest public education campaigns concerning AIDS, safe sex, and reproductive rights.

To analyze the social performance of CFEs, we used a comprehensive survey-based tool designed by a nonprofit called B Lab. We found that each CFE put considerable investment into achieving social goals beyond private profit. Seven community impacts in particular stood out for us:

- *Greater Income*—Driven by fairness, most of our CFEs are striving to put more income into the pockets of their farmers, workers, or suppliers. Kasinthula Cane Growers Limited in Malawi, for example, uses fair trade premiums not only to support its 282 sugar farmers but also to help their communities access clean drinking water, electricity, and medical services.
- *Training*—CFEs enrich their communities' entrepreneurial resources through concerted workforce training. With 80% of its employees in their 20s, Cargills in Sri Lanka provides free, in-house classes to every employee through its Albert A. Page Institute of Food Business.

- *Ecology*—Unlike global companies that often exploit, exhaust, and then abandon a resource base, a CFE is tethered to a community's assets in perpetuity. The Ajddigue Women's Argan Cooperative in Morocco is thus committed to replenishing the fast disappearing argan trees through an aggressive replanting program.
- *Local Economy*—CFEs pump up their community economies by hiring locally, buying local inputs, and engaging in and contracting for local value-added production. The Panchakanya Agriculture Cooperative in Nepal, for example, is helping its women farmers grow organic fruits and vegetables using local inputs.
- *Charitable Contributions*—Local businesses typically contribute more to charity per employee than do global businesses. Some of the most successful CFEs in the United States—White Dog, Zingerman's, and Weaver Street—actually have started their own community foundations. Sunstar Overseas Limited in India uses the fair trade premiums it earns from global basmati rice sales to support infrastructure improvements in its farmers' communities.
- *Women's Empowerment*—Almost all our CFE examples are empowering women. The leaders and members of the Ajddigue Women's Argan Cooperative and the Panchakanya Agriculture Cooperative are exclusively women. Dulce Gozon has become a powerful female leader of the National Ongoing Growers' Cooperative Marketing Association in the Philippines.
- *Global CFE Solidarity*—Most of our CFEs believe in local food as a movement, and are committed to supporting other CFEs worldwide. The African American farmers of the Indian Springs Cooperative in Mississippi, for example, have reached out to producer cooperatives in Africa.

Are CFEs replicable in other parts of the world? We believe the answer is “yes,” especially if the successful strategies revealed in this study are widely communicated and adopted. The real key to improving the probability of the next generation of CFEs succeeding is networking and peer mentoring. We recommend creating an open-source model, perhaps a web-based Locopedia, where great business models can be posted from all over the world. A reliable, sophisticated database of small-business innovation could be invaluable. Ultimately, this network should include all kinds of local businesses, not just those linked to food. But food is a catalytic place to begin. For the world's six billion people, our report suggests that CFEs can provide powerful, self-financing mechanisms for improving their nutrition, health, and economic vitality.





## Introduction

Any doubts about the significance of the local food movement in the United States were dispelled in May 2007, when the cover of Time magazine proclaimed “Forget Organic, Eat Local.” Barbara Kingsolver’s book *Animal, Vegetable, Miracle*, describing her family’s efforts to embrace a 100-mile diet, became a national bestseller. Also in 2007, the Oxford Dictionary called “locavore” one of the most important new words of the year. Today, anyone who walks through an American city, suburb, and town will find at least one restaurant, supermarket, or farmers market advertising “local food sold here.” This movement is spreading worldwide. Slow Food International, for example, boasts more than 100,000 members in 132 countries.

Yet the local food movement is still not very well understood. To many, local food is exclusively about proximity, with discriminating consumers demanding higher-quality food grown, caught, processed, cooked, and sold by people they know and trust. But an equally important part of local food is local ownership of food businesses. Indeed, without well-designed small enterprises, local food would be an oxymoron. Proximity and ownership, of course, are naturally related to one another—locally owned food businesses tend to focus on local markets, and locavores tend to favor these businesses—but not always. As locally owned food businesses grow, they often reach into global markets. This report is about the full range of locally owned businesses involved in food, whether they are small or big, whether their focus is local or global markets. We call these businesses community food enterprises (CFEs).

Many of our readers thinking about CFEs might conjure up images of roadside stands selling bruised apples, of food cooperatives with industrial sized bins of dry grains for self-service, or of fancy restaurants with meals affordable only by the rich. Even though these scenes are contradictory—it’s hard, after all, to be simultaneously proletarian and praetorian—they are consistent in suggesting a movement that operates on the fringe.

This report aims to provide a more nuanced, comprehensive, and accurate field report on CFEs. Through 24 case studies—half inside the United States and half outside—we show a range of CFEs that suggest a huge diversity of legal forms, scales, activities, and designs. We explore four questions in depth:

- What strategies are community food enterprises deploying to heighten their competitiveness?
- What are the major challenges facing these enterprises and the ways they are overcoming those challenges?
- How well are these enterprises meeting the triple bottom lines of profit, people, and planet?
- To what extent are successful CFE models capable of being replicated worldwide?

The success of CFEs is often measured against their larger competitors, many of which are realizing greater economies of scale and decidedly not locally owned. Yet our case studies reveal 14 powerful strategies CFEs are deploying to compete effectively. Moreover, and less well appreciated, is that larger companies also are encountering growing diseconomies of scale. Long supply chains, for example, are especially vulnerable to rising oil prices. It’s true that CFEs face special challenges—in leadership, finance, secession, and technology, to name a few—but even here they are developing impressive ways of overcoming them. And many CFEs are making these strides without compromising their social performance—indeed they have turned their superior social performance into compelling competitive advantages. Together, these innovations, once they are fully known, appreciated, and communicated, suggest that CFEs might be capable of explosive growth in the years ahead.

## Our Case Studies

Below, we briefly introduce our 24 case studies through the best known part of their business. Although we’ve provided the list below to give readers an at-a-glance overview, we should note many of our CFEs actually have multiple businesses and occupy multiple links on the supply chain.

### *Primary Food Producers and Harvesters:*

- Anna Marie Seafood is a sole-owner limited liability corporation based in Dulac, Louisiana, whose founder, Lance Nacio, has developed methods for freezing shrimp onboard his ship and markets his shrimp directly to retailers across the country.
- Kasinthula Cane Growers Limited is a limited liability company in Malawi, formed through a public-private partnership and owned by a smallholder farmers’ trust, which helps 280 farmers grow and sell sugarcane at fair trade prices.
- Kuapa Kokoo, Ghana’s largest producer cooperative, represents 45,000 cocoa farmers and helps them produce and sell raw cocoa. The farmers also co-own the Divine Chocolate Company, which markets products that incorporate Kuapa Kokoo’s cocoa.
- Panchakanya Agriculture Cooperative Limited enables three dozen women farmers in Nepal to profitably sell organic fruits and vegetables for markets in Kathmandu.
- Swanton Berry Farm is a for-profit corporation in Davenport, California, with a fully unionized workforce

that has demonstrated how to grow organic strawberries, manufacture value-added jams and pies, and sell them directly to the public.

#### *Value-Added Food Production:*

- The Ajddigue Women's Argan Cooperative helps 60 women in Morocco extract oil from native argan trees, and then sell oil-based food and cosmetic products to buyers worldwide at fair trade prices.
- Akiwenzie's Fish is a Native American, family-run business in Cape Croker, Canada, that catches, smokes, and sells directly high-quality fish to farmers markets in Toronto.
- Cooperative Regions of Organic Producer Pools (CROPP), better known as Organic Valley and Organic Prairie, has become one of the largest and most influential producer cooperatives for marketing organics in North America, representing 1,300 farmers who are



involved primarily in dairy but also in eggs, soy products, orange juice, fruits, vegetables, and meat.

- Lorentz Meats, based in Cannon Falls, Minnesota, is a multi-species meat processing plant that has demonstrated the viability of a "mid-scale" company in linking small meat producers with larger markets. It also processes meats for larger companies including CROPP.
- The Mavrovic Companies have popularized local organic bread and meats in Croatia through its organic farms, a bakery, a marketing apparatus, and a research center.
- Sunstar Overseas Limited, in India, has developed certified rice products, including conventional and organic basmati, and has partnered with thousands of small-scale farmers in northern India in fair trade

agreements.

#### *Food Product Aggregation and Distribution:*

- Appalachian Harvest Network, an entrepreneurial nonprofit program based in Abingdon, Virginia, has helped nearly 70 former tobacco farmers transition to growing organic fruits and vegetables. It provides them with the capacity to sell to regional supermarkets and other buyers.
- Indian Springs Farmers Association is a producer cooperative that enables three dozen primarily African American farmers from rural Mississippi to wash, aggregate, and package fresh fruits and vegetables, and then truck them to markets across the United States.
- The National Onion Growers' Cooperative Marketing Association (NOGROCOMA) in the Philippines helps its 200 members market their onions domestically, and imports and sells onions from neighboring countries to provide added income to members.
- The Oklahoma Food Cooperative is an Internet-based producer and consumer cooperative in the state of Oklahoma, run by a small part-time staff and an army of volunteers. It links buyers and producers throughout the state and mobilizes delivery of thousands of products to 38 sites one day each month.

#### *Food Retailers:*

- Cargills (Ceylon) PLC, founded in 1844, is best known as a chain of 138 supermarkets in Sri Lanka (though it also includes processing facilities and restaurants) that buys raw foodstuffs from 10,000 smallholder farmers at fair trade prices.
- Greenmarket, an entrepreneurial nonprofit program in New York City, is the largest farmers market system in North America. It runs 49 market locations, many year-round, and caters to low-income residents using the Supplemental Nutritional Assistance Program, or SNAP (formerly the Food Stamp Program).
- Weaver Street Market is a 12,000-member worker and consumer cooperative near Research Triangle, North Carolina, which runs not only three grocery stores but also a commissary, bakery, and restaurant.
- Zingerman's Community of Businesses is a network of for-profits based in Ann Arbor, Michigan, which includes a delicatessen, bakery, creamery, catering and events business, a mail order company, a coffee roastery, a restaurant, and a consulting business.

### *Restaurants:*

- Cabbages & Condoms is a chain of twelve for-profit restaurants and resorts in Thailand, all specializing in local cuisine and local food production, which are designed to finance the public health and environmental programs of the country's oldest NGO.
- Sylva Professional Catering Services Limited has spread appreciation of local food throughout Zambia and internationally through its catering services, a restaurant, and training programs.
- The White Dog Café, based in Philadelphia, Pennsylvania, features local and organic fare at moderate prices and has become ground zero for local food system development and buy-local movements across the United States.

### *Food Business Incubation:*

- Fundación Paraguaya's Financially Self-Sufficient Organic Farm School, based in a rural region of Villa Hayes, Paraguay, teaches CFE entrepreneurship to low-income high school students through local enterprises that defray the costs of running the school.
- The Intervale Center, based in Burlington, Vermont, is a nonprofit that has transformed an abandoned parcel of land into successful organic farms, value-added food businesses, local-food education programs, and a county-wide composting program.

## **Defining Community Food Enterprise**

What exactly do we mean by CFEs? The businesses studied in this report meet four basic tests:

- *Enterprise*—A CFE must be capable of achieving a positive cash flow. We did not include nonprofit projects that, by design, are perpetually dependent on grants and government subsidies. We were only interested in self-financing businesses, whether for-profit or nonprofit, that can plausibly grow local economies through the marketplace. The nonprofits that we included, such as Appalachian Harvest Network in Virginia and Fundación Paraguaya, meet this test.
- *Food*—A CFE must be involved in the growing, harvesting, processing, packaging, marketing, distributing, wholesaling, retailing, or serving of some kind of foodstuff. Some of our case studies feature enterprises with one or more departments running non-food businesses, but each makes food a central part of its identity. The Weaver Street Market in Carrboro, North Carolina, for example, has linked housing and public radio broadcasting businesses, but everyone in the community knows they are primarily a food cooperative

with three big grocery stores.

- *Local Ownership*—A CFE must be more than 50% owned by people residing in the immediate geographic community. The owners can be individuals, shareholders, partners, proprietors, or cooperative members, and they also can be local institutions such as other businesses, banks, investment funds, churches, or charities. Some ownership in a CFE can even be held by a public agency—as long as it's not a controlling interest.<sup>1</sup> In the one public-private partnership we examine, Kasinthula Cane Growers Limited in Malawi, the government played an important role in starting the business but today is a minor player and has no financial stake in the enterprise.
- *Local Control*—A CFE must place most of the legal rights and responsibilities of running the company in local hands. It can therefore include franchise operators as long as they have some ability to shape the business. A good test of a locally controlled franchise is whether the operator is permitted to source foodstuffs locally. A CFE also can include regionally proximate chains, where the owners of the parent company live close to all the links in the chain. Cabbages & Condoms in Thailand is an example of both. It runs a chain of restaurants and resorts in Thailand, all owned by Thais, but has begun to loosely franchise its business model and name to partners in France and Japan.

Admittedly, these do not fully resolve questions about whether certain businesses are CFEs. The term “locally owned,” for example, means that more than 50% of the ownership is held by people who live proximate to a company. But what exactly is proximate? A neighborhood? A city? A metropolitan region? A state? A country? For our purposes, we generally consider a firm local if a majority of the shareholders live within 100-200 miles of the company. When the owners live no farther than three or four hours drive from the company, they probably have more than a passive relationship to their investment. They are likely to know the managers, inspect the company, and take personal responsibility for its success and failure.

Several of our case studies are of businesses that are quite large, which underscores that locally owned does not necessarily mean small. Zingerman's Community of Businesses in Ann Arbor, Michigan, for example, represents eight separate enterprises with annual sales over \$27 million, yet each enterprise, by design, is owned by partners residing in or near Ann Arbor. Larger still is Cargills in Sri Lanka, a chain of 130 food markets linked with 10,000 smallholder farmers and 2,000 small businesses involved in processing and distributing its food products. Even though Cargills employs 5,600 people, has annual sales of \$112 million, and has become publicly owned, we considered it

local because it's still majority family-owned in a country the size of West Virginia.

Tricky questions are also raised by large producer cooperatives. The Cooperative Regions of Organic Producer Pools (CROPP), better known by its Organic Valley and Organic Prairie brands, has more than 1,300 farmers spread over 32 U.S. states and one Canadian Province. Its annual sales exceed \$500 million. Yet the real



power of the enterprise resides in the farmers, who each own their own farm. While CROPP sets high standards for the raw foodstuffs they buy, each farmer retains independence in how the standards are achieved. They are welcome to buy cheap supplies, seeds, equipment, and other inputs from the cooperative, but they are not required to. They can quit the cooperative whenever they choose. CROPP also ensures that local raw and value-added products are marketed within the region they are grown. We concluded that producer cooperatives, even very large ones, are best understood as institutions created by and for local businesses, and therefore qualify as CFEs. And, as it happens, most of the day-to-day management of CROPP also occurs in LaFarge, Wisconsin, where the cooperative was started 20 years ago.

## Models of Local Ownership

One of the key messages of this report is that CFEs are a lot more common than most people think—and are more critical to an economy's well-being than most economic developers appreciate. Common statistics about food can be misleading. In the United States, for example, many economists trivialize the role of agriculture by pointing out that less than 1% of the workforce is involved in agriculture. In fact, a better sense of the role of food in the economy comes from looking at consumer expenditures. The typical American family spends 10% of its budget on food.<sup>2</sup> Many other expenditures not in this category also are tied to

food, such as purchases of refrigerators and microwaves, college tuition payments that include room and board, and retirement savings that contain allocations for future food expenditures. And then there are the many indirect benefits that good local food systems can contribute to an economy, including less sickness, more productive working lives, more tourism, and more productive ecological resources. A fair accounting of these factors could reasonably conclude that one-fifth or more of the U.S. economy was tied, directly or indirectly, to food. In the developing world, where far more of the people live closer to the land and are growing their own food, the percentage of the economy tied to food is far greater.

Most food businesses right now are actually small and local. Again, start with the developed economy of the United States. Roughly half of the private economy, by jobs and output, rests in small businesses according to the U.S. Small Business Administration, which defines a business as “small” if it has fewer than 500 employees. Drill deeper into the data about food businesses and the presence of local ownership gets larger still. For example, the North American Industrial Classification System contains 1,100 categories, roughly 100 of which relate to food.<sup>3</sup> In most of these categories, most employees work for local businesses. All agriculture services provisions are dominated by local business. Two-thirds of the food wholesale categories are local. The only one of a dozen food retail categories dominated by chains is supermarkets (like Kroger or Safeway). All food services are local, except cafeterias and food-service contractors (like the Compass Group or Sodexo). Even in the 53 categories of food manufacturing, which one would expect to be made up of large companies, at least 40% are small and local. Again, in developing countries, the greater presence of subsistence and family farming would suggest their food sectors have a higher percentage of CFEs than the United States does.

Local ownership is the norm in almost every legal form of business organization. The exact contours of business organization depend on the laws of the country—or of a sub-national unit of government (for example, in the United States each state has its own laws on creating businesses). Worldwide there are probably thousands of such forms. But under closer scrutiny, nearly all these structures fall into five broad categories:

- *Proprietorships*—Sole proprietorships and partnerships are for-profit enterprises typically governed by people who actually run the business. These are the most basic forms of local enterprise. Typically one person, a family, several friends, or a small number of individuals are the owners. They choose these business forms because they are the simplest ones available for starting, reporting, and filing taxes. Many represent hobbies,

experiments, or second jobs, but that does not mean they are unprofitable. In fact, in the United States, sole proprietorships are three times more profitable than C-Corporations.<sup>4</sup>

- *Limited Liability Companies*—As entrepreneurs become more successful and serious, they seek more formal structures. Many become corporations to legally shield themselves, and outside investors, from liability, and the vast majority are privately held by a small number of shareholders who elect an overseeing board. Blends of partnerships and corporations can be found in limited liability corporations (LLCs) and limited liability partnerships (LLPs).
- *Nonprofits*—While many nonprofits do not qualify under our definition of “enterprise,” a growing number have sought to escape their dependency on gifts and grants by launching “social enterprises.” These businesses must remain consistent with the social mission of the nonprofit. Their surplus revenue is reinvested in other mission-related activities of the nonprofit. Because nonprofits are technically owned by no one—even membership nonprofits must be careful not to funnel gains to their members—a “local” nonprofit is defined instead by those who control it. If the majority of members and board members of a nonprofit reside in the community in which a nonprofit operates, we consider it local.
- *Public-Private Enterprises*—As the book *Reinventing Government* underscored, governments increasingly are launching enterprises that they own themselves or co-own in public-private partnerships.<sup>5</sup> If the governmental entity is local, we consider the enterprise locally owned. In the United States, for example, the state of North Dakota runs its own network of savings banks.
- *Cooperatives*—Cooperatives are essentially voluntary associations that engage in business for the benefit of their members. The members can be consumers, workers, businesses (“producer co-ops”), or a combination of all three. Unlike for-profits, where control is usually based on the principle of “one-dollar-one-vote,” cooperatives are based on the principle of “one-member-one-vote.”<sup>6</sup> Surplus revenue is distributed to members as “patronage” payments based on how actively each member uses the cooperative business.

While there are examples of businesses in the five categories above that are not locally owned, probably 99% are. The only corporate form that is inherently not local is a publicly traded corporation. A company that “goes public,” where millions of tiny shares are dispersed globally and can move thousands of miles instantly at the click of mouse, is the antithesis of local ownership. But even among publicly traded companies, there are intriguing models for some

localization. In the United States, when Ben & Jerry’s Ice Cream Company first went public, investors had to be residents of Vermont to buy the shares, and the stocks further bore the stipulation that they could only be sold to residents of Vermont or back to the company itself. These so-called “direct public offerings,” which typically involve small companies traded intrastate, are possible in every one of America’s 50 states. Generally, however, small public offerings are expensive and complicated, and the absence of any local stock exchanges means that local securities are hard to sell and therefore relatively unattractive to investors.

Although they may be out there, we were unable to find examples of food business in the United States or abroad that employ a local stock model (Ben & Jerry’s ultimately became a globally traded company that was taken over by another public company, Unilever). One company we studied, Cargills in Sri Lanka, had two tiers of ownership, one of which was publicly traded. Because the publicly traded tier was only 10% of the shares of the company (the founding family holds the rest), the company remains locally owned.

Not surprisingly, the founders of each CFE we studied thought the business model they selected was the best. Why else, of course, would they have chosen it? And over time many became evangelists for their model. Sole proprietors love the simplicity and flexibility of their companies. The captains of corporations cannot imagine any other way of preserving their independence while limiting their liability. Nonprofit leaders see their enterprises as the only kind that can pursue true social missions and the public interest. And cooperative managers are convinced that their model engages shareholders in the most democratic way possible.

Significantly, however, we could find no compelling evidence that any one model is absolutely superior to another either in its financial or social performance.<sup>7</sup> Far more decisive to the success of a business are critical choices about products, scale, markets, and management. If anything, the choice of business model really reflects two factors: the underlying philosophy of the founders, and their hard-nosed calculation about where sufficient initial capital can come from. If the founders believe their best source of capital will be themselves, they will form a sole proprietorship or a partnership. If funds are coming from foundations or wealthy contributors, they will form a nonprofit. If the most promising capital source is public money, they will become a public-private partnership. If they see funds coming from committed consumers, they will form a consumer cooperative. In most other instances, they will form some kind of company in which they can limit their liability.

The Case Study Overview Table breaks down our examples by corporate categories. We had no difficulty finding thriving

CFEs in all but two of the business model categories. Given that every country's food sectors, as noted above, are primarily made up of CFEs, their ubiquity was to be expected.

One exception was public-private partnerships. Except for the CFE example from Malawi, we could not find good examples of public investment. Governmental involvement in CFEs tends to be through subsidies, loans, guarantees, and regulation rather than direct enterprise participation.

The other exception was sole proprietorships. Plenty of CFEs are sole proprietorships, and many were brought to our attention. But in formulating the criteria for which enterprises to study (elaborated below), we decided only to include CFEs that were prepared to share three years of financials with us. Within three years, most sole proprietorships go out of business, and by then the few that are successful usually seize the advantages of incorporation. Nevertheless, we do include one case study of a sole proprietorship, Akiwenzie's Fish, in which the founders, a Native American couple in Ontario, Canada, have decided to keep their CFE small and informal.

## Why Food Is Localizing

As noted earlier, the spread of the local food movement represents changes in demand, with growing consumer interest in eating locally, and changes in supply, as CFEs expand or form to take advantage of shifting consumer demand. Price is a factor, of course, and as more CFEs enter the marketplace, local food prices are trending downward. CFEs themselves are learning how to bring down their costs through greater volume, through smarter distribution techniques, through the better use of technology, and through collaboration with other CFEs. The next section of this report elaborates the learning that is occurring on the supply side of the equation.

For a moment, though, it's worth elaborating the demand side. Consumers are not only looking for the lowest priced food but also the best value for a given price. And in many ways, consumers are finding that local food, even if it's nominally pricier, delivers better value. Specifically, consumers are finding special value in local food in five ways:

- **Better Nutrition and Health**—Because many foods lose nutrients over time, local food means quicker delivery of foodstuffs with less loss of nutrition. Moreover, knowing a farmer or rancher tends to enhance a consumer's trust in the healthfulness of his or her products. Local foods also typically involve less processing, which means fewer chemicals and additives. Replacing processed with fresh foods, as author Michael Pollan argues, is a powerful way to improve consumer health and reduce

the incidence of obesity and diabetes.<sup>8</sup> Every headline about a breakdown in the mainstream food system—outbreaks of e-coli in hamburger meat and peanuts from distant suppliers, for example—reinforces people's desires to re-localize their purchasing to producers they trust.

- **Better Taste**—To the extent that food is about taste, local food excels. FoodRoutes Network, one of the nation's most prominent promoters of local food over the past decade, captures this concept in its slogan, "Buy Fresh, Buy Local." Local food, whether lobsters from the coastal waters of Maine or Saska-berries from Saskatchewan, shapes local tastes, generates signature local recipes, and provides icons of local identity and pride.
- **More Civic Engagement**—Anyone who has been to a farmers market, like the Greenmarkets we studied in New York City, knows that the shopping experience is fundamentally different from that of a supermarket. A supermarket is about finding and purchasing foods as quickly and efficiently as possible. A farmers market is about consumers chatting, learning from, and developing relationships with local food producers, and about neighbors interacting with one another. An entire sociology literature has developed suggesting that communities characterized by local business results in greater civic welfare, less social strife, and greater equality.<sup>9</sup>
- **Stronger Community Economies**—Local food is a critical economic driver for local economies. Local food businesses provide local jobs and pay local taxes. Every loaf of bread unnecessarily imported means the leakage of dollars outside the local economy and the loss of a local bread business that could contribute to local prosperity. But the case for locally owned food businesses is even more compelling, because local businesses spend more of their money locally. Unlike outsider-owned businesses, they tend to advertise in local media, hire local accountants and attorneys, provide top-level management experience, and reinvest profits in the community. Numerous studies have documented that a dollar spent on a local business yields two to four times the "economic multiplier"—the underlying source of income, wealth and jobs—as an equivalent nonlocal business.<sup>10</sup> Additionally, there is a growing body of evidence that local businesses are particularly good at attracting tourists and future entrepreneurs, promoting creative economies, and stimulating charitable contributions.<sup>11</sup>
- **More Sustainability**—Local food is, finally, a tool for sustainability. Farmers are among the most important stewards of local land. Because agriculture accounts

for approximately 30% of the earth's land surface, environmentally sensitive production of foodstuffs is critical to maintaining healthy habitats, air, water, soil, and ecosystems that ultimately support healthy people.<sup>12</sup> To eat sustainably means growing and processing foodstuffs in a sustainable manner, and doing so within a local ecosystem makes the accomplishment all the more compelling. Any community on the planet that cannot sustainably feed itself necessarily places burdens on the ability of other communities to feed themselves. Put positively, business models that meet local food needs sustainably can, if shared and multiplied globally through studies like this one, teach communities in other parts of the world to feed themselves sustainably.<sup>13</sup> Moreover, since we know that all local businesses, including CFEs, tend to spend their money locally, their "inputs" travel less, use less energy, and thereby emit fewer pollutants and less climate-disrupting carbon dioxide.

Together, these factors suggest why millions of consumers, particularly in developed countries, are turning to local food, even when the price of local food is a bit higher than nonlocal alternatives. But for the movement to spread further—to poorer residents of developed countries and to poorer countries in general—the gap between local and conventional food, where it exists, will have to become smaller. This is on the verge of happening.

## Local Competitive Advantage

Most discussions of the competitive advantage, employing phrases like "going to scale," assume that larger scale automatically increases economic performance. Were this really the case, local food and the small CFEs involved in it might seem like guaranteed economic losers. In fact, economists have long argued that steady increases in scale sooner or later lead to poorer economic performance.<sup>14</sup> The returns to scale inevitably diminish, and then they can even become negative. The relationship between scale and efficiency surrounding CFEs is far more complex and interesting than is widely understood.

Generalization about the competitiveness of literally hundreds of thousands of foodstuffs and food services is, of course, inherently imperfect. How does one compare—literally—not just apples to oranges but Macintoshes to Granny Smiths? Moreover, how do these comparisons shift for consumers who are committed to triple bottom line businesses, who are comparing not only price but value? There are, nonetheless, some broad observations one can make about the competitiveness of CFEs in the United States.

First, we know that competitive CFEs are possible in every category of small-scale food business. Why? Because well-

performing small businesses—nearly all of which are locally owned—appear in every one of 100 food categories of the North American Industrial Classification System (NAICS) mentioned earlier. In fact, in most of these categories, small businesses account for most of the jobs and output. But even if there were only one successful small business in a given category, it would be relevant. As the economist Kenneth Boulding once said, "Anything that exists is possible." A smart community interested in localizing its food system should look for examples of small-scale success, study the key elements of these business models, and replicate them.

Second, even if one looks at the average size of a business in each food category, some categories actually have seen increasing localization in recent years. For example, between 1998 and 2002, the average business in "food and beverage stores" and "beverage and tobacco product manufacturing" became smaller.<sup>15</sup> Some food categories have seen the average business become bigger too, but even here, there are many explanations that have nothing to do with their underlying competitiveness. United States public policy, for example, subsidizes larger businesses, from large farms to large exporters. Securities laws have made it largely unaffordable for 98% of the American public to invest in CFEs. Antitrust laws that once might have restrained the power of larger food businesses, such as Walmart or Tyson, have been largely unenforced. Indeed, given the degree of this unequal playing field, what seems most remarkable from the NAICS data is the extent to which CFEs have largely held their own in an era of globalization.

These arguments are relevant in a global context as well. If an entrepreneur eager to create a CFE looks for relevant models of success not just in the United States but globally, the pool of intriguing ideas expands dramatically. Because so many changes in the world economy have occurred over the past two decades—Chinese competition, the Internet, rising oil prices, the shrinking U.S. dollar, skyrocketing populations—every nation's economy has witnessed enormous upheaval. Old assumptions are crumbling, and with them many established businesses. Newer CFEs are learning how to deploy available labor, technology, and capital in just the right way for their scale.

Whatever the competitiveness of CFEs today, smart CFEs everywhere on the planet will be able to increase their competitiveness in the years ahead because of number of trends. Consider five:

- *Distributional Inefficiency*—While the production costs of food can be brought down by moving farms and factories to low-wage regions with few regulations, global distribution of food is becoming increasingly inefficient. Economist Stewart Smith of the University of Maine, for example, estimates that a dollar spent on a

typical foodstuff item in the year 1900 wound up giving 40¢ to the farmer, with the other 60¢ split between inputs and distribution.<sup>16</sup> Today, about 7¢ of every retail food dollar goes to the farmer, rancher, or grower, and 73¢ goes toward distribution. Whenever the distribution cost towers over the production cost, there are opportunities for cost-effective localization. Not just in the United States but worldwide, local distribution offers strategies for reducing the need for, and expense of, every component of distribution, including transportation, refrigeration, packaging, advertising, insurance, and middlemen.



- *Local Finance*—One of the most formidable barriers to the expansion of CFEs is the relative unavailability of local capital. The financial crisis of 2008, caused by global banks and investment funds that hid the high levels of risk in their securities, has given many people worldwide a powerful incentive to move their savings into local banks and credit unions and their investments into local business. Internet-based tools like Prosper.com and Kiva.org, which are connecting local lenders with CFE borrowers, will soon be joined by local stock exchanges connecting local investors with CFEs.

All these factors set the stage for potentially explosive growth of CFEs in the years ahead. Whether this really happens depends on how prepared existing CFEs are to expand and would-be CFE entrepreneurs are to seize new local food business opportunities. Key to their success is a roadmap of sorts that identifies models of success, and successful strategies for overcoming significant obstacles. That's where this report fits in. Greater awareness of the strategies pioneering CFEs are using can help entrepreneurs, economic developers, and community planners everywhere increase their chances of success.

- *Rising Energy Prices*—The distributional component will become more costly still when, as most analysts expect, global oil prices begin to rise again.<sup>17</sup> Adding to these market forces, political pressures in many countries will mount to tax carbon-based fuels in order to slow global climate disruption. Because foodstuffs have a relatively low value per unit weight (except for a few products like expensive wines and spices), they are disproportionately vulnerable to rising energy prices.
- *Homeland Security*—Global concerns about terrorism have focused the attention of security officials on scenarios where food supplies could be contaminated or destroyed.<sup>18</sup> They are recognizing that the shorter supply lines and community self-reliance that come with local food can greatly reduce these security risks. At a minimum, this will translate into a recalibration of government policies to assist CFEs and higher insurance premiums imposed on global food producers.
- *Telecommunications*—The spread of the Internet, affordable computers, and mobile phones provide CFE entrepreneurs with information about market opportunities that once was only available to larger companies.



## Methodology

This study is essentially a field report on innovative CFEs throughout the world. To answer our four main questions—about the strategies, challenges, triple bottom line performance, and replicability of CFEs—we decided to undertake 24 case studies, 12 in the United States and 12 internationally. Literally hundreds of thousands of businesses, perhaps even millions worldwide, could qualify under our definition. Our challenge was to choose a handful of CFEs that were in some sense exemplary. Specifically, we wanted our examples to show:

- a range of ownership types, including private companies, publicly traded companies, various types of cooperatives, nonprofit enterprises, and public-private partnerships;
- a range of supply chain positions, including primary food growing and production, manufacturing and processing, distribution, marketing, retail sales, and restaurants;
- geographic diversity, which meant that no two U.S. examples could come from the same state, and no two international examples from the same country.

Additionally, because of our own interest—and that of our funders—in businesses with strong triple bottom lines, we looked for CFEs committed to fair food, which means that they aspire to embrace strong standards around labor, health, safety, and community responsibility. For us, an inherent part of fairness is inclusiveness. So we also sought examples that modeled the involvement of women and people of color as owners and leaders. To whittle down our list further, we added two other criteria. We tried to find unfamiliar case studies that deserved wider visibility, and good stories about interesting entrepreneurs.

We e-mailed requests for candidate businesses that met these criteria to 10,000 contacts, primarily people involved with local business development in the United States (the networks of the Training & Development Corporation and BALLE) and with development projects globally (the networks of Winrock International). Many recipients, to our surprise, treated our invitation as essentially an award nomination, and eagerly sent us their short list of “top” CFEs. We were deluged with hundreds of suggestions from over 60 countries.

Based on our preliminary research, we then approached our top CFE candidates and asked if they would be willing to be studied. No savvy businessperson, of course, turns down free publicity. But we also let each business know that we would be asking three potentially burdensome things from them: two or three extensive interviews, three to five years of their financials, and a filled-out survey that would assess their socially responsible behavior. In other words, we were asking for 20-40 hours of an entrepreneur’s time, and a disclosure of their company operations to a

global audience. Some candidates, as they reflected on these requests, declined to participate. But, remarkably, most agreed to our terms. We should note here that this study would not be possible were it not for the generous donation of time by each enterprise covered. We sincerely thank them, and hope our readers will too.

We ultimately interviewed the founders and leaders of each CFE, primarily by telephone. For our international case studies, to bridge cultural and language barriers, we commissioned local researchers to perform on-site interviews. Each CFE profiled had an opportunity to read a draft and offer corrections or additions. We also commissioned independent reviewers to “ground truth” four of our international case studies. Finally, we circulated our draft report to our funders—the Bill & Melinda Gates Foundation and the W.K. Kellogg Foundation—and to select staff within Winrock International for final review.



## Caveats and Next Steps

One of the challenges throughout this research has been not to bias our conclusions. We wanted to understand how well CFEs were competing, what challenges they were encountering, and how well they were meeting their triple bottom line objectives. This would mean studying failures as well as successes. Yet a failed CFE often leaves very little behind, including meaningful financial records. So we decided, instead, to focus on businesses still operating and to capture honestly their historical successes and challenges. This choice, however, necessarily meant our looking at better than average performers, since the average small business (and the average CFE) fails within 5-10 years. And yet in each story, we found, and share, moments—and sometimes years—of setbacks, failure, and even disaster.

Those looking for a simple verdict—CFEs can or can't compete, for example—will not find a satisfying answer. We believe this is the wrong question. What readers will find instead is a more honest, nuanced, and useful reflection on three more helpful questions: What are the circumstances under which CFEs can compete? And what are the main

obstacles that a successful CFE must overcome? To what extent can successes be replicated in other communities and other countries?

We should add here that many of the businesses we didn't study still deserve study. We sincerely hope that this project inspires others to come forward with similar business profiles. Our longer-term mission is to create a virtual, open-source library of promising small business models, not just of food enterprises but of all kinds of local businesses. In the short-term we hope that this work: builds a global network among community food practitioners and thinkers; raises awareness among development specialists worldwide in government, industry, or philanthropy about the promise of local food businesses; and informs entrepreneurs in rich and poor counties alike of successful (and unsuccessful) local business models.

## Findings & Analysis

Community food enterprises (CFEs) are the economic engines for growing, processing, selling, and serving local food. We encounter them every day as we drive past farms, shop at grocery stores, or eat out at restaurants. Some are wildly successful while others are barely paying their bills. We tend to attribute the performance of each to the abstract skills of the proprietors or even to luck, but we actually know very little about what accounts for their success. Our 24 case studies aim to fill this void.

For many years CFEs dominated local markets. Globalization shattered this old economic order. Industrial scale agriculture displaced smaller farms, food processing moved to centralized manufacturers, and chain supermarkets and restaurants displaced local grocers and diners. In the radically altered world of multinational business, the smaller scale of CFEs appeared to doom them. Among their many disadvantages, compared to bigger national and international players, were larger fixed costs, more inexperienced managers, more limited distribution networks, less potent marketing, and poorer access to talent, capital, and technology.

Yet in recent years CFEs have discovered that they actually have unique advantages over bigger companies. They have a deeper awareness of local tastes and markets, they can obtain consumer feedback more quickly, and they can tweak their business models more swiftly. They can deliver goods and services faster, with shorter distribution links and smaller inventories. They can rely more on word-of-mouth advertising that costs nothing. The hypothesis of this study is that CFEs are again becoming competitive, and will become increasingly so, but only if CFE managers effectively harness their comparative advantages.

Our analysis begins by describing 15 strategies CFEs are deploying to increase their competitiveness. We then articulate 16 obstacles CFEs face, many of which constitute the traditional understanding of the disadvantages of small scale. We also share intriguing and varied ways CFEs are overcoming these obstacles. One of the paradoxical ways several of our case studies have done this, it's worth highlighting here, is to grow very large and focus on global markets, all while remaining locally owned. We then review the social performance of CFEs, suggesting that they have taken factors which have been long viewed as extra costs—higher labor, environmental and community standards—and transformed them into competitive advantages. Finally, we reflect on the replicability of CFE successes, and conclude that there is little to stand in the way of CFEs proliferating, especially if new mechanisms are created that enable practitioners worldwide to share best practices and collaborate together.

### CFE Competitiveness

In nature small organisms typically have short lives, multiply rapidly, and evolve in their changing environments. Small businesses are similarly volatile, come and go quickly, and adapt creatively to the shifting realities of their marketplaces. Our case studies are really stories of small businesses learning and growing while staying locally rooted. Below we describe 15 strategies CFEs have adopted to make themselves more competitive, all of which suggest how CFEs worldwide can build on their comparative advantages.

#### 1. *Hard Work*

What CFEs lack in experience, capital, and technology they often make up for in hard work. Nearly all the CFE founders we interviewed are 110% committed, 24/7, to their businesses. Boundaries between their personal and professional lives are practically nonexistent. Judy Wicks, who lived above her restaurant, the White Dog Café in Philadelphia, for 25 years, woke up every morning and chanted to her mirror, “Good morning beautiful business!” Mechai Viravaidya, founder of the Cabbages & Condoms chain of restaurants and resorts, is a veritable force of nature who runs around Thailand, and increasingly the world, to prevent the spread of AIDS and advocate his strategy of using social enterprises to fund social change.

For many CFEs, especially those in early stages of operation, the entire family pitches in. That's the way it is at Akiwenzie's Fish, where Andrew does the fishing, his wife Natasha smokes the deboned delicacies, and their children pitch in with selling at farmers markets in Toronto.

A highly motivated entrepreneur boosts a CFE's competitiveness in several ways. The passion often translates into a higher quality business. Seeing a model of hard work at the top, employees become more industrious as well. Community members who are dazzled, amused, or impressed by the entrepreneur become more loyal customers.

#### 2. *Innovation*

Being small can facilitate experimentation and innovation. According to the U.S. Small Business Administration, small businesses generate, per dollar of sales, 13-14 times as many patents as large businesses. To be sure, some high-tech innovations, like bioengineered seeds or artificially created flavors, require massive research and development budgets that are only within the reach of big companies. But smaller businesses often pioneer lower-tech or labor-intensive solutions.

Lance Nacio, the sole owner of a limited liability corporation operating near New Orleans, was able to make Anna Marie Seafood a nationally prominent brand

by developing a low-tech method of flash freezing shrimp onboard his ship. The result, he says, is that “we can give to consumers as close to straight out of the water as possible.” His competitors freeze their shrimp after their boats pull in, when much of the freshness has already dissipated. Lance also designed a device to exclude turtles from his catch, which has won the hearts of animal welfare consumers (they have passed around a video of Lance giving mouth-to-mouth resuscitation to a turtle he accidentally caught). Purchasers of his product now include Ritz Carlton hotels and the Williams-Sonoma catalogue.



Sylvia Banda, the impresario of local food in Zambia, relies on appropriate technology. To help small farmers become more competitive, she invented the Sylva Solar Food Dryer which dries food 5-10 times faster than “bare sun drying.” The technology, which she manufactures and sells directly, helps Zambian farmers avoid handling the food and enables them to market their foodstuffs consistent with global sanitary requirements.

The Panchakanya Agriculture Cooperative in Nepal has developed and deployed low-tech innovations to help their members—all female farmers—boost crop yields. The cooperative initiated off-season tomato cultivation using plastic tunnels with the technical and financial support of the government’s District Agricultural Development Office. Five farmers took part in the pilot, and all are now seeing greater profits. “We are very encouraged. This technology has enabled us to grow tomatoes during the rainy season (June-September) when we get a good price for the produce,” says farmer Bhoj Raj Fuyal.

For Andrew and Natasha Akiwenzie, their innovation, common to many struggling small businesses, is to creatively use barter. The family barter their time and products for essentials they need. “A couple of pieces of fish for a few baskets of vegetables,” says Natasha.

“That’s not a bad trade off. It benefits the farmer and our entire family.”

All these innovations exemplify how CFEs have increased their competitiveness by compensating for an absence of resources with resourcefulness.

### 3. Local Delivery

A third strategy CFEs are using to beat global competitors is to reduce the huge inefficiency in the mainstream food system. Recall that in the United States 73¢ of a typical food dollar goes for distribution. Shrinking distribution costs, even if production costs are greater, can mean cheaper food. Even in countries with less distributional inefficiency, local food can mean less packaging, reduced refrigeration, shorter delivery runs, fewer middlemen, and greater reliance on word-of-mouth advertising (which is free).

An example of a CFE lowering its distribution costs is the Oklahoma Food Cooperative, which is pioneering a low-tech, low-cost food delivery model that involves Oklahoman buyers and producers as members. Consumers place their orders for fresh local food online, where the financial transaction occurs immediately and lets farmers know what products they have sold. Once a month, pre-sold products are brought to a central warehouse, where they are sorted, packaged, and delivered to 38 pick-up sites across the state. The margin charged by the cooperative, partially to consumers and partially to producers, totals 20%—about a quarter of the distribution margin in mainstream food businesses. The model is so simple and compelling that imitators are springing up in Texas, Idaho, Michigan, Iowa, Ontario, and elsewhere.

Outside the United States an example of a CFE that has reinvented food distribution is Cargills in Sri Lanka. By linking farmers more directly with its network of 138 supermarkets, Cargills has squeezed down distribution costs and delivered more income to its 10,000 farmers. As Haridas Fernando, a deputy general for the company, explains, “In a conventional supply chain, the farmer and customer are very far away from each other. There are five or six intermediaries involved...We have freed the farmers from the intermediary.”

### 4. Aggregation

CFEs needing greater scale to compete effectively might be tempted to engage in mergers, acquisitions, or explosive growth, all of which could undermine local ownership. Few in fact do. Instead, our case study leaders decided to team up with other CFEs.

Most large businesses are actually aggregates of many smaller departments. A company like Toyota, for example, has many different divisions that oversee marketing, sales, design, assembly, parts, and so forth. Each division, in turn, has multiple subdivisions. The parts division might include the makers of wheels, engines, electrical equipment, and chasses. Large companies like Toyota keep many of these divisions within the company, with common management and ownership, but at some point—production of rubber for wheels, for example—they outsource to others. If anything, the trend among larger businesses now is to focus on the “core business,” to become “lean and mean,” to outsource, and to spin off divisions into independent companies. In other words, large companies are increasingly becoming coordinated networks of independent firms.

A number of CFEs are following the exact same model. Take producer cooperatives. For a generation the Indian Springs Farmers Association has enabled three dozen mostly African American farmers in six rural counties in Mississippi to compete effectively through joint distribution. They built for themselves a \$500,000 plant where they could collectively sort, wash, package, and then ship fresh fruits and vegetables. Together, they have the resources to evaluate market opportunities and coordinate planting. Most of the member-farmers concede that were it not for the cooperative, they would be out of business. Today the cooperative pumps \$5,000-\$10,000 per week into one of the poorest regions in the American south.

The other producer cooperatives studied also increase the power of farmers through aggregation. The Cooperative Regions of Organic Producer Pools (CROPP), better known as Organic Valley, does this for more than 1,300 U.S. and Canadian organic farmers involved in the production of milk, soy, cheese, butter, spreads, creams, eggs, produce, orange juice, beef, pork, chicken, and turkey. The efforts of the Ajddigue Women’s Argan Cooperative in Morocco to collect, process, and sell cooking oil from argan trees has increased the returns to their 60 women members more than eightfold.

The National Onion Growers’ Cooperative Marketing Association (NOGROCOMA) in the Philippines provides multiple services to its members. It helps members purchase seeds at reduced prices. It provides access to microcredit and low-interest loans. It has invested in cold storage facilities in four locations across the country, which allows the cooperative to sell on behalf of members at the precise points in the year when prices are high. It engages in political advocacy in vital policy matters such as defining national grades and standards for onions. It has taken its member to Taiwan and Japan, which are major onion exportation competitors, as well as to the United

States, to study farming techniques. It has assembled a collaborative network of traders, storage operators, and exporters who are prepared to partner with members at discounted prices.

A producer cooperative makes aggregation easy, but any kind of business structure—a stock company, a partnership, a nonprofit, a public entity, or even an informal association—also can bring together local growers. Appalachian Sustainable Development, for example, is a nonprofit that provides former tobacco farmers with help in growing, packaging, and selling fresh produce to a variety of supermarket and institutional buyers in Virginia and Tennessee.

### *5. Vertical Integration*

Another way CFEs can achieve higher economies of scale is to expand. Locally owned businesses need not be small. In fact, they can become huge by vertically integrating within their niche or by diversifying their range of businesses. A good example of a CFE that has done both is the Zingerman’s Community of Businesses.

Zingerman’s started as a delicatessen in Ann Arbor, Michigan. As the business became successful, the original partners, Paul Saginaw and Ari Weinzweig, were committed to not becoming a national chain. They were afraid that franchising would mean losing the very characteristics of their business model that were key to its success—quality control of the food, excellent service, and a strong connection to the community. So they decided, instead, to “grow deep”—to develop their business in new ways that would benefit the people of Ann Arbor. They created new local firms to replace inputs coming into the deli. The Zingerman’s Bakehouse now produces all the deli’s bread locally. The Zingerman’s Creamery localized much of the cheese and ice cream. Paul and Ari also took some of the deli’s products and created new, value-adding businesses. A higher-end restaurant, the Roadhouse, caters to diners prepared to spend more money. A mail-order business sells Zingerman’s seasonal coffee cakes nationally. A consulting business, ZingTrain, helps other small businesses nationwide deliver top-notch customer service.

All eight of the affiliated Zingerman’s businesses are independent partnerships or LLCs. The partners of each assemble for a common meeting where they review, coordinate, and improve their operations around a common set of values and practices. They use the common brand to bring consumers loyal to one business into the others. Together, the Zingerman’s Community of Businesses now employs 550 people and has annual sales of about \$30 million in a town with fewer than 100,000 permanent residents.

Another example of a CFE that has improved its competitiveness through vertical integration is the Mavrovic Companies, started by former Croatian boxing star Zeljko Mavrovic. The CFE is really an amalgam of four businesses—two farms (Eco-Estate Mavrovic), a bakery (Eco-Klara), a marketing company (Eco-Mavrovic), and a research and educational center (Eco-Center Mavrovic)—each of which buys from and supports the others.

Kuapo Kokoo, a cooperative representing 45,000 cocoa farmers in Ghana, is an example of a CFE that has gone global to deliver better rewards to its members. It recently built a chocolate company in the United Kingdom, in which it holds a 45% ownership stake, giving the company control over marketing and distribution of its product. As the president of the Kuapa Kokoo Farmers Union, Paul “PCK” Buah, says, “Our business is one hundred percent controlled locally. Our farmers control what they produce and sell. This mode of operating allows us to control our own product and how it is marketed in order to optimize our profits and dividends, and through that, sustain our existence and survival.”

#### 6. Shareholder Loyalty

Most small business owners treasure their independence. They are wary of bringing in other owners who might threaten their autonomy, and the thought of reporting to thousands of shareholders, as a publicly traded company does, is anathema. But some CFEs are beginning to recognize that broad ownership actually can translate into a competitive advantage.

Consider Weaver Street Market, in North Carolina, a consumer and worker food cooperative with three stores, a restaurant, and several other linked businesses (similar to Zingerman’s). Like a for-profit business, a cooperative rewards its owners when it’s successful. But rather than pay a dividend based on a shareholder’s investment, a cooperative pays a patronage fee based on a member-owner’s purchases. The biggest shoppers at Weaver Street get the biggest rebates at the end of the year. Would the member-owners of Weaver Street shop at the nearby Walmart to take advantage of some grocery bargains? Probably not, since they would lose out on their patronage rebate. Equally important, the member-owners turn out to be a powerful (and free) marketing force, since they also benefit whenever their friends and neighbors use the cooperative.

The competitive power of member loyalty also can be seen in our producer cooperative case studies. The Panchakanya Agriculture Cooperative in Nepal helps its 35 members, all women, market organic fruits and vegetables in and around Kathmandu. The push for localization spawned a village inputs center, which supplies

seeds and other materials to cooperative members and prevents member-farmers from wasting valuable time—and money—buying from many different sources outside the community. Panchakanya’s vice chairwoman agreed to start the business herself, operating it out of her home. She contributes a certain percentage of her net income to the cooperative and keeps the rest herself.

#### 7. Speed

Larger food businesses must appeal to the mass market, which inevitably means discarding critical information about local preferences. Smaller businesses have the ability to grasp local markets with nuance and to respond with just the right products, delivered just in the right way, at just the right time. A good example of this is Lorentz Meats, based in Cannon Falls, Minnesota.

One of the biggest bottlenecks to food localization in a carnivorous country like the United States is the enormous scale of meat processing, packing, and distribution. Because of the short shelf life of meat, speed is essential. Nearly every type of meat processing—beef, pork, chicken, even fish—is dominated by a small number of huge industrial players running highly centralized operations. This centralization reflects, to be sure, some of the advantages of deploying expensive technology. But it also reflects outdated food and safety laws which are too expensive for CFEs to comply with and which offer exemptions only for tiny, on-farm processing operations.

Lorentz Meats represents a locally owned business that is just large enough to meet the U.S. Department of Agriculture’s health and safety standards and to compete effectively. But rather than process en masse one kind of animal, it processes many species. This enables the company to fulfill the immediate processing needs of a variety of independent producers, some of whom focus on niche markets like elk and bison. The flexibility inherent in this model allows Lorentz to facilitate a regional deal between a farmer, on the one hand, and a retailer or wholesaler, on the other. Mike Lorentz now dedicates considerable time to teaching other entrepreneurs how to replicate this kind of model in their own regions.

Cargills in Sri Lanka also has embraced this model. Part of its strategy of enriching farmers through streamlined distribution has been to develop in-house food-product processing and manufacturing. The company now has its own lines of meats, dairy products, jams, cordials, sauces, and beverages.

Replicating this CFE model in the global south, of course, may be a mixed blessing, since meat production often depletes natural resources and pollutes local ecosystems. But the point here is that mid-scale food processing

operations can provide the critical missing link between CFEs and consumers wanting local food. If such models adopt all the food safety and environmental practices of Lorentz Meats, they can operate not just profitably but sustainably.

#### 8. *Better Access*

CFEs have certain competitive advantages in reaching low-income consumers. A common view of local food, at least in the United States, is that it's a luxury in which only the wealthy can indulge. Indeed, many of the CFEs studied depend, at least in part, on consumers with deep pockets. Zingerman's, for example, sells a \$10 corned-beef sandwich. A dinner at the White Dog Café, with two glasses of the home-labeled brew, "Leg Lift Lager", can set you back \$40 or more. The organic jams sold by Swanton Berry Farm or locally raised pork processed by Lorentz Meats and then sold by Organic Prairie command prices higher than their mass-market alternatives.

Yet local food is also attractive to poor people who currently only have access to food that is expensive and nutrient poor. Both rural communities and inner cities in the United States are riddled with so-called food deserts, which primarily sell "junk food" through bodegas, filling station marts, or liquor stores. In areas like these, the entry of fresh local foods can offer a competitive advantage over what's available now. To its surprise, New Seasons, a regional supermarket chain specializing in local food in Portland, Oregon, found that one of its top performing stores is in one of the poorest neighborhoods in the city.

Mindful of this, almost every CFE studied, even those serving primarily rich consumers, dedicates at least some part of its business to low-income consumers with limited food access. A CFE that has made this an integral part of its operation is Greenmarket in New York City. With 49 neighborhood markets operating under its umbrella, Greenmarket is the largest farmers market organization in the country. Half of its markets operate in the winter, and most feature events, festivals, and educational campaigns. Many of the markets target low-income residents, so much so that 14 register most of their sales through SNAP (the Supplemental Nutrition Assistance Program) or WIC (the Special Supplemental Nutrition Program for Women, Infants, and Children).

Cargills in Sri Lanka enjoyed a huge growth spurt in the 1980s when it decided to create supermarkets to sell home-grown products to lower- and middle-income customers. "In Sri Lanka," says Ranjit Page, the company's CEO, "the consumers pay close to sixty percent of the monthly income for food and food related expenses. How could we make a difference with this sixty percent? That's what we focused on." The strategy enabled Cargills to grow into

a national powerhouse, with more than 5,600 employees and annual sales over \$100 million.

#### 9. *Better Taste*

CFEs compete by offering products that taste better. Most consumers now associate local food with freshness and natural flavor, which explains why some are willing to pay more for it. Everywhere in the world, people have at least some affection for and some sense of pride in home-grown food. For several CFEs studied, this strategy was the absolute core of their business.

Andrew Akiwenzie, for example, built Akiwenzie's Fish around taste. A Native American fisherman, Andrew and his family smoke the fish after he reels them in at Cape Croker, Ontario, drive the smoked delicacies to Toronto, and sell them at farmers markets and other open-air sites. "By the time my competitors are getting the bone off their fish," says Andrew, "my customers are eating mine."

A CFE's quest for great taste contributes to competitiveness indirectly as well. Andrew actually does no coordinated marketing. Instead, he relies on his customers spreading the word and bringing back critical feedback. "The relationships you make are important," he says. "All the way along the line, we've had customers that have pushed us a little bit further, helped us, and opened doors, because they liked the product and wanted to help us. In Toronto, if I say I need something, I only have to speak it a few times and someone will say 'I know a person for you.'"

#### 10. *Better Story*

Another strategy CFEs deploy to draw customers away from mainstream food businesses is to tell the story of their local products. Eating is an experience that involves all the senses and emotions of a consumer. By evoking stories of real farmers, real entrepreneurs, and real chefs, CFEs enhance consumers' appreciation for what they are eating. Authentic stories add value to local foods.

One similarity between the White Dog Café in Philadelphia and the Cabbages & Condoms restaurants in Thailand is their menus. Both contain extensive descriptions of where the food served comes from and who exactly was involved in growing, raising, and processing it. Both also explain their own stories—the origins of their businesses, their social missions, their employees, and their calendars of events. Both involve eaters by explaining how the money they are about to spend ultimately supports important projects promoting entrepreneurship, environmental protection, social justice, and public health. These messages reinforce customer loyalty.

### 11. Better Stewardship

Another competitive edge many CFEs have is their commitment to the triple bottom line. By advertising their good practices, for the environment and for their workers, they can draw some consumers away from other food businesses that do not adopt these practices.



Almost all the CFEs we studied engage in good environmental practices, but for a few this was the critical piece of their identity. CROPP has built a successful scaled business by embracing—and marketing—the values of environmental stewardship, family farms, and rural communities.

Another example is the Intervale Center in Burlington, Vermont. Initially funded through a successful mail-order business for household gardening supplies, the Intervale is now home to several CFEs. It ran one of the largest municipal compost projects in the country, collecting organic waste curbside from the residents of Burlington (the county recently took the business over). It also manages a large community-supported agriculture (CSA) subscription program—where community members purchase monthly “shares” of farmers’ produce—assists local farmers interested in converting to organic practices, and teaches local kids about sustainable agriculture. Largely as a result of this CFE, Burlington has made it onto several lists of the “greenest cities in America.”

All our CFE case studies also were eager to tout their labor practices, but again, for some, it was core to their business model. When Jim Cochran, co-founder of Swanton Berry Farm on the coast of northern California, decided to invite the United Farm Workers to unionize his labor force, his neighbors thought he was certifiably crazy. But he went further and provided his workers with health insurance, family leave, generous vacation time,

even retirement plans. Despite the higher costs, Jim has seen his business of growing strawberries, making jams, and selling these and similar products at their farmstands and farmers market tables grow steadily. Jim would argue that it’s *because* of the higher labor costs that he has a more loyal, creative, and productive workforce, and Swanton Berry’s consumers know and like this.

A strong emphasis on labor practices also can be found in Zeljko Mavrovic’s organic farms and bakery in Croatia. In the wake of the Croatian War of Independence in the early 1990s, there remains low opportunity for the local workforce. Mavrovic invested in developing training, support systems, and other services for his workers “The main resource of our project is our employees,” he says. “For that reason we pay special attention to practices of respecting workers’ rights. Our motto is that only a happy and content employee can contribute to making a successful business with the products of his labor.”

### 12. Better Service

Food businesses compete not only through food products themselves but also through the excellent services they provide as they present, sell, cook, and serve these products. Food may not seem to be a service-oriented industry, but consider that Americans spend roughly half of their food dollars on eating out. Food service, as discussed earlier, is actually an area where CFEs already have a decisive competitive advantage. Local businesses are, at their core, based on close personal relationships with consumers. Successful CFEs learn what their customers want, cater to their needs, evaluate their satisfaction, and continually tweak their services to better serve the locals.

Good service is a centerpiece for many of the CFEs studied. Making customers feel at home, as if they were eating “comfort food,” has given the White Dog Café a competitive edge. Greenmarket in New York City offers a unique experience to its customers by requiring that all its vendors be growers who then can share information about how the food being sold was grown. Good service is so central to Zingerman’s Community of Businesses that its training arm, ZingTrain, is able to charge \$1,000 per student to dispense the company’s accumulated wisdom on the subject.

The Self-Sufficient Organic Farm School, a high school in Paraguay for future farmers and CFE entrepreneurs, prides itself on giving exceptional service to customers patronizing its student-run businesses. Once teetering on the edge of bankruptcy, the school was brought back to life by a nonprofit, Fundación Paraguaya. It now has 16 enterprises, including a restaurant, a farmstand, and a dairy, run by students, that serve both as educational



platforms and revenue generators for the school.

Good service attracts not only consumers but also other businesses. For the small ranchers who provide the most profitable contracts in Lorentz Meats' business, the key to attracting them has been to provide a strong package of marketing services. Our other producer cooperative examples, as noted earlier, also provide multiple services to their members, who are typically low-income farmers.

### *13. Revitalizing Local Economies*

For some consumers, the competitive edge of CFEs is simply the fact that they are locally owned. The proliferation of "buy local" and "think local first" campaigns worldwide reflects a growing awareness by consumers of the myriad economic benefits locally owned businesses confer on communities. Many CFEs see themselves not only as part of a local food movement but also a local business movement. Assisted by organizations like the Business Alliance for Local Living Economies (BALLE), they are teaming with local businesses across sectors to improve their competitiveness.

When Judy Wicks became a co-founder of both BALLE and a local BALLE network in Philadelphia, she viewed these activities as part of her social mission. But it also wound up helping her business. She was able to develop, with other Philadelphia restaurants, new local supplier relationships that brought down costs. She reaped the benefits of network initiatives like "Buy Local Philly Week," officially declared by the city council. And her restaurant became more visible to thousands of businesses and consumers participating in these initiatives.

Many CFE entrepreneurs ultimately want to change the world one food system at a time. Will Raap's original goal for the Intervale Center was to grow 10% of Burlington's fresh food, and that goal still drives the nonprofit's expansion plans. Changing the community, though, is not enough. CFE entrepreneurs are experimenters, innovators, and risk takers who wish to promote the local, globally. As Mechai Viravaidya, the pioneer of Cabbages & Condoms in Thailand, says, "We want to beat McDonald's. And among the best strategies are to be active in finding new markets, and to have our staff trained in special skills to be professionals. We wish to expand our business not only in the country but globally. Right now we are looking for new joint ventures in Singapore, Australia, the United States, and Europe."

### *14. More Community Spirit*

For many consumers, food is not just about nutrition and taste—it's about memorable experiences and fun. One of the prominent features of CFEs is that the entrepreneurs

love their work. They imbue their small businesses with their passions, their personalities, and their visions. A mark of success is that people leave their establishments with much bigger smiles on their faces.

This is certainly part of the attraction of the White Dog Café. Dog paraphernalia can be found everywhere, from the labels on the wine ("Snaggletooth Red"), to the canine paintings on the walls, to the fire hydrants on the restroom doors. Judy Wicks has deployed the White Dog as ground zero for progressive politics in Philadelphia, and features a steady stream of speakers, events, and festivals.

A similar sense of fun can be found at the Mavrovic Eco-Center in Croatia, which is an all-in-one research facility, an educational center, and a community gathering place. The Eco-Center organizes workshops, seminars, and lectures for children, students, businesspeople, and farmers. Topics are diverse, varying from ecological agriculture and sustainable development to personal development and healthy lifestyle habits. It also hosts annual festivals like the Bundevidada (the Pumpkin Festival), which includes 40 other organic and local food vendors from around Croatia.

### *15. More Social Change*

A final strategy some CFEs embrace to compete more effectively is to position themselves as social-change agents. Like Ben & Jerry's, United Colors of Benetton, and The Body Shop, these CFEs see their mission as much broader than just generating profits or modeling good business practices. The heads of these firms are fully aware that taking strong stances on controversial issues irritates and frightens some customers—but attracts and impassions others.

Our leading example of this strategy is Cabbages & Condoms. Superficially, its dozen restaurants and resorts provide excellent food and hospitality. But the explicit mission is to generate revenue, currently about \$2 million per year, to support public educational efforts in Thailand around AIDS, safe sex, and reproductive rights. Customers descend in great numbers, in part for the great food but also to join its great mission.

Taken together, these 15 strategies are clearly working. The proof is that nearly all of our CFEs are generating net revenue. With this study and others like it, other CFEs worldwide can draw from this tool chest to improve their competitiveness. Yet this is only part of the story. Each CFE we studied also faced serious challenges over its lifetime, many of them threatening the very existence of the enterprise.

## CFE Challenges

Most small businesses fail within a few years and CFEs are no exception. A balanced picture of the prospects for CFEs must account not only for the strategies they are using to succeed, but also the enormous daily challenges they must surmount. Below we review 16 challenges most CFEs encounter and intriguing ways they are meeting them.

### 1. Bottom Line

The first imperative for a CFE is to have a healthy bottom line. Most of the businesses we examined did, but not all. Anna Marie Seafood, for example, posted net losses in three of the last four years. Its loss in 2007 was especially significant, though it occurred because of the purchase of an onboard flash freezer that the company argues will sharpen its competitive edge in the years ahead. Sales are growing, but costs are growing faster still. With total liabilities exceeding assets, the company will have to dramatically expand sales or cut costs in the very near future. Finding the right rate of expansion and investment is a tricky challenge for CFEs.

Another CFE financially struggling is the Appalachian Harvest Network (AHN). Its sales cannot currently cover its operating expenses, so the company, a nonprofit, has turned to supplemental grants and individual donations. The outgoing head of the parent nonprofit overseeing the business, Anthony Flaccavento, dreams of reaching the financial break-even point by 2011, but admits that “becoming financially viable after ten years seems to me awfully slow.” He argues that his imitators won’t have it so bad. “When we started, there weren’t national debates or the market there is today. We were far enough ahead of the curve that we had to create all these things.”

A weak bottom line, of course, can threaten food businesses at any scale. Yet the small size of CFEs, which usually means a lack of a financial cushion and little business diversification, also means that the failure of a single part of the business can easily bring down the entire enterprise. That’s part of the explanation of AHN’s predicament, ever since a fire destroyed its processing facility in 2008 and burned a hole in AHN’s infrastructure and budget. But adversity also contains seeds of opportunity. The fire allowed AHN to upgrade to a new facility more in line with its commitment to the environment.

Some of our international CFEs were weakened by depending on the export of a single crop. Sunstar Overseas Limited, a basmati rice company in India, grew 25% in its first three years. But then, in 2007, the price for basmati fell dramatically, the company couldn’t sell half the harvest, and expansion plans were shelved.

Kuapa Kokoo, a cocoa producer cooperative in Ghana, had strong balance sheets until 2007, when Ghana’s local currency, the cedi, was radically revalued.

The finances of Kasinthula Cane Growers Limited in Malawi are “very shaky,” according to Brian Namata, the general manager, ever since the national currency collapsed and its foreign loans (denominated in foreign currencies) ballooned. When the Philippines joined the World Trade Organization in the mid-1990s, the national onion importation ban that NOGROCOMA’s founder helped to craft was repealed, opening local markets to increasingly tough competition from China and forcing NOGROCOMA to overhaul its business model. Each of these export-oriented CFEs has decided to diversify its products and to focus increasingly on domestic markets.

Every one of the CFEs now agonizes over how the current financial crisis and global recession will affect its business. Judy Wicks worried enough about the future of the White Dog Café that she decided to sell it. “Popular restaurants come and go in cities,” Judy observes, “and not many are around for a long time. We’re 25 years old, and there are so many new restaurants in town with flashy new decors and new ideas.”

### 2. Multiple Bottom Lines

Even though CFEs struggle to compete with mainstream food businesses, nearly every one studied chose to take on the additional challenges of meeting the bottom lines of other stakeholders like workers, consumers, and members of the community. Most saw this as a moral imperative, but over time they also saw their stance bringing financial advantages as well. Higher labor standards improve employee morale and performance. “Community engagement” on popular social issues is a powerful form of marketing.

We found plenty of examples of CFEs that were able to improve all their bottom lines simultaneously. Jim Cochran at Swanton Berry Farm is reducing costs by tracking and reducing fossil fuel use, and would like to begin doing this for water. Cargills in Sri Lanka is actively helping its farmers and suppliers adopt energy efficiency and water recycling technologies. The Ajddigue Women’s Argan Cooperative now uses the shells of argan nuts, which used to be thrown away, for cooking. Andrew Akiwenzie feeds his fish bones and heads to the birds, and minimizes his carbon footprint through a small boat and small car. Cabbages & Condom’s resort in Pattaya recycles wastewater and uses recycled materials. Fundación Paraguaya introduces its Farm School students to solar energy, vermiculture, and composting. The Mavrovic Eco-Center has a composting program that incorporates wood leftovers from a local furniture maker, manure from

a local dairy, and processing waste from the bakery. All these actions save CFEs money.

But many other improvements in labor and environmental performance cost more and therefore pose dilemmas for CFE proprietors. Even at the financially successful Zingerman's Community of Businesses, the managing partners are constantly struggling over how to maintain the slim margins in their businesses yet honor their commitments to provide employees with decent wages and benefits, to support local producers, to green the business, and to give back to the community.

During successful years CFE entrepreneurs often channel their profits into expanding their social commitments. Judy Wicks of the White Dog Café reports, "In 2007 we made \$250,000 and I gave out bonuses, so the employees were happy." She also was able to invest in building improvements like a \$50,000 solar hot water heater. But attention to people and planet means that the White Dog periodically skirts on the financial edge. Investments in 2007 in the social mission meant there was less of a rainy-day fund to help during the tougher years of 2008 and 2009.

When Weaver Street Market in North Carolina decided to engage in local sourcing, it found that the presence of many other cooperatives and local food businesses in the Carrboro area made the first phase easy. The next phases will be tougher. Even though there's a clear demand by Weaver Street members for local meat, for example, meat processing plants are notoriously capital intensive. Developing an expanded supply of other local processed foods will be equally difficult.

Focusing on multiple bottom lines, as CFEs do, places higher demands on CFEs and brings new risks. One of the most painful experiences Judy Wicks had in the history of the White Dog involved a labor dispute during a sabbatical she had taken to write a book. "While I was gone, the servers organized because they felt the person I hired was really corporate, and they were afraid they would lose their benefits, which are unheard of in this business." Pickets appeared, rumors flew, and adverse press appeared. Ultimately, the staff decided not to unionize, but the fight was emotionally devastating to her.

### 3. Pricing

As CFEs strive to improve their bottom lines, they realize that one of the few choices available is to raise prices. The Indian Springs Farmers Association in rural Mississippi is now responding to higher production costs at its processing facility by charging higher fees to non-members. Whether this will improve or hurt its bottom line is unclear. Economists would note that the answer

depends on the "elasticity of the demand curve," but an operation like Indian Springs, with one full-time staff member, cannot possibly perform a market analysis before it tinkers with its prices.

Will consumers pay more for greater social commitments? Perhaps, but the reality appears to be that consumers are only willing to pay for better social performance when it's accompanied by higher quality. Zingerman's deli charges substantially more for its sandwiches than other delis in Ann Arbor do. While its customers are excited about the social missions of the company, Paul Saginaw believes that they return because his sandwiches taste better.

Every CFE entrepreneur also knows that prices cannot be raised indefinitely. Even as her food costs rise, Judy Wicks worries about her mid-scale clientele: "Our prices are now up to twenty or twenty-five dollars an entrée, and we can't really go any higher."

The other alternative is to cut prices. It bothers Mechai Viravaidya, the founder of Cabbages & Condoms in Thailand, that some locals can't afford to eat at most of his restaurants and resorts. He is now toying with the idea of a C&C Express at every location that would charge prices the average Thai consumer could afford.

### 4. Competition

Most CFEs these days must struggle against nonlocal competition. NOGROCOMA, based in the Philippines, sold onions to domestic and export markets successfully for several decades. When the Philippines joined the World Trade Organization, the cooperative was less able to compete against cheap, imported onions. Shifting with the winds, NOGROCOMA has now modified its business model to also sell imported produce.

Sunstar Overseas Limited in India built a global niche in organic basmati rice, but is now facing growing competition from abroad. Market demand for Indian organic basmati continues to grow in Europe, but so do the number of rice exporters. In the United States, which Sunstar has targeting for increased sales, it has run into competition from a Texas-based firm, RiceTec, which markets a new type of basmati, called Kasmati, adapted to grow in American environmental conditions.

For producer cooperatives, strong competition can pull away existing members. While the government is the only authorized purchaser of bulk cocoa in Ghana, there is still stiff competition among intermediaries for the premium cocoa produced by Kuapa Kokoo. If there is a delay in cooperative members getting their premiums and dividends, they are increasingly tempted to sell their cocoa to another intermediary, thereby weakening the cooperative.

## 5. Maintaining the Niche

Another form of competition comes from mainstream food businesses that deliberately incorporate community-friendly features of CFEs. Sometimes these programs amount to “local wash.” In Morocco the Ajddigue Women’s Argan Cooperative complains about dishonest competitors that have set up women’s cooperatives that in fact neither are cooperatives nor give women real power. They are simply set up to ensnare gullible tourists. But more common are competitors who are sincerely learning



how to tap local markets. Because CFE innovations are low-cost, low-tech, and transparent, it’s easy for larger companies with financial resources to adopt them.

Regional copycats pose one of the biggest threats facing Zingerman’s Community of Businesses. Co-founder Paul Saginaw admits, “We got complacent, thought we owned the market, but people aren’t stupid and understand what parts of your biz are successful. Competitors come along and offer fifty percent of your quality at seventy-five percent of the price, embarrass you, and make you look like you’re robbing the public.” The answer for Zingerman’s has been to focus relentlessly on improving the quality of products and excellent service.

Lance Nacio worries about “purist” consumers who believe that frozen shrimp, his product at Anna Marie Seafood, is inherently inferior. Lance counters that “the reality is, it’s only as fresh as you can get it to the customer, and you’re out on the water for days at a time.” But other shrimpers might someday undercut Lance by making more frequent, shorter hauls. CFEs must continue to innovate. In the meantime Lance struggles to enforce his standards. His longest standing client, Rouses grocery stores, recently grew to 34 locations, with the result that “they are kind of acting like a Walmart, trying to dictate prices.” Moreover, the chain has been labeling some farmed shrimp as wild

shrimp. Lance is working with Rouses to prevent any weakening of its standards.

A related threat to CFEs comes from the difficulty of protecting their intellectual property. The competitive threat Sunstar faces from RiceTec has led to a dispute within courtrooms and the World Trade Organization about who owns basmati rice. Indian scientists are now mapping the DNA of basmati rice, and together the Indian and Pakistani governments are seeking to legally protect basmati with “geographical identification” status. This recognizes the regional genesis and authenticity of a product, and prevents producers in other areas, like RiceTec, from using the same marketing name—a status that French champagne enjoys, for example. Sunstar is lucky that it’s a big enough CFE to hire good attorneys and that it has the full backing of the Indian government in this dispute. Other CFEs with more meager resources have fewer ways to protect their niche. Many turn to international certifications.

The Panchakanya Agriculture Cooperative has benefited by working with OneCert, Inc USA, an organic certification organization. With support from the Winrock International Farmer-to-Farmer Program and OneCert, the cooperative is well versed in the global requirements for organic certification. It has set up the necessary tracking systems but, lacking even a single dedicated computer, the CFE is having difficulty communicating with the certification agencies. It’s now seeking NGO partners to help.

The importance of certifications has not escaped the attention of Sunstar. A central part of its strategy has been to obtain as many certifications—kosher, organic, fair trade—as possible. Since 2001, the company has partnered with thousands of small-scale farmers in northern India to create a group certification for organic basmati. To overcome farmers’ initial skepticism about converting to organic production, Sunstar contracted to buy 100% of any rice they grew in the first few years after conversion. It initiated a group organic certification in 2001 through ECOCERT. Using an increasingly common process called an Internal Control System (ICS), Sunstar takes responsibility for inspecting its farmers rather than requiring each to get certified—an expensive and onerous process. The ECOCERT certification rests with Sunstar.

## 6. Quality Assurance

The most common way CFEs compete against mass-producing food enterprises is through quality, and CFE operators are almost maniacal about it. Andrew and Natasha Akiwenzie are continually tasting and testing their own fish. Mechai Viravaidya insists that the bathrooms in the dozen Cabbages & Condoms restaurants and resorts in Thailand be as beautiful as the dining rooms.

Not all CFEs are capable of such intensive, hands-on involvement. The low-budget Oklahoma Food Coop, still in its first decade of operations, has erred on the side of less quality control. It has a Producer Care Committee, but it doesn't perform inspections—it just responds to complaints.

In Zambia, Sylvia Banda, founder of Sylva Professional Catering Services Ltd., has struggled to ensure that her small-scale farmers produce a steady supply of foods that meet her exacting standards, driven in part by export markets, for food production and handling. She now trains farmers herself and, wisely, puts her training into a fee-for-service business model (like Zingerman's ZingTrain).

### 7. Technology

Most CFEs, being small and lightly capitalized, often find themselves at a technological disadvantage vis-à-vis nonlocal competitors. This is especially true for CFEs in developing countries. In the Philippines, NOGROCOMA is trying to help its onion farmers improve their irrigation infrastructure and cold-storage capacity. The Panchakanya Agriculture Cooperative in Nepal lacks even one dedicated computer that it can use to comply with global organic certification programs. In Paraguay, the training school run by Fundación Paraguaya has computers, Internet access, and training software, but lacks a supply of pencils and paper.

### 8. Leadership

Our case studies contain extraordinary stories of CFE leadership. Implicit is how difficult these leaders are to find and, once gone, to replace. A top student of business is usually drawn to a global company, where the salary and status are high. CFE leaders, in contrast, are driven more by passion and community values. Many begin with no business experience whatsoever.

This was true in Croatia, where Zeljko Mavrovic's fame as a professional boxer gave his farm and bakery businesses a strong brand name. Starting a food enterprise nevertheless required his ascending a steep learning curve. "I needed to learn a lot of technology new to me in a short period of time. While already producing organic grain, I had to pick up a tremendous amount of knowledge about production, processing, sales, education, branding, and everything else necessary for a successful business. But my philosophy of being able to do anything with a lot of hard work, dedication, courage, and self-motivation helped me to overcome the challenges, just like it once helped me as a boxer. Having a clear vision and working toward that vision allowed me to create a product quality that people recognize and in which they trust."

Judy Wicks wound up selling the White Dog Café rather than groom a successor (though she was able to lock in guarantees about some of the restaurant's triple bottom line features). When the founder of the Intervale Center, Will Raap, decided to move into other projects, the business went through wrenching changes, including multiple executive directors and high staff turnover.

Scale seems to matter here. Larger CFEs, like Zingerman's, Weaver Street, and Cabbages & Condoms, have been able to cultivate and promote new leaders. Smaller CFEs can't.

### 9. Succession

Related to the problem of leadership is that of succession. Unless a CFE can find a good new leader, its founder inevitably will need to sell the business when he or she retires, loses interest, or moves on to another enterprise. Here is where the type of business structure chosen seems to matter.

Nonprofit assets, by law, must remain in the universe of other nonprofits, and good social enterprise managers are harder to find than good for-profit managers. One implication is that when a nonprofit CFE leader leaves, the nonprofit might well never find another decent successor. At the Appalachian Harvest Network, it's not at all clear how the enterprise will fare now that its founder and director, Anthony Flaccavento, recently decided to become an independent consultant.

A for-profit CFE can find another manager, but succession is a key moment when its community roots can be easily ripped out. Judy Wicks was absolutely committed to not selling the White Dog, but it took her years to find a like-minded local buyer. At Zingerman's, Paul Saginaw is not satisfied with his formulas governing what a partner must pay to buy into a business (or what he or she must pay to exit). He believes there needs to be greater incentives for a partner to remain a long-term owner committed to steadily increasing the value of the enterprise.

Cooperatives may well be the structure with the smoothest record of succession, since they are formed from the outset with a collective mindset. Zeljko Mavrovic dreams of transitioning the ownership of his farms in Croatia into a cooperative model where employees are also co-owners (though to do so, he has to overcome the bad reputation cooperatives acquired during the Communist regime).

## 10. Labor Force

Skilling up the labor force is another challenge for CFEs. Unlike their larger competitors, CFEs lack budgets and programs to recruit skilled workers. The Oklahoma Food Coop still largely runs on volunteer labor, but the founder, Robert Waldrop, concedes this is unsustainable. “At the beginning, you need a few people who can invest a lot of sweat equity above the call of duty. But eventually we need some full-time people.”

When CFEs originate in economically distressed areas, recruitment challenges can be particularly tough. Andrew and Natasha Akiwenzie are frustrated about the difficulty in finding good fisherman for their sole proprietorship, Akiwenzie’s Fish, and blame the reservation’s weak work ethic.

Many years of civil war in Croatia have left a weak workforce too. “In starting a business in such an area, it was challenging to find motivated workers among the people who lost a sense of life,” Zeljko Mavrovic notes. “It was also challenging to find people with certain skills, who are available in larger urban centers, and bring them into an area where life is very simple and the consequences of the war are still present.”

Training is essential for CFEs but costly. At Cabbages & Condoms in Thailand, one of the managers, Tittaya Metha, calls its policy of hiring local, non-professionals a “trial-and-error process.” Were she starting over, she says, she might hire department heads with at least formal training in the hospitality industry. “We have now sent some of our staff at the Pattaya branch to study in certain areas and the results are excellent.” At Fundación Paraguaya, the food-business teachers are hired from the surrounding communities with a good understanding of rural, agricultural Paraguay. Still, they must be trained by the foundation in how to best use experiential learning to develop students’ entrepreneurial skills. “Before you can educate the children, you need to start educating the teachers,” notes Nik Kafka, director of Teach A Man To Fish, the foundation’s sister organization.

At the Intervale in Burlington, Vermont, the managers are realizing that to meet the region’s growing demand for local food, they need to focus their business incubator on training more farmers. The difficulty in recruiting new farmers is a formidable one for CFEs. In the United States the average age of a farmer is now nearing 60 and very few young people are entering the profession.

The Indian Springs Farmers Association in Mississippi acutely feels the need not just to replace its members nearing retirement but also to bring many more farmers into the cooperative. More members are necessary to

achieve greater economies of scale, to compete more effectively against mainstream suppliers, and to keep the struggling counties in rural Mississippi alive. “At this point,” argues Ben Burkett, “we’ve got more marketing than we do production. We’ve got to build our production base to meet our demand.”

Producer cooperatives face special training challenges, since they often require farmers to take on new roles with which they are not familiar. Brian Namata, one of the organizers of the Kasinthula Cane Growers Limited (KCGL) in Malawi, remains concerned that his farmers do not have enough business skills or acumen: “Many from the rural areas think that all the money they are paid is profit for them, without understanding the costs that need to be covered—hauling, processing, machinery, and repairs.”

In the Philippines the big problem is attrition. In recent years the NOGROCOMA cooperative has lost 75% of its membership. When a member leaves the cooperative, his or her annual contribution of 500 pesos (US \$10.50) must be returned. When markets are tough and many members leave at once, the cooperative suffers a huge financial blow. It can no longer provide many services such as affordable credit. Fewer members also have a harder time producing enough to consistently meet buyers’ demands.

For some CFEs the problem is not hiring workers but retaining them. Ten years after operating with little turnover, Zingerman’s Deli ran out of good opportunities for its staff. Managers felt stifled and left. Mid-level employees were waiting for people to retire or leave. Observes co-founder Paul Saginaw, “We had spend enormous amounts of time and resources training staff, but now we were losing them to competitors.” The solution was to expand the community of businesses.

Another labor issue that has challenged Zingerman’s is balancing workplace democracy with efficiency. A tour of Zingerman’s Deli quickly reveals many innovations that were actually the result of suggestions by lower-level employees. Most CFEs try to involve their employees, but the challenge remains that in any organization someone needs to say yes or no at end of day. The proprietors at Zingerman’s have struggled to define decision-making procedures that involve everyone.

## 11. Accounting

A skill deficit that deserves special mention is accounting. Without good books, a CFE can fall into legal jeopardy, make poor business decisions, and fail to attract capital.

Some of the smaller and newer CFEs we studied had poor financial records. Akiwenzie’s Fish in Canada had

very little formal bookkeeping. The founder of Indian Springs in Mississippi admits that he and his colleagues need to “tighten up on our record systems. We own a computer but we ain’t utilizing it.” Appalachian Harvest Network’s limited budget has meant primitive accounting. For example, all of AHN’s financial data is still initially recorded by hand. When it secures more resources, AHN plans to buy a fully computerized system to assemble, track, monitor, and analyze its business data.

At the Oklahoma Food Coop, the original books were a mess, and a board treasurer invested “tons of hours” to clean them up. Says founder Robert Waldrop, “If you’re going to spend money, the very first thing you do should be to ask for accounting help (unless you can get a volunteer CPA). Budget for a real accountant. A member can do payment posting, but you need adequate financial statements to know if your organization is gaining or losing.”

## 12. Capital

Standing in the way of CFEs meeting their goals is the very limited supply of local capital. For Akiwenzie’s Fish, operating on a native people’s reservation has meant no access to banks or other sources of capital. Luckier CFEs have had more options, but not many. Almost every company profiled endured a capital challenge at some point in its lifetime.

There are many consequences of lacking capital. For Sylva Catering, the absence of capital has kept the business at the University of Zambia, on a site with limited space and visibility. For Kuapa Kokoo it has meant loans with unfavorable terms that must be repaid in increasingly expensive foreign currencies. For Kasinthula Cane Growers Limited in Malawi, being unable to refinance a huge loan has meant its farmers must work harder. For Lance Nacio at Anna Marie Seafood, the absence of capital means being unable to purchase another boat to meet new contracts. For NOGROCOMA, the inability to invest in cold storage facilities is responsible for the loss of about ten percent of members’ onion crops each year.

All kinds of small and family-run businesses face capitalization challenges, but they are especially severe for women-run enterprises. Sylvia Banda, for example, must contend with cultural norms that make it difficult for a Zambian woman—even a proven entrepreneur like herself—to receive loans. The solution for Sylvia was to name her husband as chairman of her company.

Yet the absence of capital also has arguably made CFEs more independent and entrepreneurial. For the Ajddigue Women’s Argan Cooperative in Morocco, limited access to loans has resulted in limited debt. The same is true

for Akiwenzie’s Fish. To help capitalize expansions, both companies turned instead to modest grants.

We were struck by how many of the CFEs we studied obtained grants or low-interest loans at one point or another. Fundación Paraguaya has received international support for its Farm School. Many northern charities, companies, and agencies have helped Kuapa Kokoo establish a fair trade manufacturing company in the United Kingdom called Day Chocolate Company, including The Body Shop, Twin Trading, Comic Relief London, and Christian Aid. The Body Shop ultimately donated its stock shares to Kuapa Kokoo. The Panchakanya Agriculture Cooperative has enjoyed several helpful grants from various Nepali government agencies. In 2001 the Philippines’ Department of Agriculture gave a grant of 8 million pesos (US \$170,000) to NOGROCOMA to underwrite technical assistance for branding and marketing, to incorporate new onion production technologies in member farms, and to construct a nursery.

It’s worth underscoring that our CFEs were all smart enough not to become dependent on grants. Instead, they used these gifts to address one-time needs. They understood that charitable funds ought to be, as President Bill Clinton once said about welfare in the United States, “a second chance, not a way of life.” For Cabbages & Condoms, its limited access to commercial capital markets has made it all the more important to build its restaurants and hotels on land it owns or has been given. “Our major investments are just initial building construction,” says the director of the Population and Community Development Association, the nonprofit recipient of C&C profits. “We run the business the Chinese way, by starting small and growing as we can.”

The challenges of obtaining private capital is one reason some CFEs turn to cooperatives, since they provide a ready-made way of combining many small membership fees into a significant capital base. As Cooperative Regions of Organic Producer Pools (CROPP), expanded, it also took advantage of a recent law in the state of Wisconsin, its home base, that allows a cooperative to bring in private investors as nonvoting shareholders.

Sunstar Overseas Limited considered solving its capital needs by going public—a process that in most countries is expensive and obliterates local control. But nervous that they wouldn’t find enough investors to support their work, Sunstar’s managers ultimately put a halt to the effort. Still, for any CFE needing more capital, such a change in corporate structure remains a potential solution—and a dangerous one from the home community’s perspective.

### 13. Scaling Up

Another recurrent theme in the CFEs studied is the challenge of scaling up. Being small, CFEs only have two choices—staying still or growing. Staying still is really off the table. All CFE entrepreneurs are visionaries who fundamentally wish to do more and do better. Even the smallest CFEs have understandable ambitions for expansion. Andrew Akiwenzie can no longer meet his customers' orders for smoked fish and would like to get a bigger boat, a new processing facility, and more staff. At Anna Marie Seafood, Lance Nacio is discussing new, expanded contracts with Rouses, Whole Foods Market, and FedEx, knowing full well that to deliver more product



he will need more boats and crew. In Croatia, Zeljko Mavrovic wants all his baked products to be 100% organic, but his own farm must expand to meet his organic grain requirements.

Even our most successful CFEs see room for improvement. Commenting on the virtues of having its members involved in every aspect of its decision making, Jerry McGeorge of CROPP says, “We know where our owners want to be in twenty years. We will be ‘wildly successful’ when we have created a sustainable business model that allows farmers to stay on their farms, make a living, and raise their families—a living that is sustainable both financially and environmentally.”

Sometimes, of course, expansion is driven by the need to achieve higher economies of scale. To take full advantage of the capacity of its packing facility, for example, the Indian Springs Farmers Association in Mississippi must ramp up production year round. Some of the cooperative's farmers have winter grow houses now, but most do not. That's why the cooperative is building a demonstration grow house and plans to build many more.

In Nepal, keenly aware that the market demands quality product and regularity of supply, the Panchakanya Agriculture Cooperative is striving to go beyond its small yields and inconsistent volumes. Right now, the enterprise is at a competitive disadvantage against larger, non-organic farms in the region that can fulfill bigger contracts. On any delivery day most members of the cooperative can produce only a basket or two of a particular food item. Even with a village collection center to aggregate their output, the total amounts are so small that it has been hard to convince traditional supermarkets or natural food stores to hassle with purchasing from Panchakanya. At one point, the cooperative hired a bicyclist to make multiple deliveries each day to a department store, but the deal fell apart when they couldn't grow enough to ensure a steady volume of supply.

For CFEs that already have achieved a profitable scale, the temptation to expand into other lines of business poses another dilemma. For some, like Zingerman's Community of Businesses, expansion is essential to providing its employees with upward mobility within the company. For others, like Akiwenzie's Fish, creation of a side business—a truck selling fish and chips on their home property during the tourist season—proved to be a distraction and a bust.

Most of our CFEs grew slowly. The Ajddigue Women's Argan Cooperative in Morocco credits its own survival with the decision to grow slowly, increasing its original membership by only 40 women in 15 years. Greenmarket in New York City has opened and closed many sites over the past three decades, in the process learning valuable lessons about how to appropriately allocate resources, evaluate success, and prepare for the future. “Don't grow too fast, and invest in the markets that you have,” cautions Michael Hurwitz, the director of Greenmarket. “When you open a new market, do it deliberately and slowly. If it takes longer than you hoped for, that's okay. You have to do it on a timeline that makes sense for you, not on the timelines you may be pressured to use. Even if someone is pushing and pushing, if it doesn't work once you start, that won't help anybody.”

In Nepal the leadership of the Panchakanya Agriculture Cooperative is wary of signing up new members without assurances that they are completely committed to organic production. Two hundred farmers are now interested in joining, but the cooperative wants newcomers to know that the first few years in organic farming may bring decreased yields and decreased profits. The cooperative needs new members to stick with the program, to prevent sudden drops in production and to avoid the consequences of any products failing to meet organic standards.



Some CFEs decide to scale out by diversifying their clients. Mike Lorentz is aware that many local foodies are skeptical about meat in general, about slaughterhouses of any scale, and about regional-scale businesses like Lorentz Meats. But he believes that the key to “good food” succeeding is a flexible definition of it. He employs the “80/20 rule” – 80% of his business is with a couple of large-scale customers, while 20% is with 300-400 local farmers that sell directly to consumers. The large-scale customers ensure that the plant operates near capacity, while the small-scale customers, who pay more for smaller batches, generate most of the profits. With Organic Prairie and Thousand Hills Cattle, Lorentz Meats has the 80% nailed for the moment, but Mike recognizes the need to diversify his larger customer base.

It’s also worth noting that CFEs sometimes realize that scaling down may be the right business move. The Intervale’s municipal composting program in Burlington, Vermont, consumed so much time and energy that it threatened to overwhelm all of its other enterprises. The decision was made to spin the program off, and now the Intervale is looking to spin off other programs as well.

#### *14. Decision Making*

A growing pain of CFEs that deserves special mention concerns picking the right structure of the enterprise. The original choice about who makes what decisions, and when, is often made hastily and instinctively, and months or years later the founders realize the structure is no longer viable.

The problem seems especially keen for cooperatives, since the enthusiasts see their business structure not just as a choice but as a philosophy. The Oklahoma Food Coop initially tried to democratize everything, with a hands-on board that discussed operational issues at every meeting. Decision making ultimately moved too slowly. Now there’s a separate operations committee, and a floor manager who reports to the committee. As a \$500 million company, CROPP needs to constantly balance its economic identity with its basic cooperative principles. Keeping channels open to receive member’s complaints, concerns, and ideas is critical.

The Zingerman’s Community of Businesses is an informal federation of collaborating partnerships. This has worked reasonably well, though occasionally the interests of one business are at odds with another. Paul Saginaw explains one such incident: “We have the deli, and a bakehouse that sells to deli. The bakehouse also sells to a lot of other wholesale customers; seventy percent of its business is outside of the Zingerman’s community. Yet the deli sees the bakehouse as its partner, but it’s a partner who is selling to its competitor. If each owned some portion of the

other’s businesses, then the sale of bread would be the sale of bread for Zingerman’s no matter which business it’s happening out of.”

#### *15. Lack of Market Infrastructure*

CFEs have little control over the structure of the overall market for local food. Even though the economics of local food have been steadily improving, capital moves slowly to meet even the best investment opportunities. CFEs face a landscape where global food businesses have made significant inroads over the last generation and where the local food infrastructure, such as wholesalers, regional distribution, and even local retailers, has been systematically dismantled. Putting the pieces back together again will take time.

The Panchakanya Agriculture Cooperative is hampered by the lack of an organic sales infrastructure in Kathmandu. Although demand for organic and natural foods is steadily rising, there are only a few dedicated shops in all of Nepal selling organic vegetables. “The member-farmers are mostly selling in regular vegetable markets and are unable to obtain a premium price,” says the cooperative’s head, Uddav Adhikari. “Currently, only four out of thirty-five farmers are supplying about a hundred kilos per day to the organic shops at premium price.”

#### *16. Public Policy*

A final obstacle facing CFEs, largely beyond their control, is public policy. A whole slew of obsolete public policies, from local to global, now stand in the way of small business.

In the United States, a number of CFEs, like Greenmarket in New York City, have thrived because they’ve been able to accept food stamps from low-income residents. But the Oklahoma Food Cooperative has not been so fortunate, according to its founder, Robert Waldrop: “One of the failures is we haven’t been able to accept food stamps. We’ve written letters and met with senators. But our state legislation doesn’t have a category that fits what we’re doing. What we’d have to do to qualify is to open a brick and mortar store and have it open three days a week for eight hours a day with a certain specified amount of product. We may do this with our existing warehouse space, but the real goal is to allow food stamp customers access to all our products.”

Canada’s laws concerning native people’s rights have created problems for Akiwenzie’s Fish. The national government limits the Chippewa to fishing out 90,000 pounds annually, which places severe constraints on the long-term growth of the company. Restrictions on reservation businesses also prevent the Akiwenzies from

buying insurance, which means they have no protection against accidents or lawsuits.

As the global trading system has eliminated various agricultural subsidies, the prices of food commodities have fallen. For instance, at the request of the World Trade Organization, the European Community recently eliminated sugar subsidies, and by 2012 the price of sugar is predicted to fall nearly 30%, which will significantly affect the bottom line of the Kasinthula Cane Growers Limited. In Zambia, Sylvia Banda complains that she is unable to export “as much as I thought I would due to many limitations both locally and internationally. International sanitary and phyto-sanitary measures are a barrier to trade.”

Jim Cochran of Swanton Berry Farm would like to take on the rules of the entire U.S. food system, and wants other small operators to join him. “Unless someone does, it won’t happen, and we’ll stay islands of good food and good community in a sea of bad news....I am really interested in moving beyond tying together little islands. There is not enough solid ground there to make a continent. We need to start from scratch making a new infrastructure, including things like local stock exchanges and community development banks.”

Accomplishing the daunting innovations envisioned by Jim Cochran will require an overhaul of all kinds of local, national, and global laws, including those governing corporations, insurance, securities, cooperatives, banking, trade, environmental protection, labor, and so forth. Ultimately, this is where an organization like BALLE becomes important. No one CFE can possibly exert very much influence over public policy, and existing business organizations such as Chambers of Commerce have too many large and nonlocal members to represent adequately the views of smaller businesses. BALLE is providing a platform for small businesses to articulate policy reforms with one, powerful voice. It’s hardly surprising that CFE leaders like Judy Wicks and Paul Saginaw have devoted so much time to organizing BALLE. They realize that only by teaming up with other local enterprises, including those that have nothing to do with food, can they possibly create a better policy environment for their own CFEs.

Many economists and economic developers are resolute about helping companies in their jurisdictions “go to scale.” They are impressed by the ways bigness can solve many of the challenges above. But what our case studies reveal, and is not well appreciated, is that local businesses actually are “going to scale.” They are diversifying their businesses, entering export markets, vertically integrating, and adding new products, but using strategies that respect and deepen their community character. What many CFEs are missing to

compete more effectively is not scale but the ability to tap into the accumulated wisdom of similar-scale enterprises elsewhere. If a low-cost, low-tech software is developed by one CFE for basic accounting, for example, how can it be made available to other CFEs with similar accounting needs? This is why building a global network for sharing CFE innovation is so important.

Emerging networks that spread local innovation are critical. One of the missions of BALLE is to help local businesses in North America share best practices—in technology, business design, evaluation, procurement, investment, marketing, and so forth. BALLE now has 20,000 members in more than 70 communities, and the movement is fast expanding to other communities and other countries like France, Australia, and Brazil. Similarly, the National Good Food Network, created and managed by the Wallace Center at Winrock International, is focused on a regional food systems strategy and transitioning from traditional supply chain management to value chain management. The network is a connector and resource for numerous enterprises and nonprofits across the United States. Organizations worldwide, such as Slow Food International and Transition Towns, are putting in place global frameworks for community-to-community and business-to-business collaboration. Nurturing and expanding these networks, we believe, is the most important strategy for CFEs to flourish.

## Social Performance

As noted in the introduction, a vast literature has documented that local ownership of business contributes to community well-being in multiple ways. Much of it, however, is theoretical. While our case studies contain numerous stories of CFE initiatives actually benefiting a community, we did not have the resources to perform special surveys or empirical studies to quantify the impacts. Indeed, except in very small communities where there are only a few businesses, the impact of any one business on the community is almost always too small to measure, even in theory. Even where its impacts seem significant, there are so many other factors at play—history, politics, culture, the global economy, even the weather—that a serious social scientist should question whether a strong correlation between a business’s performance and the community’s welfare reveals very much about causality.

But we also know that business behavior matters to a community, even if it’s hard to measure. If nothing else, it sets a model for other businesses in the community to follow. We consequently sought to measure what we could of the social performance of each CFE through a common set of metrics. A condition of a company qualifying as a case study was its willingness to take the B Survey online.

For some of the non-U.S. companies surveyed, we worked closely with the businesses to help them understand terms in the survey that might not easily translate into their own language or business culture.

The “B” in B Corp stands for “beneficial,” and the mission of B Lab (the instrument’s nonprofit architect) is to help businesses benchmark their “socially responsible” performance and steadily improve it. The survey takes a comprehensive look at products, practices, and profits, as well as indicators of leadership, employees, consumers, community, and environmental practices. There are 200 points available in the B Ratings System, and a company must achieve a score of at least 80 points to be eligible for certification. Thus, the evaluation extends beyond just the company’s product or isolated practices, and helps illuminate the full impact of the company and set a standard for what is good enough to be a “good company.” (A longer description of the B Ratings System can be found in Appendix 1.)

The B Survey measures eight different areas of performance: products/consumers, practices, profit sharing, leadership and governance, labor, community, consumers, and environment. Below we briefly describe these criteria, and give examples of exemplary performance from our case studies:

- *Products*—Are the goods and services genuinely useful for the public, or are they addictive (like tobacco) or dangerous (like guns)? Do they promote economic equality, environmental protection, or knowledge or arts industries? Are the production methods safe and pollution free? Are the goods and services reaching poor or otherwise distressed communities, including women, ethnic minorities, and people with disabilities? Most foodstuffs, and all the foodstuffs studied here, score reasonably well on these criteria. Two CFEs in the United States that scored highly are the Oklahoma Food Coop and Greenmarket, both of which emphasize delivering affordable fresh food to low-income consumers. The CFEs that adhere to high standards of organic growing and natural foods also performed well, such as Akiwenzie’s Fish (which naturally smokes fresh fish) and the Panchakanya Agriculture Cooperative (which produces organic fruits and vegetables). Fundación Paraguaya’s Self-Sufficient Organic Farm School and Sylva’s Professional Catering Services scored well because they are not only producing salable products but also training a new generation of CFE entrepreneurs.
- *Practices*—Is the enterprise engaging in business practices that are humane and responsible? Is the firm taking strong affirmative steps not only to minimize pollution and energy use but to restore ecosystems?

Does it have a written environmental policy, with annual reviews of progress? Is it providing opportunities to the poor? Particularly high scores here were registered by enterprises that organized and empowered low-income farmers like the National Onion Growers’ Cooperative Marketing Association in the Philippines, the Panchakanya Agriculture Cooperative in Nepal, Cargills in India, and the Oklahoma Food Cooperative.

- *Profits*—Does the enterprise compensate employees fairly? Does it distribute wealth through broad ownership? Does it support the community through significant charitable giving? Strong performances came from Weaver Street Market, Zingerman’s Community of Businesses, and the Greenmarket in the United States, and from Cabbages & Condoms in Thailand and Fundación Paraguaya in Paraguay. All of these enterprises have multiple kinds of businesses, and reach out to their communities in multiple ways, including education, advocacy, training, and events. Weaver Street is partially owned by its workers, and Zingerman’s provides exceptional compensation, benefits, and ownership opportunities.
- *Leadership*—Is there a strong system of checks and balances overseeing managers? Is there frequent and open reporting of operations to the public? Does the company adhere to a strong code of conduct, such as fair trade rules? The top performers here are all cooperatives and nonprofits: the Intervale Center and Greenmarket in the United States, both nonprofit; and the Panchakanya Agriculture Cooperative and Kuapo Kokoo internationally. One explanation of the high scores of the international enterprises is their efforts to obtain international certifications for fair trade and organics, both of which provide farmers with market rewards for social or environmental performance.
- *Employees*—Does the firm give good compensation, including living wages, health care, family leave, and maternity leave? Does it foster employee ownership, profit sharing, and employee participation? Is the spread between the highest and lowest paid employee not too wide? Is the work environment positive? Are there regular performance reviews of employees, an employee handbook, and a workplace code of ethics? The top U.S. scorers were Zingerman’s and Weaver Street, both of which incorporate worker ownership and have achieved a scale where they can reliably provide their employees with excellent compensation. Internationally, most of the firms scored moderately well, though the highest score came from the National Onion Growers’ Cooperative Marketing Association in the Philippines.

- *Consumers*—In the current B Survey, the questions and score in this category are identical to those under “Products.”
- *Community*—Does the company contribute to the community by buying and banking locally? Does it contribute to local charities? Does the firm support community service and allow employees to take time off to contribute to such service? Is ownership truly rooted in the community? Is the customer base primarily local? All the CFEs studied were locally owned and committed to the local economy, so the main difference was their involvement in charity, with especially high performance by Greenmarket and Cabbages & Condoms, both nonprofits whose missions are to generate funds for broader social change programs.
- *Environment* – Is the corporate office green? Is the transportation used highly efficient and using renewable liquid fuels? How environmentally benign is the manufacturing equipment? Are facilities LEED certified and using recycled materials? Are there practices that minimize transportation, energy, and carbon emissions? The strongest performance here was from CROPP in the United States and the Mavrovic Companies in Croatia.

Four of our enterprises—Anna Marie Seafood, Indian Springs, Cabbages & Condoms, and Sunstar Overseas Limited—did not receive a high enough total score to qualify as a B Corporation. In our view, however, this did not mean that these companies were poor social performers, since each actually scored high grades in many social-performance categories that made up the total score. Our own reflection on the B Survey instrument is that it is most useful as a benchmark for a CFE to measure its own progress on triple bottom line indicators, and that comparing companies across industries is not as useful. This is exactly why the survey was created: as a tool to help enterprises develop better social and environmental performance. There are so many differences between types of business—between food manufacturers and restaurants, for example—that it’s like comparing apples to cherry pies.

What is illuminating is reviewing the many real-world ways our CFEs achieve social goals beyond private profit. Below we summarize seven particularly compelling kinds of community impact:

### 1. Greater Income

CFEs’ embrace of labor rights has brought greater income to its workers. NOGROCOMA’s 206 farmer-members receive, for every kilo of onions the cooperative buys for resale, an immediate cash “patronage” of 1-2 pesos (US \$0.02-\$0.04) over the market price. Incomes for the women in the Panchakanya Agriculture Cooperative also

are up, which is striking since many are not yet receiving the full premiums they ultimately will get from organic production.

Several CFEs have relied on fair trade to boost the incomes of their farmers. Premiums from fair trade allow Cargills to guarantee prices to 10,000 farmers in Sri Lanka that are 20% above costs. Kuapa Kokoo has used fair trade premiums to raise the incomes for 45,000 cocoa growers in Ghana.

Kasinthula Cane Growers Limited in Malawi developed a comprehensive plan that allocates its fair trade premiums to building materials for its 282 farmers, infrastructure for the company, and investment in the farmers’ communities. In the third category, the company has thus far built wells for safe drinking water, allowing local families to avoid crocodile-infested rivers as their primary water source. It has also brought electricity to small villages, expanded a medical clinic at Kasinthula, made essential drugs available through the clinic to members of the community, provided HIV/AIDS education and treatments, and offered emergency aid during natural disasters.

Sunstar’s fair trade practices have clearly benefited its participating farmers, who receive hands-on training in organic production techniques, soil protection and improvement, proper production and use of organic manure, and sustainable use of local resources. They also get access to improved inputs like certified seeds and biofertilizers, all through interest-free loans. As product quality has improved, so has grower income. Farmer Palla Singh reports, “Now I make sixty or seventy thousand rupees (U.S. \$1500-\$1750) annually; earlier it was twenty or thirty thousand rupees (U.S. \$500-\$750 annually). With the extra income we have built our house.” His wife adds, “We have been able to send our children to school, added rooms to our house, even married off our children.”

### 2. Training

CFEs enrich their communities’ entrepreneurial base through workforce training. With 80% of its employees in their 20s, Cargills in Sri Lanka has devised several programs to engage and “skill up” young workers. Its human resources department is called “Human Capital.” Every employee goes through the Albert A. Page Institute of Food Business, an in-house certificate program that offers free classes to employees at all levels. The recruitment process is all about finding young people committed to lifelong learning and serving.

Kuapa Kokoo’s technical training educates members about how to employ more efficient and sustainable agricultural practices, and how to decipher trends in the

global cocoa market. Over 10,000 Kuapa Kokoo members have taken advantage of these programs.

Training actually *is* the business for several CFEs. Fundación Paraguaya's Financially Self-Sufficient Organic Farm School graduates 50 high school students a year after their "experiential education" running 16 different kinds of food businesses. The Intervale in Burlington, Vermont, has a Farm Incubator Program that has supported emerging and small organic farmers since 1995. A new Intervale program, Success on Farms, provides free, customized business planning and technical support services for farms throughout northern Vermont.

Cabbages & Condoms hires Thais who are HIV-positive, which encourages other employers to do likewise. Similarly, Zeljko Mavrovic in Croatia has also developed a strong community partnership with Pet Plus, a local nongovernmental organization providing therapeutic support to drug addicts in the region. The business cluster directly donates funds to Pet Plus, and also provides employment opportunities, training, and other services to Pet Plus clients.

### 3. Ecology

The local nature of CFEs enhances their stewardship of natural resources. Unlike global companies that often exploit, exhaust, and then abandon a resource base, a CFE is tethered to the community's assets in perpetuity. Consequently, the Ajddigue Women's Argan Cooperative is trying to replenish the fast disappearing argan trees by replanting depleted forests. Andrew Akiwenzie distinguishes himself from what he regards as the irresponsible practices of big, commercial fishing operations at Cape Crocker and in the Georgian Bay, and he sets limits on his own fish catch to allow local stocks to replenish themselves.

By the late 1990s and early 2000s, the lands of NOGROCOMA farmers became acidic due to overharvesting, requiring expensive fertilizers and pesticides. The cooperative responded by facilitating technical assistance in integrated pest management (IPM) from the U.S. Agency for International Development (USAID), local and foreign universities, and myriad other international development and agriculture organizations. Now NOGROCOMA is working to spread these IPM techniques to non-members.

Keenly aware of the adverse public health consequences of relying on chemicals, the Panchakanya Agriculture Cooperative in Nepal has spread organic growing methods. The region where it operates now sees lower health care costs as a result of reduced pesticide use.

Plus, reports Nirmala Adhikari, the leader of Panchakanya, "the incidence of diarrhea and dysentery in our village is much less than the nearby villages because of increased awareness of proper sanitation and the consumption of fresh organic vegetables." Villagers also are eating food that is less contaminated and enjoying a higher standard of living, which has resulted in improved sanitation measures such as home toilets and improvements in the community's water supply.

### 4. Local Economy

As elaborated in the Introduction, CFEs pump up their surrounding economies by hiring locally, buying local inputs, and engaging in (or contracting for) local value-added production. Some, like Zingerman's Community of Businesses, deliberately do all three. So does Cabbages & Condoms in Thailand, the farms of which grow many of the vegetables and spices used in its restaurants. Fundación Paraguaya's Farm School hires all its instructors locally, purchases all its supplies (except durable goods like vehicles and computers) within an hour's drive, and teaches its students how best to use local resources. Cargills has recently set up an Agri-business Center to supply more local seeds, agrochemicals, and farm machinery to its farmers. The Panchakanya Agriculture Cooperative in Nepal is helping its female farmers buy inputs locally.

While the exact economic impact of these initiatives is hard to measure, two facts are indisputable. The jobs created and money spent by these businesses are real and add to the local economy. And these direct impacts, by stimulating a local economic multiplier, reverberate indirectly into still more income, wealth, and jobs for each CFE community.

### 5. Charitable Contributions

One study from the National Federation of Independent Businesses in the United States found that small businesses give more than twice as much to charity (per employee) than larger businesses do.<sup>19</sup> This is unsurprising. Local business, deeply nested in its community, has an enormous stake in all aspects of the community's success. Some of the most successful CFEs in the United States—White Dog, Zingerman's, and Weaver Street—actually have started their own foundations to funnel profits toward their favorite community causes.

Internationally, CFEs have developed other techniques to accomplish charitable purposes. The entire structure of Cabbages & Condoms is to pump millions of dollars each year into the Population and Community Development Association in Thailand. Zahra Kenabou, general manager of the Ajddigue Women's Argan Cooperative, says that

her literacy programs “contribute to the economic and social improvement of the community and the cohesion of the family.”

The CFEs promoting fair trade relationships have set up programs to invest their sales premiums into participating communities. Sunstar Overseas Limited in India, for example, has prioritized using its fair trade premiums for infrastructure improvement. The monsoon season used to mean that tractors and bullet carts could not get through to the fields, and at times, even walking to farms was impossible. Now many of the participating villages have roads, bridges, drainage ditches, and bus shelters. One of Sunstar’s farmers reports, “Since 2001, we have no problem reaching our fields. We can bring back the paddy to our village by tractors or carts.” Children who once fell sick from their waterlogged journeys can now walk to school. New fences around their schools protect them from stray cattle and garbage that used to be tossed onto the playgrounds.”

#### 6. Women’s Empowerment

Almost all of our CFE examples are empowering women. Some do it directly. The leaders and members of the Ajddigue Women’s Argan Cooperative in Morocco and Panchakanya in Nepal are all women.

Part of Ajddigue’s program is to teach its members how to read and write and how to run a business. The consequences are huge. Madame Zahra Kenabou, Ajddigue’s general manager, elaborates, “Traditionally the women would do all the work of collecting the fruits and extracting oils and other products and the men would sell the products and, since it is a patriarchal society, keep all the money and spend it at their discretion. The cooperative culture is changing that. Women in the Ajddigue cooperative are not mere workers, or housewives doing what they have traditionally done for free. They are full members who collectively own the cooperative and share in its profits. That gives them a strong sense of ownership of their labor, of the products of their labor, and of the income this generates.”

Other CFEs reach out to women. Cabbages & Condoms preferentially hires women, and boasts that 60% of the staff at its Bangkok restaurant are women. Kasinthula Cane Growers Limited in Malawi has brought women into its governance committees. Dulce Gozon has become a powerful female leader of NOGROCOMA in the Philippines. While onion farming is still dominated by men, Dulce says that “women are better at handling the product with TLC, good at selling, and are better marketers than men.” Dulce actively encourages women’s participation in farming and cooperative management, and promotes women’s development through her advocacy. For over

two decades she has been a member of Soroptimist, an NGO that works to improve the lives of women and girls throughout the world.

#### 7. Global CFE Solidarity

One of the precepts of cooperatives is solidarity—that is, to assist other cooperatives worldwide. This kind of behavior, which defies the traditional economic logic that predicts that businesses only will maximize their own self-interest, actually can be seen in all our CFEs. Indeed, their very participation in our study, which involved dozens of hours of unpaid work, can be understood as a contribution to a global movement of CFEs.

The White Dog Café and Cabbages & Condoms are part of a global sister-restaurant network. The African American farmers of Indian Springs Cooperative in Mississippi have reached out to producer cooperatives in Africa. The Intervale Center in Burlington, Vermont, has programs to educate the public, including foreign visitors, about its activities.

Cargills finds its international collaborations mutually beneficial. It has brought industry leaders to Sri Lanka from competitor countries like India to help learn about their innovations. Cargills’ “graduates” are now in high demand in other food companies, particularly in the developing world. Ranjit Page, the company’s president, is not content to see his model stay in Sri Lanka. Increasingly he is speaking at international conferences and hosting international research delegations.

### Replicability

To what extent are these CFEs replicable worldwide? A skeptic could look at our case studies and conclude that every success depended on special factors: the particulars of a local market, an exceptional business plan, extraordinary timing. Our view is that any reasonably competent entrepreneur, small-business planner, or even a business student can take the insights from this study (and others like it), and put together a compelling CFE business plan that’s right for his or her given community. The limiting factor is not the plan, but the entrepreneur. The critical importance of a visionary person or two comes through in each our CFE stories.

As Judy Wicks discovered in her 30 years of running the White Dog Café, it was very hard to replace herself. She couldn’t find the right manager of her restaurant, couldn’t see how she could recruit the right person from her staff, and couldn’t locate the right buyer. She ultimately did find a new owner she could live with, but the larger point remains. CFE entrepreneurs are special people, with their own exacting sense of what works and what doesn’t, with

their own sensibility about what kind of business is just right for their community. They are uniquely able to channel the food needs of their neighbors into a strikingly original and profitable business model.

But it's possible to read too much into personalities as well. Recall that our case studies were chosen in part because they contained great individual stories.

We can also say that all of our CFE proprietors understood their strengths, drew from the strategies we outlined to become competitive, and creatively overcame the obstacles common to small businesses. Put another way, there is no inherent reason small-scale CFEs cannot compete—and also no inherent reason they will succeed either. Again, in the United States, where consolidation in agriculture and the food industry have run riot, there are plenty of examples of local success across every type of food business.

It's almost as if two different yet parallel economies have emerged. There's a corporate food economy that drives to maximize shareholder returns, minimize costs, emphasizes expansion and consolidation, and pitches to mass markets. And then there are thousands of community food economies that seem content with a modestly positive rate of return, that emphasize quality over quantity, that are prepared to incur more labor and environmental protection costs in the name of community relationships, and that pitch their goods and services to the specific needs of the surrounding community. Both models are viable. And both are replicable.

## Next Steps

Our case studies suggest that CFEs have many pathways to their success. The real key to improving the probability of the next generation of CFEs succeeding is networking and peer mentoring that can pass along these insights.

In creating an initial database of CFE successes, this project provides a preliminary framework for such networking. As a next step, we recommend creating an open-source model, perhaps a web-based Locopedia, where great business models can be posted from all over the world. A reliable, sophisticated database of innovation could be invaluable. That's a lesson from the work of Dr. Richard Jefferson, who, in 1992, founded CAMBIA, a nonprofit agricultural research center based in Australia. A website, BioForge.net, provides a forum for scientists from North and South to openly share information, research, projects, and innovations in fields like agriculture and pharmaceuticals.

The Locopedia should aim to do this for CFE practitioners everywhere. For any particular food business, whether

food growing, processing, or distributing, users could find examples of competitive small-scale businesses. Moreover, they could find information about successful finance, entrepreneurship, and public policy programs that facilitated the success of these businesses. Plus, users would be encouraged to post contact information and references to relevant research, organizations, events, and activities around the world.

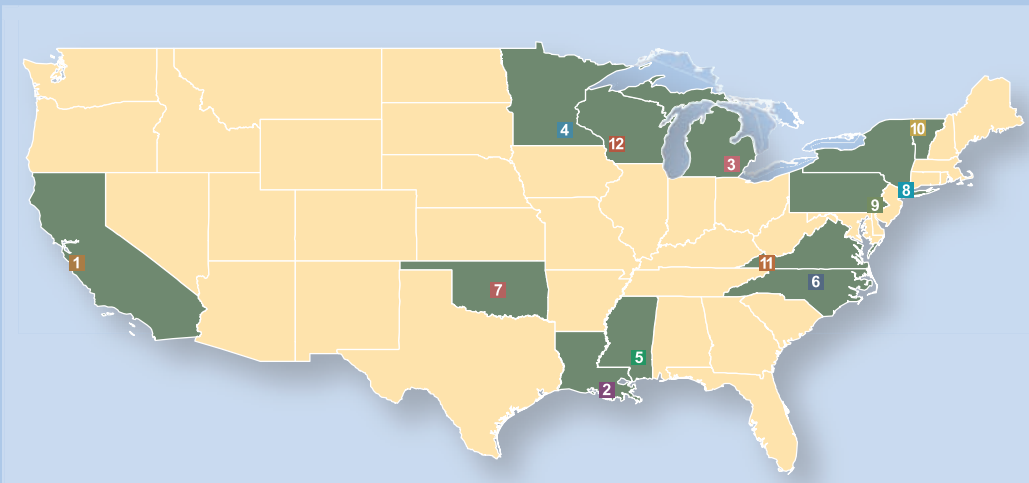
Like any virtual community, the Locopedia will be most effective if its members periodically meet and develop real relationships with one another. We therefore also recommend establishing a network of "CFE public scholars," at least one from every country, who meet regularly and help one another build a true global community of CFEs. We encourage anyone interested in this effort—practitioners, scholars, funders, organizers—to visit our website ([www.communityfoodenterprise.org](http://www.communityfoodenterprise.org)) and sign up for project updates. More information about our website and online resources is available in Appendix 3.

Ultimately, this network should include all kinds of local businesses, not just those linked to food. But food is a catalytic place to begin. For the world's six billion people, our report suggests that CFEs can provide powerful, self-financing mechanisms for improving their nutrition, health, and economic vitality.

# COMMUNITY FOOD ENTERPRISE CASE STUDIES

## UNITED STATES

- 1** California: Swanton Berry Farm
- 2** Louisiana: Anna Marie Seafood
- 3** Michigan: Zingerman's Community of Businesses
- 4** Minnesota: Lorentz Meats
- 5** Mississippi: Indian Springs Farmers Association
- 6** North Carolina: Weaver Street Market
- 7** Oklahoma: Oklahoma Food Coop
- 8** New York: Greenmarket
- 9** Pennsylvania: White Dog Café
- 10** Vermont: Intervale Center
- 11** Virginia: Appalachian Harvest Network
- 12** Wisconsin: Cooperative Regions of Organic Producer Pools (CROPP)



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## INTERNATIONAL

- 13** **Canada:** Akiwenzie's Fish
- 14** **Croatia:** The Mavrovic Companies
- 15** **Ghana:** Kuapa Kokoo
- 16** **India:** Sunstar Overseas Ltd
- 17** **Malawi:** Kasinthula Cane Growers Limited
- 18** **Morocco:** Ajddigue Women's Argan Cooperative
- 19** **Nepal:** Panchakanya Agriculture Cooperative Ltd
- 20** **Paraguay:** Fundación Paraguaya's Self-Sufficient Organic Farm School
- 21** **Philippines:** National Onion Growers Cooperative Marketing Association (NOGROCOMA)
- 22** **Sri Lanka:** Cargills (Ceylon) Ltd
- 23** **Thailand:** Cabbages & Condoms
- 24** **Zambia:** Sylva Professional Catering Services Ltd



## Case Study Overview Table

Sole Proprietorships			
	Employees (1)	Location	Core Business
Akiwenzie's Fish	2	Cape Croker (ON), Canada	Smoked Fish Production
For-Profits			
Anna Marie Seafood	5	Dulac (LA), U.S.	Shrimp Capture
Cabbages & Condoms	289 (2)	Bangkok, Thailand	Restaurants & Social Programs
Cargills (Ceylon) PLC	5605	Colombo, Sri Lanka	Supermarkets
Mavrovic Companies	100	Slobostina, Croatia	Bakery & Meat Products
Fundación Paraguaya's Financially Self-Sufficient Organic Farm School	20	Benjamín Aceval, Paraguay	School
Lorentz Meats	45	Cannon Falls (MN), U.S.	Meat Processing
Sunstar Overseas Limited	240	New Delhi, India	Rice Sales
Swanton Berry Farm	50	Davenport (CA), U.S.	Strawberry & Produce Production
Sylva Professional Catering Services Limited	73	Lusaka, Zambia	Catering
White Dog Café	90	Philadelphia (PA), U.S.	Restaurant
Zingerman's Community of Businesses	525	Ann Arbor (MI), U.S.	Delicatessen & Related Food Sales
Nonprofits			
Appalachian Harvest Network	35 (3)	Abingdon (VA), U.S.	Produce Sales
Greenmarket	42	New York City (NY), U.S.	Farmers Markets
The Intervale Center	14	Burlington (VT), U.S.	CFE Incubation
Cooperatives			
Ajddigue Women's Argan Cooperative	6	Essaouria, Morocco	Argan Oil Production
Cooperative Regions of Organic Producer Pools (CROPP)	500	La Farge (WI), U.S.	Dairy Production & Sales
Indian Springs Farmers Association	9	Petal (MS), U.S.	Vegetable Sales
Kuapa Kokoo	300	Kumasi, Ghana	Cocoa Production & Sales
National Onion Growers' Cooperative Marketing Association	5	Bongabon, Philippines	Onion Sales
Oklahoma Food Cooperative	4	Oklahoma City (OK), U.S.	Distribution of Food Products
Panchkanya Agriculture Cooperative, Ltd	0	Thaligun, Nepal	Organic Produce Wholesale
Weaver Street Market	250	Hillsborough (NC), U.S.	Supermarkets
Public-Private Partnerships			
Kasinthula Cane Growers Limited	900 (4)	Kasinthula, Malawi	Cane Sugar Production

(1) Includes full-time, seasonal, and part-time hires. Volunteers are not included in this table.

(2) Numbers are for the parent organization, the Population and Community Development Association (PDA), and include staff and contractors.

(3) Numbers are for the parent organization, Appalachian Sustainable Development, which doesn't break out employees by its component programs.

(4) In peak season.

# Anna Marie Seafood

“You need technology to create quality,” says Lance Nacio, a 38-year-old Cajun and wild shrimp fisherman from Terrebonne Bay, Louisiana. Darlene Wolnick, who works for an organization called marketumbrella.org that helps food producers like Lance do direct marketing in the region, agrees, “Lance is the most innovative shrimper we’re working with.”

While many of his fellow shrimpers have been decimated by global competition, rising fuel and boat repair costs, diminished domestic catches, and destructive hurricanes (Katrina alone wiped out more than half of the Louisiana shrimp fleet), Lance has succeeded by applying sheer intelligence to the challenge of delivering freshness to the consumer

A turning point came when he put a freezer on board his boat—“we can give consumers something that is as close to straight out of the water as possible.” The improvement in taste, compared to the typical dockside freezing, was staggering. “The shrimp taste like they were never frozen. And the flash freezing also preserves the kaleidoscopic colors of the shrimp. The quality is just over the top. It’s tremendous how good they look when they’re thawed back.”

Lance also became inventive to improve his environmental performance. He adopted nets with a wider mesh and equipped them with modified turtle excluder devices (TEDs) to reduce by 60-70% the bycatch of cownose rays, catfish, and crabs. The catch with each dip of the net is smaller, but so is the work required to physically remove the bycatch. Additionally, he fishes at night, when the shrimp are feeding nearer the surface.

Lance’s innovations have been increasingly recognized by industry and conservation organizations alike. The Ocean Conservancy featured Lance in their winter 2008 magazine. “The way I look at it, I want to make a future at what I’m doing. I want there to be shrimp for my children and future generations. Like my father and grandfather, who targeted specific species, I’m trying only to catch shrimp.”

## Business Model

Americans’ favorite seafood is shrimp, with each citizen consuming an average of 4.5 pounds per year. About 90% is supplied from mechanized ponds in places like Thailand, China, Ecuador, and Vietnam. U.S. shrimpers, most based in Louisiana, have found it increasingly difficult to compete against foreign “farms” on price and instead have decided to focus on quality.

A flurry of recent studies has raised serious concerns about foreign shrimp farms. The United Kingdom’s Environmental



All photos by Anna Marie Seafood

## At a Glance

<b>Where</b> Dulac, Louisiana	<b>Year Founded</b> 2001 as a Sole Proprietorship, LLC 2004
<b>What</b> Wild capture shrimp from Louisiana	<b>Number of Employees</b> 5 (2008)
<b>Founders</b> Lance Nacio	<b>Total Revenues</b> \$457,687.50
<b>Website</b> <a href="http://www.annamarieseafood.com">http://www.annamarieseafood.com</a>	



Justice Foundation reports that high-density Asian shrimp farms often use antibiotics and have high levels of disease, while other reports indicate frequent use of child labor in these same regions. A shockingly high percentage of tested imported shrimp has unacceptable levels of chemical contamination—and less than 1% of imported shrimp is being tested. Environmental concerns about shrimp farming date back over a decade, when the journal *Science* published a damning report on the ecological destruction caused by shrimp farms around the globe.

These stories have armed American shrimpers with several strategies for winning back domestic consumers. They successfully lobbied for tariffs against unfair foreign competition, though that approach ultimately has limited appeal because American consumers generally like low prices and free markets. They argued that U.S. shrimp are more healthful, a position recently strengthened when the U.S. Food and Drug Administration banned shrimp from China amidst a flurry of contamination-related bans on Chinese products. But until large numbers of Americans get sick from foreign shrimp, that's not very persuasive. The one argument that's a clear winner is taste. Imported, farmed shrimp simply doesn't have the same great seafood flavor and salty richness of wild shrimp. Walmart and Target now sell a product called "certified wild American shrimp," framing a strategy that could help all U.S. producers.

Unfortunately, not all American producers have been consistently mindful of quality. In the year 2000, according to Lance, when disease outbreaks at foreign aquaculture farms raised global prices, some domestic processors "put a bad name on wild caught shrimp. They were getting such a high price they started doing things that weren't ethical or right. Greed set in. For example, they added chemicals to the shrimp to increase moisture content, even though this left the shrimp tasting gummy."

Lance was committed to doing better. As the sole owner of Anna Marie Seafood, an LLC incorporated in Louisiana in 2004, he typically works with two crew members at a time, though the personnel are constantly changing. "It's a depressed industry, all the better hands have moved on to 'real jobs.'"

The company is selling about 100,000 pounds of shrimp per year, yielding about \$500 million in revenue. Sales and revenues have doubled every year for the past three years, but costs have grown even faster. Lance worries that there are "tons and tons of expenses with refrigeration on board."

Helping to make ends meet has been a revolving line of credit for working capital through the New York-based nonprofit SeedCo: \$200,000 at 6% interest. He also has

## Business Model Overview

### Sector

Retail and wholesale

### Ownership Type

Single-owner Limited Liability Corporation (LLC)

### Local Ownership

Yes (100%)

### Products

Wild-caught Louisiana white shrimp and brown shrimp

### Market

*Domestic:* local/regional (more than 50% of customers) and select national

### Customers

*Direct sales:* Website and phone orders, farmers markets;

*Wholesale:* Local grocery store chain, regional locations of one national supermarket chain, national specialty store (catalogue order), select restaurants

### Niche(s)

Direct marketing, American wild caught shrimp, sustainable harvesting techniques, technological innovation, Cajun heritage, superior quality and flavor

received \$25,000 in marketing assistance—a Go Fish grant—from the White Boot Brigade that originated from the W. K. Kellogg Foundation.

To grow his business, Lance wants to focus once again on technological improvement. He is working with Louisiana State University (LSU) on two of their studies. One is empirically testing his assertion that onboard freezing locks in quality. Says Lance, "The lady who is doing the study says you can't see a difference in frozen [shrimp] after one month or six. We'll have paperwork to back up what we're telling our customers." The study is also identifying other improvements in the freezing technology that Lance stands ready to deploy.

The second LSU study is on the efficacy of using stationary shrimp traps rather than nets, an approach being prototyped in Washington state. Lance has noticed that the prized white shrimp are thriving on his marsh lands. Where the water is only three feet deep, nets are impossible to drag because of silt and logs. But stationary pots could do the trick. If preliminary tests are successful, Lance intends to challenge the ban on such pots currently enforced by the Louisiana Department of Wildlife and Fisheries. "If you could target just one species instead of pulling nets in the water, you'd virtually eliminate bycatch."



## History & Drivers

Lance comes from a long line of Louisianans making their living from the land as farmers, trappers, or hunters, and inherited several thousand acres where he still regularly hunts alligators. He entered the shrimp business in 1998. In the beginning, he says, “it was a boom. Dockside prices were tremendous. Everyone was getting a shrimp boat.” He named his business for his boat, the F/V Anna Marie (which, in turn, is named for his daughters), a modest vessel 55 feet long, 18 feet wide, and 6 feet deep, powered by a 350-horsepower engine.

“I’m a totally different fisherman now than I was in the beginning. Before, I tried to haul as much as I could, earn through volume. The size of the shrimp didn’t matter because the price of diesel fuel was sixty cents per gallon and small shrimp fetched a dollar per pound. Now, those same shrimp get fifty to seventy cents per pound, and fuel costs four times as much. I had to figure out how to get more money, so I found ways of targeting bigger shrimp.”

That meant white shrimp, which have a one-year life span and grow fast and big. Lance believes this is the kind of strategy other fisherman should adopt. “Don’t worry about filling up the boat, but target the species that can bring the most dollar value.” And that makes handling easier too.

Lance was lucky. The Anna Marie survived Hurricane Katrina. His partnership with marketumbrella.org also helped see him through that disaster. Its farmers market, the Crescent City Market, has become a remarkably successful venue for introducing consumers to cutting-edge food producers. One of marketumbrella.org’s programs, the White Boot Brigade (WBB), was specifically designed to help improve the direct marketing skills of local shrimpers. (The name comes from the common sight of shrimpers selling their fresh catch boatside without taking off their white boots.) Lance quickly became the WBB’s poster child of a shrimper who pays careful attention to environmental sustainability and to changes in the marketplace, which he exploits through direct marketing. Indeed, he’s one of only three shrimpers recognized by the WBB for “sustainable harvests, cultural preservation, and business innovation.”

“The WBB helped out tremendously—it helped us tell people in other parts of the country our story.” For example, the WBB’s efforts led to profiles of Lance by the PBS series *Chef’s A-Field*; his participation in discussions with leading New York City chefs sponsored by the Food Network; his introduction to the Google Farmers Market and the Slow Food Network in northern California; his being prominently featured in the Williams-Sonoma catalogue (which reaches one million homes); and his playing a lead role in a Shell Oil Company commercial boasting its contributions to New Orleans businesses after Hurricane Katrina.



Originally, Lance sold most of his shrimp fresh to the public and then froze the remainder and sold them to other markets. “It worked out okay,” recalls Lance, “but it wasn’t the best.” Then, five years ago, he started to sell 2,000 to 3,000 pounds of shrimp per week to a regional grocery chain, Rouses. That’s when he started working with the WBB to help them sharpen their communications about the superior, sweeter taste of Louisiana shrimp. He now ships directly to restaurants around the country, including a \$10,000-per-year account with high-end hotels in the Washington, DC region, including Ritz Carlton and Marriott.

about dockside freezing (not as profitable) and onboard freezing (more profitable) to help out the industry. He believes that other shrimpers can easily adopt his net technologies as well. “Most fishermen believe that because there is a hole in the net, they’re losing product. But using TEDs and bycatch reduction devices actually lessens your work—you’re just losing bycatch, not product.”

The direct marketing by Anna Marie also seems easily replicable. To be sure, Lance caught some lucky breaks from WBB’s assistance. But it’s also true that Anna Marie

***“For years, fishermen and farmers were slaves to industry. Now there’s a whole new generation of consumers. Fishermen need to take a look at what we’re doing. I’m really putting myself and my business out there, but the opportunities are so big that many more fishermen could do the same.” ~Lance Nacio, owner***

It was the Williams-Sonoma deal that catapulted Lance to national attention. Stores across the country had poster-sized pictures of Lance on his boat holding a handful of colorful shrimp. Mail-order customers across the country could get Lance’s shrimp directly—though Williams-Sonoma took nearly all the huge markup.

Another potential marketing coup under negotiation is a feature on Anna Marie Seafood on a boutique website run by FedEx. Originally, FedEx wanted to be a part of the Williams-Sonoma deal, but Williams-Sonoma only ships UPS. So FedEx said they would be willing to set up a new website for Lance to do direct marketing to its customers.

Thanks to assistance from the Louisiana Department of Agriculture, Lance has also cracked open sales to three local Whole Foods Market stores. As their standards for seafood have risen, Whole Foods has sought to replace their fish-farm suppliers with fishermen like Lance. He hopes to eventually sell to additional Whole Foods stores across the country. “Who knows the possibilities?” he says.

## **Key Challenges & Lessons**

For most U.S. shrimpers, the outlook is bleak. The challenges from low global prices and rising domestic costs are huge. The strategy chosen by Anna Marie Seafood, to market directly to consumers seeking higher quality products, not only is sensible, it may well be the only sensible response by anyone in the industry.

The technology for onboard freezing is neither exotic nor expensive, and Lance is trying to teach what he’s learned

faced bigger challenges in pioneering the model and creating direct marketing relationships. It will be easier for other shrimpers to follow.

Despite his growing success, Lance is always struggling to balance profit with the up-front costs of innovation. Here are some of the serious challenges that remain:

- *Financial Stability*—The biggest problem Anna Marie Seafood faces is, frankly, its own survival. The company posted net losses in three of the last four years. The loss in 2007 was especially significant, much of it due to the purchase of the onboard flash freezer. Sales are growing, but the cost of goods is growing faster. With total liabilities exceeding assets, the company will have to dramatically expand sales or cut costs in the very near future.
- *Sharpen the Niche*—Lance believes he can expand sales if he steadily improves the quality of the product and consumer awareness of how Anna Marie Seafood provides that quality. “I’d like to keep selling to wholesalers and grocery stores, but I’d also like to take some of the premium stuff and try to start getting ten or twelve dollars per pound. People are already paying this amount in middle of the country and they don’t even know where it’s coming from.”
- *Scaling Up*—As Anna Marie Seafood discusses new, expanded contracts with Rouses, Whole Foods Market, and FedEx, the big challenge is guaranteeing delivery of significantly more product. Lance will need to deploy more boats and crew—while maintaining quality control—for these new deals to succeed. He needs not

## Financial Performance



While Anna Marie Seafood has experienced rapid sales growth, cost of goods sold has more than kept pace, eroding gross profit. However, it is Anna Marie's SG&A (sales, general, and administrative expenses) costs which seem to be putting the business in peril and contributing to a net loss in three of the last four years. The business is paying wages and the proprietor is receiving compensation, but unless operating expenses can be better controlled, the long-term viability of this operation is in question. It is important to point out that the net loss has been offset to a degree through non-operating income including grant money.

only to recruit more boats but also to find the financing to equip them with onboard freezing equipment.

- **Quality Standards**—A business strategy that depends on quality products also requires that the standards be protected. Anna Marie Seafood has been working with its longest standing client, Rouses, to ensure that the standards remain strong. But as a result of its recent acquisition, Rouses has grown to 34 grocery stores, and Lance is concerned that “they are kind of acting like a Walmart, trying to dictate prices.” Moreover, the store has been labeling some farmed shrimp as wild shrimp.
- **Freshness**—There are still purists who believe that frozen shrimp is an inherently inferior product. Lance counters that “the reality is, it’s only as fresh as you can get it to the customer, and you’re out on the water for days at a time.” But other shrimpers might undercut the frozen product by making more frequent, shorter hauls.



Lance sees his own evolution as emblematic of big changes ahead. “For years, fishermen and farmers were slaves to industry. Now there’s a whole new generation of consumers. Fishermen need to take a look at what we’re doing. I’m really putting myself and my business out there, but the opportunities are so big that many more fishermen could do the same.”



## Social & Environmental Performance

### **B Corporation Report Card Score: *Did not qualify\****

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

Explanation of Results: The B Survey was created by the non-profit B Lab as a certification process for social and environmental performance. As such, their rating system did not always match with the values of the CFE study, but did serve to reveal where enterprises are strong in performance and where they could focus in the future. Though its products may not reach the neediest consumers and ownership of the enterprise is consolidated, we believe Anna Marie Seafood's strong innovations in environmentally-sensitive fishing methods and gear (especially in an industry most often criticized for its environmental impacts), its pioneering and entrepreneurial use of onboard freezing, and achievements in direct marketing in an American market dominated by foreign farmed shrimp, make Anna Marie Seafood worthy of being considered a "community food enterprise."

For our full assessment of the B Survey results for Anna Marie Seafood, please see Appendix 1: About B Corporations.

### **Additional Indicators**

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	No formal mechanism, but employees are "sometimes" included in strategic management decisions
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Job training and professional development for all employees</li> <li>• Job-sharing</li> <li>• Retirement plan for full-time employees</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	None
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• 1-5% energy from</li> </ul>
Membership in association(s) that foster environmental stewardship?	Not formally, but has adopted voluntary sustainability measures beyond industry standards; seeking Marine Stewardship Council certification
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by a local institution</li> <li>• Supplies/services: 20-40% local</li> </ul>

# Appalachian Harvest Network

“How can we create a system that puts money in farmers’ pockets and puts good food on the table in an environmentally sustainable way?” asks Anthony Flaccavento, the executive director of Appalachian Sustainable Development (ASD). His answer, for dozens of farmers in southwest Virginia and northeast Tennessee, has been a program called the Appalachian Harvest Network (AHN).

AHN has helped local farmers transform their old rows of tobacco, once their signature crop, into thriving organic fruit and vegetable fields. And it has brought these farmers into a new distribution system with major retailers and grocers in the region. AHN values action over research and opens new economic opportunities for local farmers. “We had the ‘wrong’ demographics for sustainable and organic,” says Anthony, “but there was also a real need to support farmers and improve health behaviors. We have taken an organic and sustainable food desert and plowed ground and cultivated a bit. In this region, we are used to being behind the curve. But we were ahead of the local food movement and growing national consciousness about local and fair and organic food.”

## Business Model

At the heart of AHN’s business model is what Anthony calls a “buyers’ matrix”—independent health food stores, local grocers, and regional chains that are the main purchasers of AHN’s produce. This weekly process of assessing demand begins in the late fall and carries through the winter. Every week AHN “plans and pools production to meet demand”: it assembles a list of buyers’ requests, shares the information with its growers, and then recruits local growers to meet these demands. Wherever necessary, it offers direct technical support and training to growers so that they get the proper seeds, plant their fields properly, get organic certification, and fulfill the buyers’ requirements for high quality. Participating farmers then bring their harvest to the AHN certified organic packing and grading facility, where the produce is washed, packaged and readied for sale. AHN goes back to the buyers to let them know what is available and when. Once the orders are finalized, it delivers the fresh produce directly to the retailers’ centralized delivery docks. Some of the retailers redistribute the product to their own sites via their own networks.

Three of ASD’s full-time staff are also farmers, and this grounds AHN’s farm-to-market system in hands-on experience. At the height of the season, an additional 15-16 people work at the packing facility and up to five extra truck drivers are brought on.

During the peak of the 2008 growing season, AHN was distributing produce from over 50 small-farm growers, and nearly 70 are on board in 2009. The majority are former



All photos by Appalachian Sustainable Development

## At a Glance

<p><b>Where</b> Abingdon, Virginia (serving Appalachian Virginia and Tennessee)</p> <p><b>What</b> Farm-to-market cooperative, farmer training and incubation</p> <p><b>Website</b> <a href="http://www.asdevelop.org">http://www.asdevelop.org</a></p>	<p><b>Founders</b> Anthony Flaccavento</p> <p><b>Year Founded</b> 2000</p> <p><b>Number of Employees</b> 35 (2008)</p> <p><b>Total Revenues</b> \$515,000</p>
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tobacco growers, mostly middle-aged men, although there is increasing interest among younger and newer farmers as well. Most are poor and white, though AHN is actively reaching out to Hispanic and African American farmers.

AHN currently distributes over 30 core produce items to about a dozen stores, who in turn help their products reach over 650 sites. Participating retailers include Whole Foods Market, Food City, Ingles Markets, and a few other local chains like Ukrop's. AHN is also developing purchasing partnerships with local colleges like Emory & Henry College in nearby Emory, Virginia, and Washington and Lee University in Lexington, Virginia (about 175 miles from Abingdon). The roster of distributed products is steadily expanding and now includes free-range eggs.

AHN benefitted from the fact that Appalachian Sustainable Development, the parent nonprofit, was far ahead of the curve in operating as an entrepreneurial nonprofit. Says Anthony, "Appalachian Sustainable Development is a combination of an extension service on one hand—we provide a great deal of training, often in conjunction with Virginia Tech and University of Tennessee—and a working business on the other." With this philosophy in its roots, ANH, too, was intended to be something more than just a grant-dependent nonprofit. Anthony is working to make the program 100% funded by revenue and individual donors.

Today, Appalachian Sustainable Development operates two other in-house enterprises alongside AHN: a wood-products processing initiative, and a school-based gardening project. All three projects are effectively overseen by the nonprofit's Board of Directors, composed of some farmers but mostly of academics, community activists, and representatives from other economic and sustainable development organizations.

Eventually, the ASD board intends to spin AHN off as a for-profit subsidiary. In so doing, they hope to improve its capital base and business functions, while maintaining the triple bottom line mission. One virtue of being a nonprofit is that AHN has been able to be capitalized through foundation grants. Appalachian Sustainable Development has also received significant support from the Virginia Tobacco Commission for its work enabling tobacco farmers to transition to other crops. Despite fundraising successes, Anthony describes his organization's approach as "constant skin of our teeth fundraising" because "at the outset, people were curious but didn't think our programs were something a nonprofit should or could do."

Another important source of support for AHN has been individual contributions. In 2004, Appalachian Sustainable Development launched a "community support" campaign,

## Business Model Overview

### Sector

*Goods:* Production, wholesale;  
*Services:* Training and incubation

### Ownership Type

Nonprofit

### Local Ownership

*Board:* Yes (local to the region served);  
*Producers:* Yes (local to the region)

### Products

Over 30 organic produce items and free-range eggs

### Market

*Domestic:* Local/regional (>50% customers are local)

### Customers

*Wholesale:* Independent health food stores, local grocery stores, regional chains, area universities, local churches

### Niche(s)

Organic, processing and aggregation across smallholder producers, marketing of "seconds," conversion of tobacco farmers, farmer training

and by 2008 annual donations from individuals had reached \$80,000. Anthony notes that the organization has been able to retain between 40-60% of these small donors, demonstrating the high regard the community has for the work. "In our region, there is not a great concentration of people and also not significant income levels, so this is really tremendous support."

According to Kathlyn Terry, the AHN business operations manager, the enterprise should reach "breakeven" (above all cost of goods sold) in 2009, with projected sales of \$700,000. In the years following, AHN expects to generate net revenue to help cover the costs of farmer education and training, community outreach, and marketing.

To the residents in southwest Virginia, AHN's work has been invaluable. It has helped tobacco growers who might otherwise have abandoned farming, adopt a new strategy to continue farming. It has improved the quality, and sales, of its regional buyers. And by keeping more dollars circulating in the region, it has contributed to the region's economic well-being.

AHN also has made more healthy, local food more accessible to community residents. Its Healthy Families, Family Farms program raises funds from churches, local businesses and individuals to purchase "seconds"—produce that fails the quality standards of participating retailers yet is still useable for other purposes—at a discounted price from AHN growers. These are then distributed to needy families when the AHN delivery truck



stops at the regional food bank. In 2008 over 88,000 pounds of local organic produce was distributed through Healthy Families; over 200,000 pounds have made it to the tables of families in need over the past five years.

ASD also sells seconds to college dining services and to supermarket in-store delis, where produce is chopped and need not be perfect. In this way, AHN can offer affordable local organic foods to large purchasers. AHN has more plans for the seconds. It has a feasibility study underway, for example, for a proposed artisanal food center that would allow AHN farmers to make added value products like salsa.

## History & Drivers

About a decade ago Anthony assembled a few local growers and environmentalists who had been fighting over whether to preserve land or use it for economic growth. “A small group got together for dialogue, saying ‘we’re fighting each other and both losing out: the environment is deteriorating and we’re losing good jobs.’ After initial dialogue, we broadened the group, reaching out to state and local economic agencies, farmers and loggers, and traditional economic developers. Then we tried to meld with community development and environmental activists. From the beginning, we were focused on action and demonstration projects, not words and conceptualizations.”

In 1995, Appalachian Sustainable Development opened its doors as a nonprofit with small pilot projects that demonstrated horse logging and solar kilns. It began to cultivate a network of a few small, regional growers, mostly Amish and “back to the land” uncertified organic growers. They ran a small community supported agriculture (CSA) subscription service—where community members purchased monthly “shares” of farmers’ produce—and also sold some of the produce directly to restaurants.

Work on the AHN began in the year 2000. The idea was to expand the organization’s overall network with more local growers, including those looking to move out of tobacco. One of the participating farmers lent extra barn space for the distribution center. The goals then, in Anthony’s words, were to “plan and pool product to meet demand,” and “to improve their quality control. We thought we knew enough on these two fronts to move forward.” With three supermarket buyers and barely a dozen farmers, ASN started making sales in 2001.

Over the next seven years, AHN has steadily expanded its universe of participating growers and buyers. It overhauled and retrofitted the loaned barn to make it a certified organic packing facility. In May 2007 ASD suffered a significant setback when the barn housing AHN’s packing facility burned to the ground. AHN temporarily relocated to another facility for the 2007 season. With money from the insurance settlement, local support, and the Virginia Tobacco Commission, ASD was able to build a new, larger,



and better designed facility in time for the 2008 season. This 15,000 square foot building has 3,200 square feet of cooler space and several grading lines designated for different types of produce.

## Key Challenges & Lessons

AHN is always working to make sure buyers and consumers are getting as much local food as possible at the fairest price. Accomplishing this goal, however, ultimately requires a higher degree of economic sustainability, a goal that has been beset by several challenges:

- *Financial Viability*—Both Appalachian Sustainable Development and Appalachian Harvest Network operate on a tight budget with slim margins, leaving them especially vulnerable to periods of economic downturn. The operating expenses cannot be covered by sales alone, which means soliciting grants and individual donations. Anthony dreams of reaching the financial break-even point by 2011. “Becoming financially viable

- *Managing Independent Players*—AHN struggles to manage growers and buyers who are strongly independent, and to ensure quality performance from each group. Identifying, recruiting, and training qualified farmers and willing buyers remains an ongoing challenge. AHN needs to ensure that participating farmers are growing the right product the right way to meet the identified buyers’ requests. Likewise, AHN must oversee their buyers to make sure they are following through on their commitment to actually purchase the requested items, and make sure the food gets where it’s supposed to go. Most food distributors manage one end of the supply chain or the other, not both.

AHN’s model seems replicable in other regions, provided there is “soft money” to supplement sales. Whether the model can actually achieve financial sustainability remains unproven.

***To the residents in southwest Virginia, AHN’s work has been invaluable. It has helped tobacco growers who might otherwise have abandoned farming, adopt a new strategy to continue farming. It has improved the quality, and sales, of its regional buyers. And by keeping more dollars circulating in the region, it has contributed to the region’s economic well-being.***

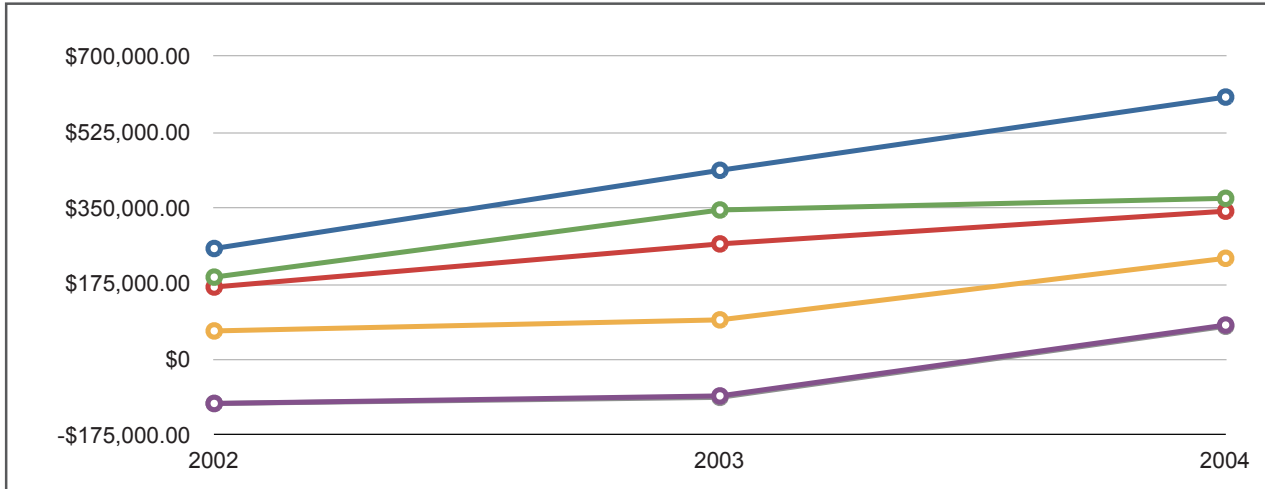
after ten years seems to me awfully slow. But when we started, there was no local food movement and little of the market there is today. There was also no infrastructure for aggregating and distributing local foods and very little support from university agricultural extension services or training available for organic production. We had to create all these things.”

- *Infrastructure Needs*—The fire that destroyed AHN’s processing facility in 2008 burned a hole in AHN’s infrastructure and budget. But it gave AHN an opportunity to upgrade. The new facility, as noted, is larger and better designed and can therefore handle much more produce at less cost.
- *Accounting Standards*—AHN’s limited budget has relegated the business to primitive accounting standards. For example, all of AHN’s financial data is still initially recorded by hand. However, with recently secured support, AHN is installing a computerized system to assemble, track, monitor, and analyze the business data, which should improve understanding about the strengths and weaknesses of their current economic model.

It’s worth noting several factors that have allowed the business to get this far. First, the outreach to and involvement of both ends of the supply chain, while sometimes difficult to manage, also has helped ensure a business model that serves both parties’ needs. Second, a valuable strategy for recruiting farmers was the emphasis on moving them out of a dead-end commodity crop (in this case tobacco) and diversifying their production for niche markets. Third, the community bought into the program in part because a roster of additional economic opportunities was created for truckers, processors, and other auxiliary staff. And finally, the diversified assortment of buyers and distributors increased the success of the model by increasing sales opportunities, minimizing the risk if any one buyer dropped out.

As of December 2009, Anthony will be stepping down as executive director of Appalachian Sustainable Development and its AHN program to spend more time on his own farm and on his consulting work. Although the change in leadership has meant significant strategic planning and assessment for the organization—Anthony was founder and has served as its executive director for 14 years—it seems clear Appalachian Sustainable

## Financial Performance



● Net Sales     
 ● Cost of Goods Sold     
 ● Gross Profit     
 ● Selling, General & Admin. Expenses  
● Net Income (Loss)     
 ● Total Revenue (Sales + Grants)\*

*\*The Total Revenue for Appalachian Harvest Network tracks the Net Income, and therefore is not visible behind the purple Net Income line of the graph.*

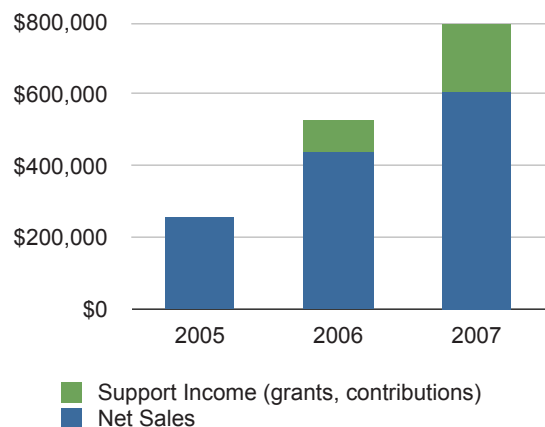
*Based on the information available, Appalachian's grant-subsidized model appears solid. Over three years of operation, net sales have grown while cost of goods sold has been managed down, increasing gross profitability. SG&A (Selling, General & Administrative Expense) costs have also grown more slowly than sales, suggesting that strong future sales growth and continued careful cost management might one day allow Appalachian Harvest Network to be self-sustaining without grant funding. However, ongoing grant funding will continue to be critical over the next several years as it is currently bridging the gap between net income and net loss.*

Development's role as a regional and national sustainable development leader is not in jeopardy.

Since its inception, Appalachian Sustainable Development, and Anthony himself, have been widely recognized: with a Ford Foundation Leadership for a Changing World Award; with the Virginia Green Building Award; as one of 10 finalists for the 2005 Amazon.com Nonprofit Innovation Award; and by Farm Aid as a Farmer Hero (to name a few).

Another measure of progress is how key agencies, nongovernmental organizations, and other members of the Abingdon community view AHN. "It has gone," says Anthony, "from, at best, a sort of grudging acceptance of our existence to somewhere between a willing partnership and very enthusiastic engagement. All of this adds up to farmers having better opportunities and getting more balanced advice, with more emphasis on local access to good food."

### Balance Between Earned Income & Grant Income



## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Part-time/flex schedules (35% using)</li> <li>• Telecommuting (20% using)</li> <li>• Job-sharing (10% using)</li> <li>• Retirement plan for full-time employees</li> <li>• individual &amp; family health insurance for full-time employees</li> <li>• Paid vacation &amp; sick leave</li> <li>• Short-term disability</li> <li>• Paid maternity &amp; paternity leave</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	None
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Annual energy audit</li> <li>• Energy efficiency policies</li> <li>• 5-25% energy from renewables</li> <li>• 5-25% energy from renewable onsite production</li> <li>• Efficiency practices for transportation/distribution</li> </ul>
Membership in association(s) that foster environmental stewardship?	USDA Organic, Forest Stewardship Council
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Written local purchasing strategy in place</li> <li>• Banking: Majority of services provided by a local institution</li> <li>• Supplies/services: Over 60% local</li> </ul>

## Cooperative Regions of Organic Producer Pools (CROPP)

“This is a social experiment disguised as a business,” says George Siemon, chief executive officer of the Cooperative Regions of Organic Producer Pools (CROPP).

Today, after 20 years of this “social experiment,” CROPP has over \$500 million in annual revenue, 1,300 member/owner farmers, and 500 staff. It is arguably one of the biggest and most successful organic producer cooperatives in the country. It specializes in organic products, including eggs, dairy, soy, produce, and orange juice under the Organic Valley brand, and meat under the Organic Prairie brand, and represents more than 10% of the organic producers in the United States. It owns and operates its own shipping company (Organic Logistics), and maintains partnerships with more than 80 processing facilities across the country.

This huge success story began with a single visionary entrepreneur. In 1988 George organized a meeting with his organic farming neighbors in southwest Wisconsin to see if they could help each other during the farm crisis. They called themselves the Coulee Region Organic Produce Pool in recognition of their home region. The “Coulee Region” gave way to “Cooperative Regions,” and the cooperative has since expanded from produce to milk and other dairy products; most consumers now recognize the company by its brand name, Organic Valley.

Today, as in 1988, CROPP is committed to delivering a stable and premium price to its members. It also has a robust profit sharing program, which provides major incentives for recruiting and maintaining member-farmers.

Jerry McGeorge, director of cooperative affairs, is philosophical about the company’s remarkable financial achievements. What matters, he says, are not the numbers: “Certainly for consumers who want our organic food, it’s that we’re ensuring a supply. For farmers, it’s that we’re providing a market that can sustain them.”

### Business Model

CROPP is a creatively structured producer cooperative based in La Farge, Wisconsin, not far from its founding farmers. The company is governed by producer groups, called “pools,” and an elected board of directors. Each producer pool has its own Executive Committee (EC). The largest pool is dairy, representing over 85% of the company’s annual sales. Other pools are produce, soy, eggs, poultry, pork, beef, and citrus. All together, the pools represent farmers in 32 states and one Canadian province.

The ECs are the key decision-making bodies, where member representatives routinely evaluate how the company’s policies and procedures are working. Most importantly, however, ECs determine the price their farmers will get for their products.



Organic Valley Family of Farms

### At a Glance

#### Where

LaFarge, Wisconsin

#### What

*Organic Valley:* Organic milk, soy, cheese, butter, spreads, creams, eggs, produce, juice; *Organic Prairie:* Organic beef, pork, chicken, & turkey

#### Website

<http://www.organicvalley.coop>

#### Founders

Several Wisconsin farmers

#### Year Founded

1988

#### Number of Employees

500 staff, 1,332 farmers

#### Total Revenues

\$527,800,000





“We build from the basis that we want to pay our farmers a sustainable price,” says Jerry, “but then need to work with the prevailing marketplace reality. So it’s a somewhat negotiated discussion: management comes forward with a proposal for what it should look like over the coming year, the Executive Committee critiques it and recommends changes, and the final recommendation is taken to the Board, which approves for the next year.”

To join the cooperative, each farmer is required to invest 5.5% of his or her annual revenue into the company, and each receives up to 8% in profit share. This formula enables members to recoup their investments while continuing to build the company. “We wanted our producers to know we’re taking their investment seriously,” explains Jerry. “The money is at risk, so if the co-op were to get into a bind and look at bankruptcy, they probably wouldn’t get that money back. That’s where we depart from the norm in the co-op world.”

At this point, CROPP recruits members primarily via its website and word of mouth. Once a farmer joins, he or she receives technical assistance, including guidance in organic certification and access to affordable organic feed. The company also provides networking services, a retirement plan, a delivery program, and easy access to other CROPP products. Members find CROPP’s sophisticated marketing strategies—which have helped position Organic Valley as a leader in the dairy sector—particularly valuable.

CROPP also extends the opportunity for people to become shareholders in the cooperative. Class C stock was initially offered to family and friends between 1999 and 2003 to develop the “Freedom Fund,” a credit program for members. In 2004, CROPP began offering a wider round of Class E shares, which took advantage of a co-op law reform that allows the creation of preferred, nonvoting shares for outside investors. These \$50 shares were designed to raise general operating revenue for the company. The response was remarkable. According to Mike Bedessem, CROPP’s chief financial officer, “We originally authorized twenty-five million dollars worth of Class E shares. We thought we would sell a total of between six and ten million dollars worth, but by the end of this year, we sold all twenty-five million. I believe it is an indication of a commitment to organics or family farmers.” The Board has since voted to extend another \$40 million of Class E shares.

Like other successful businesses in the United States, CROPP has plowed some of its surplus revenue into advocacy. It launched Farmers Advocating for Organics, which funds various causes such as organic research, education, and advocacy. The Art Wedig Fund offers

<b>Business Model Overview</b>	
<b>Sector</b> Production, wholesale/ manufacturing—dairy and farm products	<b>Customers</b> <i>Wholesale:</i> A variety of national and regional grocery store chains and cooperatives, including Whole Foods Market, Publix, Kroger, and Albertsons
<b>Ownership Type</b> Producer cooperative	<b>Niche(s)</b> Organic, farmer-owned, regional production centers, early ban of rBGH synthetic growth hormones, special pasteurization that extends dairy shelf life, regional distribution and marketing under national brand
<b>Local Ownership</b> Regional through regional producer-owner pools	
<b>Products</b> Organic dairy, eggs, soy, produce, orange juice, poultry, pork, and beef	
<b>Market</b> Domestic	

emergency grants to members, thereby ensuring that farmers can continue to thrive despite hardships.

CROPP also has been a good neighbor. In 2008 the company gave over \$2 million back to the La Farge community, as well as to its farmers’ local communities. It built a headquarters qualifying under the high standards of Leadership in Energy and Environmental Design (LEED) by using local resources and renewable energy. It is one of the biggest employers in the region. An innovative recycling program was put in place to capture thousands of pounds of used milk cartons. The company also hosts open houses and local festivals for the public.

The year 2006 was a major turning point for the company. For the first time in 19 years of operation, CROPP was able to present dividends and profit-sharing checks to all its investors, members, and employees.

## History & Drivers

Although CROPP is best known for its dairy operations, it started with produce. In 1987, George Siemon gathered a few of his farming neighbors in the Coulee Region of southwest Wisconsin to brainstorm cooperative ways to strengthen their position as organic vegetable producers. America’s heartland was then in the throes of the Farm Crisis, and George and his neighbors were concerned that they were not getting the prices they needed to make ends meet. Wisconsin’s short growing season compounded



Carrie Branovan for Organic Valley Family of Farms

their concerns. George argued that there was a growing market for quality organic produce that could yield a premium price.

George's early vision was a bit risky, yet positioned CROPP for future success. "CROPP started at a time when the organic food industry was literally in its infancy," explains Jerry. "There were no—or very few—regulations around organics, and very few certifying agencies."

But Jerry doesn't accept that CROPP was just the beneficiary of good timing: "In some fundamental ways we were a real part of the advancement of organic as a food category in this country, and we had a large part to play in getting consumers to realize it is an important and viable option."

The "a-ha" moment came as more dairy farmers joined the cooperative. When they became the majority interest group, the business took off, and today, dairy remains CROPP's biggest pool and signature product line.



Organic Valley Family of Farms

"I don't think anyone had a clear vision that we'd be a dairy-dominated business," says Jerry. "We were equally seeking out opportunities on produce and dairy side. But early on, we were able to make some inroads on the dairy side, so that started to create some momentum. On the other side, for produce, the limited growing season was a real impediment to really being able to establish the Organic Valley brand to grocery stores. They weren't interested in gaps in availability. With dairy, that isn't an issue. You better milk those cows twice a day!"

To get off the ground, CROPP developed a partnership with the National Farmers Organization (NFO). With a \$450,000 loan from NFO, CROPP was able to develop dairy processing and shipping infrastructure, meet their farmer payment obligations, and build a cheese line. By 1991, CROPP repaid the loan, and a good working relationship continues to this day. Many CROPP members are NFO members and vice versa. The organizations also share board members.



Carrie Branovan for Organic Valley Family of Farms

In 1988, CROPP began distributing its organic cheeses under the label North Farm, a brand developed by a natural foods distributor in nearby Madison, Wisconsin. Securing a national market was a big leap for CROPP's Wisconsin-based dairy pool. A year later, however, North Farm stopped ordering the cheese. In response, CROPP quickly developed its own label, Organic Valley Family of Farms, which it felt better represented the product line and the company's mission. Cheese was the first product to go out under the Organic Valley label and within four years, the brand was extended to market butter, milk, and eggs.

In the mid 1990s, CROPP made two decisions that helped strengthen its market niche. First, CROPP banned the recombinant bovine growth hormone, or rBGH, from all of its dairy products, just as it was being widely incorporated throughout the conventional dairy industry. "That was a watershed moment for us," remembers

Jerry. “A lot of consumers started looking at this and saying they didn’t want synthetic growth hormones in their food.” Second, the company employed a pasteurizing process that safely extended the shelf life of many of its dairy products. “This was a smashing success,” says Jerry. “Buyers loved the fact that we could deliver a product to them with an additional few weeks of code date to reduce spoilage. It opened the door to a lot of larger retailers, and that drove volume for us.”

In 1995 CROPP started its first “remote” regional pool and partnership with a processing facility in the Pacific Northwest. That same year, CROPP announced formal partnership with Oregon Tilth Certified Organic (OTCO) and began voluntarily certifying most of its products

publicly representing the largest group of organic producers in the United States. This led to a conflict on the CROPP board. After a difficult time, CROPP refocused and recommitted to running its business strictly as a business.

- *Balancing Stakeholders*—Now that CROPP is taking outside capital, it needs to be responsive to its private investors as well as to its members. Still, remaining dedicated to its members’ needs is one of CROPP’s operational imperatives. As Jerry says, “Our job as managers is easier than it is for a lot of businesses, because we know what our owners want.” Yet, as a \$527 million company, CROPP also continually needs to make tough business choices.

***“Certainly for consumers who want our organic food, it’s that we’re ensuring a supply. For farmers, it’s that we’re providing a market that can sustain them.”***  
~Jerry McGeorge, director of cooperative affairs

organic. CROPP continued to establish other regional production centers in the United States. By the end of the decade, CROPP had launched the Organic Valley brand of organic meat (certified by OTCO), known today as Organic Prairie.

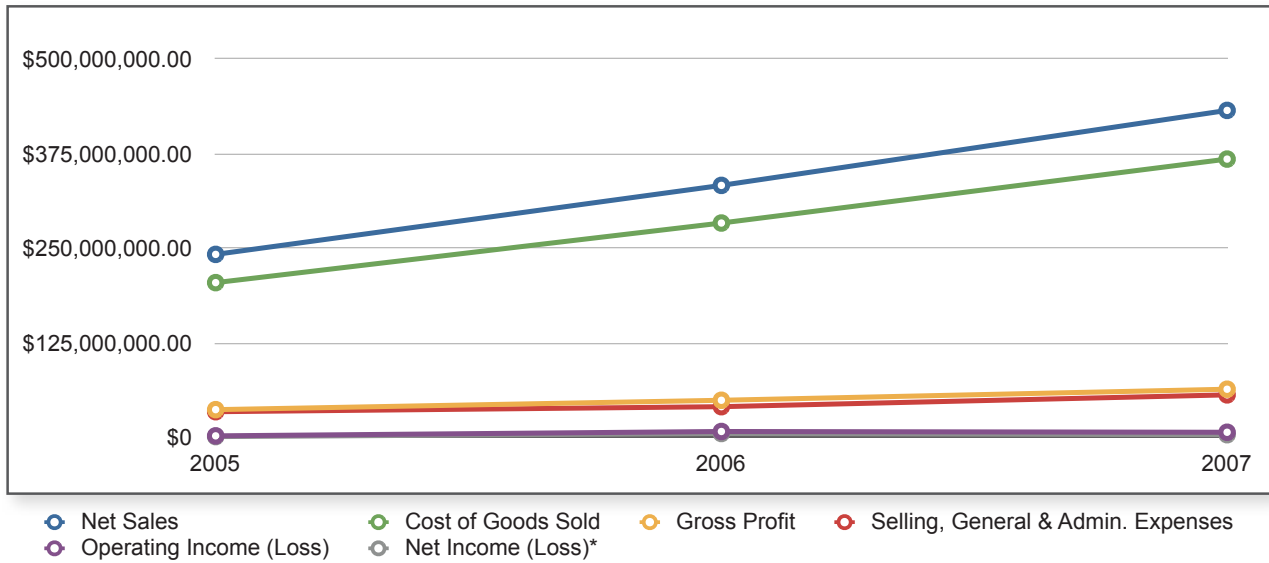
## **Key Challenges & Lessons**

CROPP’s pioneering effort to bring a producer cooperative of small farmers to scale has been a learning opportunity not only for the company but for similar CFEs worldwide. Among the lessons were the value of leading with a high-quality product (in this case, organic milk) available for the local market on a year-round basis, developing innovative capital-raising strategies, and patiently cultivating producer pools and networks. These successes, however, also underscore the principal challenges CROPP has faced:

- *Raising and Maintaining Capital*—CROPP sees the need to continue to experiment with new ways to raise capital. Although sales and members’ investments are strong, the company knows it needs to diversify and expand its capital sources. “Cooperatives traditionally lack access to capital,” Jerry notes. “We’ve had to be very creative there, and that’s why we came up with Class E shares.”
- *Staying Focused*—As CROPP emerged as a leader in the organic sector, it took on more political responsibilities including sitting on the USDA’s Organic Standards Board, taking a stand against rBGH, and

A model as successful as CROPP invites competitors, and one can imagine the emergence of other organic farmer networks. But CROPP doesn’t plan to stand still. As Jerry says, “We will be ‘wildly successful’ because we have created a sustainable business model that allows farmers to stay on their farms, make a living, and raise their families—a living that is sustainable both financially and environmentally.”

## Financial Performance



\*The Net Income for CROPP tracks the Operating Income, and therefore is not visible behind the purple Operating Income line of the graph.

CROPP's performance from 2005-2007 shows consistent sales growth and a stable, healthy gross margin, while net profit has hovered around 1% over the three years. CROPP's debt level appears appropriate and manageable given their financial profile and they seem to be managing cash well. The only area of minor concern is the erosion of their return on assets and return on equity in 2007, though they are still well above the industry average.



Organic Valley Family of Farms



Carrie Branovan for Organic Valley Family of Farms

## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Part-time/flex work schedules (25% using)</li> <li>• Telecommuting (10% using)</li> <li>• Paid/unpaid medical sabbatical with job security</li> <li>• Offsite subsidized childcare</li> <li>• Health &amp; wellness program</li> <li>• Counseling services</li> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• Retirement plan for full-time employees at least partially paid for by company</li> <li>• Health insurance</li> <li>• Life insurance</li> <li>• Short-term disability</li> <li>• Paid sick leave</li> <li>• Paid vacation</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	BSR; GreenAmerica; Social Venture Network; Organic Trade Association; The Organic Center; Organic Consumers Association
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy usage measured annually</li> <li>• Energy efficiency policies</li> </ul>
Membership in association(s) that foster environmental stewardship?	USDA Organic
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Supplies and services: 60+% of expenditures (other than labor)</li> </ul>

# Greenmarket

“Our mission is twofold: keep small farms viable and provide good food to all New York City communities regardless of income level,” says Michael Hurwitz, director of Greenmarket, a thriving network of 49 farmers markets in the city. Greenmarket began with 12 farmers in an empty lot in the heart of Midtown Manhattan in 1976, and has since grown into the nation’s largest open air farmers market program, with markets in all five boroughs. It supports small farmers who grow near New York City by showcasing their locally grown products and providing them with new opportunities for direct retail sales.

With 8 million potential customers within reach of a Greenmarket location on any given day, the organization strives to be a lot of things to a lot of people: accessible, reliable, well-run, and filled with excellent food. But most importantly, Greenmarket understands that urban New Yorkers can have a great impact on the region’s farms and vice versa.

## Business Model

Greenmarket is a program of the Council on the Environment of New York City (CENYC), which was founded in 1970 and is a privately funded nonprofit organization based in the Office of the Mayor. Greenmarket has 24 full time staff and up to twice that number in high season. At the height of harvest season, Greenmarket can run up to 66 market days per week at over 49 locations across New York City. More than a third of their markets continue to operate during the winter.

CENYC was created by Mayor John Lindsay in response to the degradation of the environment in New York, and the need for citizen action to improve it. Subsequent mayors continue to appoint some CENYC board members and the city provides certain in-kind services, but CENYC operating costs are raised privately. In 1976, Barry Benepe began shopping a proposal around to various foundations in the hopes of securing \$36,000 to fund an “experimental” weekly farmers market. The America the Beautiful Fund contributed \$800—and requested that Barry find a nonprofit organization willing to give the pilot project a home. CENYC’s access to City agencies and its focus on improving New York’s urban environment, such as urban gardening initiatives that transformed vacant lots into green space, made it a natural fit.

Nearly all of Greenmarket’s revenue—approximately 92% in 2008—comes from vendor fees, which are based on a flat percentage. “We charge the equivalent of between one and five percent of farmer income,” says Michael. “We don’t ask them for their sales figures. In many ways I wish we did, since that would help us measure the success of our market and our promotions.”



All photos by Greenmarket

## At a Glance

<b>Where</b> New York, New York	<b>Year Founded</b> 1976
<b>What</b> Network of farmers markets	<b>Number of Employees</b> 42 (20 full-time, 12-22 seasonal)
<b>Founders</b> Barry Benepe & Bob Lewis	<b>Total Revenues</b> \$2,788,515
<b>Website</b> <a href="http://www.cenyc.org/greenmarket">http://www.cenyc.org/greenmarket</a>	



Some of the Greenmarket budget comes from small grants and private individual donors. A little extra income comes from location fees charged for film shoots or other special programs developed through corporate partnerships. “While we could certainly use the income,” Michael clarifies, “we are extremely cautious and intentional in selecting the types of products and business practices with which we align ourselves.”

Greenmarket strives to make local food equally accessible to all New York City residents, regardless of their neighborhood or income level. It accomplishes this by placing markets in a variety of sites, from parks to city streets to transportation terminals to private property. The neighborhoods vary too, and Greenmarkets can be found in the City’s wealthiest neighborhoods (such as the Upper West and Upper East Sides) as well as lower-income neighborhoods (such as Poe Park and Washington Heights).

Every time Greenmarket wants to open another market, it must get approval from the local community board and cultivate relationships with neighbors. This process engages more stakeholders. As Michael reflects, “The more ownership or participation communities have, the more successful their markets will be. The community boards help, but I’m talking more on the ground—the local ‘mayor’ that walks by, the neighborhood association, the residents. Farmers markets are more than just places that sell food. They’re about education, creating a sense of social space.”

Greenmarket has distinguished itself by successfully engaging low-income New Yorkers. They have devoted significant resources into implementing a strong EBT (electronic benefits transfer) /food stamp program, and at least 14 Greenmarkets are between 65-85% dependent on food subsidy programs like WIC (the Special Supplemental Nutrition Program for Women, Infants, and Children) and SNAP (Supplemental Nutrition Assistance Program, formerly called food stamps). “These programs are a win-win,” says Michael. “They guarantee that those who are most in need of fresh fruits and vegetables have access to them, and their funds go directly into the hands of small businesses,” Michael says.

CENYC also operates auxiliary programs and projects to boost New York City’s local food system. The New Farmer Development Project provides education, assistance, and mentorship for immigrant farmers. Greenmarket’s robust education program teaches thousands of kids each year about local food. Youthmarket give young people small business training and the opportunity to operate urban farmstands in their communities. Learn It Grow It Eat It

<b>Business Model Overview</b>	
<b>Sector</b> <i>Goods:</i> Retail/direct-marketing; <i>Services:</i> Education	<b>Market</b> Local
<b>Ownership Type</b> Quasi-governmental nonprofit and partnership with private producers	<b>Customers</b> New York City residents and visitors
<b>Local Ownership</b> <i>Board:</i> Yes; <i>Producers:</i> Regional (170-mile radius)	<b>Niche(s)</b> Producer-only markets, producer-at-market requirements, public-private-nonprofit partnership, predominantly revenue-based (as opposed to grant-funded), food access programs like WIC and SNAP, community education and training programs
<b>Products</b> Produce, dairy, meats, grains, baked goods and processed food items, other goods (varies by market)	

provides teenagers with nutrition education and hands-on gardening experience. Greenmarket is also developing stronger relationships with local institutions like hospitals and schools to keep growing the demand for local food in New York City.

Most of Greenmarket’s 190 vendors are recruited by word of mouth, although a consultant has been employed to help with strategic outreach in recent years. To get into the program, farmers first have to make it through a vetting process. Their farms must be located within 250 miles north of the city, 120 miles south, and 170 miles east and west. They must produce everything they intend to sell. They also must be willing to have someone who is “significantly involved with production” available at the market stand at least 25% of the time. These rules are enforced through Greenmarket’s inspection program. Vendors who don’t comply are fined, suspended, or after numerous violations, even expelled.

“We are a producer-at-market farmers market program, with very limited hardship exceptions,” says Michael. “That way the public can feel confident and comfortable with the growing processes. It makes for a different type of environment.”

Once farmers are accepted into the program, Greenmarket does everything it can to help them succeed. It matches vendors with sites most appropriate for their products, and



tries to build efficient multi-market schedules that minimize their trips to the City. If they make it through a season, vendors are always invited back. In recent years Greenmarket has accepted 10-20 new farmers annually and has lost only 4-6 per year. For some farmers, direct marketing turns out to not be a good fit, but for most it is a bonanza.

Greenmarket's environmental initiatives—to make each site, for example, a “center for sustainability”—have also had an impact. The organization is showcasing composting, used textile recycling, and e-waste collections. It's also offering extensive education programs about local food, health and nutrition, and the environment.

## History & Drivers

The concept of Greenmarket began when founders Barry Benepe and Bob Lewis noticed how hard it was to get good local food in the nation's largest metropolitan area. They also saw that many small farmers in the region were going bankrupt. They secured a small grant and other private funds to study the feasibility of setting up a network of farmers markets and the findings seemed promising.

Barry and Bob recruited 12 farmers for a market in an abandoned lot in Midtown Manhattan. “We were a block from Bloomingdale's,” Barry recalls, “and it couldn't have been in a better location. If we'd had a less visible location, it wouldn't have gotten off the ground the way it did.”

“We didn't have a long-term view,” Barry says. “We just wanted to get things off the ground.” And they did—in true New York fashion—quickly. Barry and Bob named the fledgling organization Greenmarket “to indicate that the essence of our markets—indeed, that of any true farmers market—was the presence of farmers selling the products of their own farm,” Barry recalls. They found an organizational home at CENYC, which helped them understand and navigate the ins and outs of dealing with City departments, local planning boards, permitting agencies, and health regulations. They attracted major media attention, and soon became regular fixtures in official and unofficial urban planning discussions around the City.

Within months after the first market opened, Greenmarket expanded to a second location at Union Square, which was then a downtown park with a reputation for drug dealing and panhandling. The crowds grew, and more New Yorkers started talking. Calls poured in from neighborhoods across the city, with residents wanting to know how they could start their own Greenmarket. The reasons varied. Some people wanted better access to good food. Others wanted nicer public spaces. A few wanted farmers in their community. But everyone just plain liked the idea.

Barry and Bob scrambled to keep up with the demand. They surveyed more sites, and opened more markets. Some worked, some didn't. “We probably closed as many markets as we opened





in the next ten years,” Barry remembers.

Barry and Bob decided that the best way to manage this growth was to impose a tough code of practice. New markets could only be launched only if they were at highly visible locations (like transportation hubs or major intersections), and if the sites were already well known and had historical relevance. Farmers couldn’t hire outsiders to staff their tables. When some sellers wanted to bring in produce that was out of season and out of region, Barry and Bob clamped down.

“Our producer-only rules make us distinguishable and contribute to our success,” says Michael. “They are among the strictest in the country. I think that has helped our markets as a business, and helped the businesses in the markets.”

For the first 25 years, farmer eligibility was determined by state of residence. Farmers had to come from New York state or adjacent states, including New Jersey, Pennsylvania, and Connecticut. “For a while, we also had farmers from Delaware and North Carolina,” Barry notes. The reason? “Delaware is as close as upper New York State. The Red Springs, North Carolina-based farm was owned by a Harlem resident with a family member doing the farming in Red Spring.”

Today, the Union Square market is Greenmarket’s signature location and operates four days a week. The park has been cleaned up and is surrounded by high-end restaurants whose chefs shop at the market. It also is flanked by new food retailers like Whole Foods Market and Trader Joes.

## Key Challenges & Lessons

For the farmers that have fueled its success, Greenmarket has been a godsend. Several years ago, a study concluded that, were it not for Greenmarket, nearly 85% of its vendors would be out of business and 30,000 acres of farmland would have been turned into subdivisions and shopping malls.

Michael believes that Greenmarket—and its emphasis on multiple municipal partnerships, high standards, and ongoing innovation—is ripe for spreading to smaller metropolitan areas. “I think that our model, where farmers are required to come to the markets at least twenty-five percent of the time and sell only what they grow, is absolutely replicable. It’s going to become more replicable as industrial agriculture changes in the next few decades.”

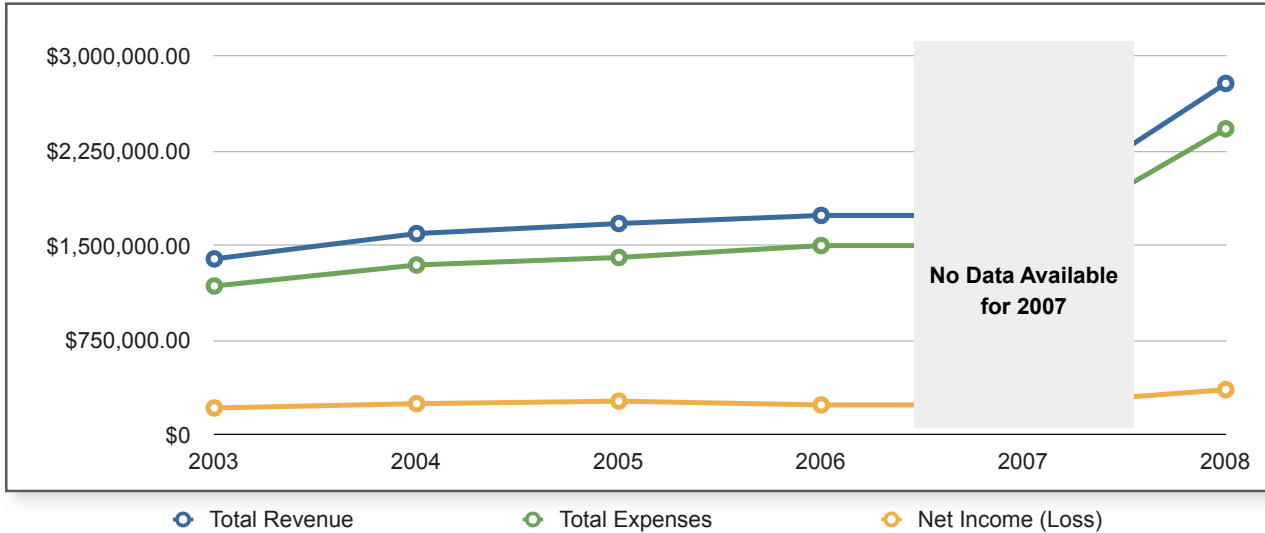
Greenmarket’s emphasis on entrepreneurship more than fundraising is also replicable and has been critical to its

stability and long-term growth. “All our core programming is provided by our farmers’ fees,” notes Michael. “That helps us know we’re still going to be around. We know what to expect from year to year because we’re not dependent on outside sources of funds.”

But as Greenmarket has grown and evolved over the past three decades, it has faced several ongoing challenges:

- *Managing Growth*—Greenmarket has opened and closed many sites, learning valuable lessons about how to appropriately allocate resources, evaluate success, and prepare for the future. “Don’t grow too fast, and invest in the markets that you have,” cautions Michael. “When you open a new market, do it deliberately and slowly. If it takes longer than you hoped for, that’s okay. You have to do it on a timeline that makes sense for you, not on the timelines you may be pressured to use. Even if someone is pushing and pushing, if it doesn’t work once you start, that won’t help anybody.”
- *Managing Relationships*—Despite operating out of CENYC from its inception, Greenmarket’s relationship with the City has required plenty of hands-on management. “Just because the traffic commissioner loves you doesn’t mean the traffic cop will,” Michael notes. “These two levels don’t always speak to each other or share the same goals, vision, and priorities.” Effective relationships with residents, community boards, merchant associations, and community-based organizations are just as critical. It takes significant time and effort to coordinate this complex web of relationships, but doing so successfully is critical to ensuring new markets find homes and existing markets serve their missions.
- *Enforcement*—“Our producer-only and producer-at-market rules, which are pretty strict, make us distinguishable and contribute to our success,” Michael notes. But they also require enforcement. “If you’re selling someone else’s products and passing them off as your own, you’ll receive a fine and a one-week suspension from the market.” He cautions that “the farmers have to be a part of the decision-making process that governs them.”
- *Adaptability*—Greenmarket created and later rescinded certain rules and regulations. “What worked one year,” says Michael, “may not work ten years down the road. You need a system and a structure that allows you to be flexible and to adapt over time. For example, we don’t currently allow cooperatives into our market. I think we could still be a producer-only market and include producer cooperatives.”

## Financial Performance



*It appears that Greenmarket is in good financial standing. The vast majority of Greenmarket's income comes from rental and other fees generated through operations, which is a positive sign for the business. Operational revenue combined with government contracts gets them past breakeven, which means contributions and other income go straight to the bottom line and provide a welcome buffer for the organization.*

- *Meeting the Mission*—Despite the organization's success, the sheer scale of the New York City metropolitan area affords huge opportunities for expansion. Michael wants to increase the number of markets that accept EBT and food stamps (SNAP), and raise the usage of these programs by low-income customers. He'd like to get more local food into institutions like hospitals and schools. And he has his eye on the next generation of eaters, producers, community organizers, and policymakers. "We need to expand our educational programming. We currently work with three thousand kids a year, but we want to expand our Youthmarket program and our curricula to include more visits to farms and kitchens."

When Greenmarket first started, Michael says that some residents were less than excited to have a market sited in their neighborhood. "There was a whole NIMBY, or Not in My Back Yard, reaction to our markets." But this changed over time. "Now everyone feels they want a farmers market. And there is a real opportunity to use programs like Greenmarket to employ a lot of folks, build community, improve health, and sustain our environment."

Nongovernmental organizations, and other members of the Abingdon community view AHN. "It has gone," says Anthony, "from, at best, a sort of grudging acceptance of our existence to somewhere between a willing partnership and very enthusiastic engagement. All of this adds up

to farmers having better opportunities and getting more balanced advice, with more emphasis on local access to good food."



## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Part-time/flex work schedules ( 20% using)</li> <li>• Telecommuting (2% using)</li> <li>• Paid or unpaid non-medical sabbatical / leave of absence</li> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• Retirement plan for full-time employees</li> <li>• Health insurance</li> <li>• Dental insurance</li> <li>• Life insurance</li> <li>• Domestic partner benefits</li> <li>• Short-term disability</li> <li>• Long-term disability</li> <li>• Paid sick leave</li> <li>• Paid vacation</li> <li>• Paid maternity leave</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	None
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	No
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy efficiency policies</li> <li>• 5-25% energy from renewables</li> </ul>
Membership in association(s) that foster environmental stewardship?	Northeast Organic Farming Association (NOFA), Pennsylvania Association for Sustainable Agriculture (PASA), Certified Naturally Grown, Animal Welfare Approved
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Supplies and services: 60+% of expenditures (other than labor)</li> </ul>

# Indian Springs Farmers Association

Even though he has led the Indian Springs Farmers Association in Mississippi for almost a generation, Ben Burkett views himself first and foremost as a farmer. On the 255-acre farm that has been in his family for more than a century, he grows 16 types of vegetables and herbs and manages pine timber. “I really enjoy what I do, although I haven’t got rich at it. I started off in conventional cotton, transferred into corn, soybeans, and wheat. While we always had a vegetable contract when I was growing up, I only transitioned over to vegetables in my own farm a little more than ten years ago.” But Ben’s most important crop is farmer empowerment.

Indian Springs is typical of cooperative associations that have given thousands of small farmers in the United States a chance to succeed. In 1966, with a \$250 grant from the Office of Equal Opportunity, one of the frontline federal agencies formed during the War Against Poverty, eight farmers from Indian Springs, Mississippi—seven African American and one white—formed a cooperative to buy equipment for handling the insects bedeviling their pea plants.

In 1979 the association was dismayed to discover that their African American members were being paid lower prices for their watermelons than nearby white farmers. They decided to pool their money, buy a truck, and start hauling watermelons directly to Chicago. Two years later, a representative from the Federation of Southern Cooperatives helped them organize into a cooperative.

Today, Indian Springs has three dozen producer members spread over six counties in Mississippi. They own a \$500,000 packing facility that enables them to box, market, and truck their produce to a wide variety of wholesale and retail buyers throughout North America. They reach markets hundreds, and even thousands of miles away, in Memphis, New York, Boston, and Toronto, and have access to the vast distribution networks of Sysco Corporation, Albertsons, and U.S. Foodservice.

The Indian Springs Farmers Association is typical of many farmer cooperatives in the south—small, informal, personal. Yet it has also distinguished itself through its long history, its many accomplishments, and its roots in the civil rights movement. “We’ve come a long way since the 1980s,” Ben says, “but there’s still a long way to go.”

## Business Model

There are 42 members of the Indian Springs Farmers Association A.A.L. today (though one-quarter is retired). The benefits of membership include lower priced supplies bought in bulk, accessible and affordable packing facilities, and joint marketing arrangements that would have been individually impossible.



All photos by Mississippi Association of Cooperatives

## At a Glance

### Where

Six counties in southern Mississippi, near the city of Petal

### What

Vegetable production, processing, and distribution

### Website

n/a

### Founders

Eight local farmers

### Year Founded

Informally organized in 1966 and again in 1979; incorporated in 1981

### Number of Employees

1 full time, 3-8 seasonal

### Total Revenues

unavailable



The business model aims to break even. Even though the cooperative's books are incomplete, the available evidence suggests that Indian Springs has very little debt, modest assets, and consistently positive cash flow. "Sometimes," says Ben, "the co-op will buy things—packing bags, some supplies. We keep a steady supply of that. If the co-op pays ninety-two cents for a box, we sell it for a dollar. But we aren't making any profit. The co-op isn't in the business of making profits. We do well on commissions and on resale. For watermelons, we get about fifty cents of pure money after we pay everybody. And we have thousands of watermelons."

The focus of the cooperative is fresh vegetables, since there is a higher margin from them than from commodity crops. As Ben reflects on his own choices as a farmer, "With row crops, you had to get bigger and bigger every year to keep up. Once I got up around six or seven hundred acres, I realized I could do the same work on a hundred acres of vegetables. So now I grow traditional local vegetables."

The rationale for this model is simple; economists assume that the invisible hand of the free market sets prices fairly. But when one large player dominates a relatively small geographic market, it can set monopoly prices in way that unfairly benefits itself and exploits others. Lacking education and wealth, small farmers have often been particularly vulnerable in regions with a limited number of distributors. One solution small farmers have resorted to is to pool their resources—their capital, products, and intellect—which gives them a better shot at flexing their collective muscle and getting a better price from middlemen.

An Association packaging manager and marketing specialist explained the rationale for the cooperative this way to researchers at the USDA: "When one co-op member can bring his twenty boxes of bell peppers and another co-op member can bring his twenty bushels of peas over, whatever the case may be, we can market as a group. Then we command a better price on the market and can fill a large order at one time. We can say to customers, 'Yes, we have it, we can deliver and this is the price we expect to receive in return.' And then that comes back to the farmer and he gets his check—whether it's from a sale to a commercial outlet or to a farmers market. That kind of service commands a higher price."

Another important benefit to members is access to the cooperative's packing shed in Petal, Mississippi. It's fully equipped, capable of storing members' produce in a large cooler, and then washing, sorting, and packaging it. The co-op also owns a truck, though it sometimes employs outside shippers. While one person manages the cooperative full time, anywhere from three to eight "call-in" staff work in

## Business Model Overview

<p><b>Sector</b> Wholesale and retail</p> <p><b>Ownership Type</b> Producer cooperative</p> <p><b>Local Ownership</b> Yes (rural regional)</p> <p><b>Products</b> Greens, corn, squash, peas, beans, peppers, watermelon, and other produce items; herbs</p> <p><b>Market</b> <i>Domestic:</i> Regional, national</p>	<p><b>Customers</b> <i>Wholesale:</i> Several small- and large-scale distributors around the country, regional and national grocery store chains; <i>Direct marketing:</i> Regional farmers markets and restaurants</p> <p><b>Niche(s)</b> Pooled production and processing, partnership with distributors, organic and sustainable growing techniques</p>
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this facility. Each member pays a modest fee for each use, but it is much lower than what alternative facilities would charge.

Most importantly, the co-op provides a comprehensive marketing platform for its members with branding, mailings, and advertising—though it provides these benefits without a marketing staff or budget. With the assistance of local universities like Alcorn State and local business development centers, the co-op is continually gathering information about prices and developing new customers.

Important sales contracts now include the A&P in New Orleans and Red Tomato, a Massachusetts nonprofit that works with farmers to brand and market produce to retailers, wholesalers, distributors, and other buyers. Previous purchasers included The Kroger Co. and Alliance Food Service (formerly Kraft). A contract to sell to three southern stores of the Whole Foods Market chain is also under negotiation. A Chicago-based broker, whom they originally met through Kraft, has been a steady buyer for over 20 years, though they've never met him in person. A much smaller percentage of the cooperative's produce is sold directly to high-end restaurants and through farmers markets (it was a founding member of the Crescent City Farmers Market in New Orleans).

The members collectively set sales targets based on the cooperative's marketing research, and allocate individual growing targets based on their land holdings and growing capabilities. If the co-op finds special needs for more of



a certain crop, it will put out a call to the members to grow more. The co-op operates year round. Winter crops include all kinds of greens, including mustard, kale, collard, and spinach. Summer crops are watermelon, corn, squash, butter beans, peas, lettuce, and bell peppers.

Like most cooperatives, Indian Springs provides an opportunity for member participation but doesn't require it. Member farmers are welcome to use, or not to use, the cooperative for purchasing supplies or selling their produce. But the more a member uses the cooperative, the greater his or her claim to any surplus held by the company at the end of the year. (Cooperatives don't have or distribute "profits," per se, but "patronage" fees.)

In exchange for an initial membership fee (\$200) and annual dues (\$12), any active farmer in a half dozen counties in Mississippi can become a member. The Association also has granted special permission for two outsiders to become members, though they must pay higher dues. Some members hold four or five shares, but because cooperatives are highly democratic, they give each member exactly one vote. Three retirees have cashed out and sold their shares back to the cooperative. "You can get all your money back except ten dollars," says Ben. "That same share will be set aside and not used for someone else if their children or grandchildren want to go back to farming. They could then invest two hundred dollars and join."



While small, Indian Springs has had a critically important impact on the region. It has kept three dozen small farmers competitive, which in turn has pumped \$5,000-10,000 per week during the active growing season into rural Mississippi. "We've been an incubator," says Ben. "We've trained a lot of young people, like those two we trained to be managers, along with other people who have worked with us—like all the students from Alcorn, Jackson State, and other places."

The incentives for members to diversify their products, inherent in the Indian Springs business model, contribute to the ecological vitality of the member farms. So does the encouragement of more trees on the farms, and the reliance on manual labor. But the members of Indian Springs, according to Ben, also have taught one another how to improve their environmental performance: "We've done no-till where we can plant vegetables without turning the soil. Most of our farmers use very little chemicals, but they do use some fertilizers."

## History & Drivers

From its beginning, Indian Springs grew modestly from 8 to nearly 50 members, primarily through word of mouth. Ben recalls, "I guess people found out about what we were doing, and other farmers said, 'I believe I'll join that.' We don't have active efforts to recruit members, but we need to start doing that. Maybe through the churches, or up in community halls."



A key milestone came in 1996 with the building of the packing facility. “We needed a way to wash, grade, and package our commodities,” recalls Ben. “We knew it would create four to five jobs. We didn’t know it was going to be as long, drawn-out, and complicated a process as it was, but we never gave up. Well, we almost gave up once.”

The entire effort ultimately would require seven years of arduous planning and fundraising. They assembled some funding from the state of Mississippi, some from the federal government, and some from their own pockets. Another important contribution (about 10%) came from a low-interest operating loan from the Federation of Southern Cooperatives, an organization that now has under its umbrella 35 co-ops representing 12,000 African American farmers.

***While small, Indian Springs has had a critically important impact on the region. It has kept three dozen small farmers competitive, which in turn has pumped \$5,000-\$10,000 per week during the active growing season into rural Mississippi.***

Since then, Indian Springs’ operations and membership have remained relatively stable. “We went up as high as 48 members,” says Ben. “We have 32 active members now.”

Yet stability in the volatile co-op world is often seen as success, and Indian Springs has become one of the stars of the Federation of Southern Cooperatives. Ben, who has been working for the Federation on and off since 1988, was recently elected its President. And the Federation’s staff in Mississippi has grown over this period from 1 to 11.

One part of the cooperative philosophy that Indian Springs takes very seriously is helping develop other cooperatives. “We do a lot of co-op to co-op trading. We find out about each other through the Federation of Southern Cooperatives, the annual meeting.” Ben cites as an example the Beat-4 Co-op in his area, with African American, white, and Choctaw farmers. “We sent them watermelon seeds and other supplies when they started up to help them get enough supplies for farmers to work for themselves. They are about the same age, and now they sell things to us. We do co-op to co-op trading all the time.”

This cooperation extends internationally. The Federation of Southern Cooperatives has long reached out to Africa, South America, the former Soviet Union, and recently the

Virgin Islands. Through grants from USAID, they provide technical assistance to other agricultural cooperatives. Indian Springs has reached out to “sister cooperatives” elsewhere in the world, such as Gambia, Senegal, and Zimbabwe, and hosts international farmers who visit Mississippi. “I just enjoy traveling myself,” says Ben. “I never would have thought I would have been fortunate enough to travel all these places.”

For Ben, the learning goes both ways. “When I came back from these trips, I designed my own irrigation system and drip irrigation system in 1989. Now we have seven systems around the area like mine. That’s all from me learning from the land grant college in Israel for six weeks, where I did a bunch of research. We found out we can grow just about anything in the south of Mississippi. We don’t have to be confined to traditional southern crops.”

## Key Challenges & Lessons

Indian Springs is an example of a small cooperative that has stood the test of time. “We hold our own,” says Ben. “We got a good enough reputation that we can go to any of these stores that other people are selling to.” And Ben is justifiably proud that Indian Springs has spawned several imitators in Mississippi, South Carolina, and North Carolina. “They copied our plan, modified it a little bit, then built their own plant using the same financial strategy. When we drew our own blueprint, we didn’t have nobody to copy.” Yet Ben also sees a bunch of challenges ahead:

- **Membership Expansion**—There is a need for expanding the membership to achieve greater economies of scale, to compete more effectively against mainstream suppliers, to spread the benefits of the cooperative to other farmers, and to keep the struggling economies in rural Mississippi alive. “At this point,” argues Ben, “we’ve got more marketing than we do production. We’ve got to build our production base to meet our demand. I think we ought to redo our charter for a statewide charter with members from all eighty-two counties. Some of the members don’t want anyone else, but we can’t stay in business like that—people are getting old, dying off, and you have to have a different strategy.”

## Financial Performance

Profit and loss data, along with balance sheet information, were not available for Indian Springs Farmers Association for consecutive years. As a result, completion of our standard financial analysis was not possible. We can note, based on the information we have from a 2006 balance sheet, that their assets far outstrip their liabilities, suggesting a relatively secure position.

- *Universe of Farmers*—In Mississippi, as is the case throughout the United States, farmers are aging out and not being replaced by younger farmers. Can the cooperative successfully mentor a new generation of farmers from the offspring of current members or from outsiders? “You have to want to farm,” reflects Ben. “The co-op can provide your basics—a market, processing, information, technology, all of that. But is that going to help recruit anybody or help them get into farming? I don’t know whether that will help or not.”
- *Supply of Farmland*—One cause of the loss of farmers in Mississippi has been the loss of farmland. Land-use policies that favor speculation and sprawling development are motivating remaining farmers to sell their land. But in the absence of more land, Indian Springs has encouraged its members to grow more herbs, which take very little space and command an extremely attractive price.
- *Pricing*—Indian Springs may increase its commission rate. “We do marketing for non-members, now, from different co-ops. We have been doing that since day one. We charge them a one percent higher commission than we do our members. We might have to charge more, like two or three percent. You never know until you see what’s in each load that goes out.”
- *Year-Round Production*—To take full advantage of the capacity of its packing facility, Indian Springs needs to ramp up production year round. Some of the cooperative’s farmers have winter grow houses now, but most don’t. That’s why the cooperative is building a demonstration project and, ultimately, would like to build many more grow houses over the next few years.
- *Record Keeping*—Ben feels they need to tighten up their record-keeping and financial systems. For example, the cooperative owns a computer but rarely uses it.

For anyone interested in repeating the model, Ben has several pieces of advice: “Don’t organize for the sake of organizing. Have a definite reason you’re organizing a co-op. Stick to that reason. You might change, but always remember why you got organized and what the goal was. And stay focused. If you try to do everything for everybody,

you won’t get anything done.” Ben also believes more start-up capital would be helpful: “Have more farmers invest more money. Instead of \$200, our fee should have been \$1,000. At the time, it would have only taken two or three years to pay off.”

Ben’s most immediate challenge concerns his own farm. “On personal side, I’ll be fifty-seven this year. I’ve been farming all my life. My nephews and daughter are farming this year. I would like to transition my farm to them. If they don’t want to farm, I guess I’ll keep doing it.” Whatever happens to Ben, he suspects the legacy of Indian Springs will endure: “The eight farmers that started the cooperative kind of had insight. It’s good they did, because we are reaping the benefits of it now.”





## Social & Environmental Performance

### B Corporation Report Card Score: *Did not qualify\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

Explanation of Results: The B Survey was created by the non-profit B Lab as a certification process for social and environmental performance. As such, their rating system did not always match with the values of the CFE study, but did serve to reveal where enterprises are strong in performance and where they could focus in the future. Although Indian Springs Farmers Association is quite informal when it comes to book keeping and does not stipulate particular production or business practices to its members, its achievements in providing equitable and profitable economic opportunities for small farmers and farmers of color, and its long history of supporting other cooperatives and incubating innovations locally and in sister countries in the developing world, make it worthy of being considered a "community food enterprise."

For our full assessment of the B Survey results for Indian Springs Farmers Association, please see Appendix 1: About B Corporations.

### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Employees included in strategic management decisions "most of the time"
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Paid sick leave</li> <li>• Paid vacation</li> <li>• Paid maternity leave</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	Mississippi Association of Cooperatives, Federation of Southern Cooperatives
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Question not in their version of the survey
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy efficiency policies (0% saved last year)</li> </ul>
Membership in association(s) that foster environmental stewardship?	No, but some members using organic or low-till production methods
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by a local institution</li> <li>• Supplies and services: 60+% of expenditures (other than labor)</li> </ul>

## The Intervale Center

“Why not grow Vermont’s fresh food in Vermont, and do it sustainably?” That was the question preoccupying Will Raap in the 1980s when he had a small garden shop and catalogue, a compost pile, and a parcel of neglected land in Burlington. Back then, the “Intervale” referred to 350 acres that were historically important but had fallen into disuse.

Based on consumer research, Will saw in the land the potential to grow at least 10% of Burlington’s fresh food at the Intervale. Today Will believes that the gardens and farms on the Intervale have just about reached that goal. But equally important was how he got there. By creating a successful composting operation and inspiring the development of a dozen small farms for the city, Will’s initiative was able to revitalize the land and generate enough cash flow to support the nonprofit Intervale Center, a web of food-related enterprises and educational programs that have become the backbone of the northern Vermont’s food system.

The Intervale now houses a huge web of businesses. Besides the Gardener’s Supply family of companies is Burlington Electric’s McNeil Generating Station, the Sugarsnap Café, and the Stray Cat Flower Farm and Market. Linked with the Intervale Center itself are the dozen farms, Community Supported Agriculture (CSA) programs, the compost project, a conservation nursery, produce and farm product distribution and storage enterprises, and farm consulting services. “The Intervale at its most fundamental level is about sustainable community development,” says Executive Director Glenn McRae. “Farms and food are the vehicles we employ to build better communities.”

How do these businesses help make Burlington more sustainable? The McNeil Station generates most of Burlington’s electrical power primarily from sustainably grown Vermont wood chips. Intervale Compost transforms the city’s organic waste streams into compost and topsoil sold commercially in and around the City. And all this business activity has actually helped revive the ecological vitality of the Intervale itself, such that multiple farm enterprises can produce more than a million dollars of organically grown food for local consumption each year.

### Business Model

The Intervale Center is a nonprofit that engages local farmers and eaters at every step of the supply chain of local food, from pre-production planning to post-consumer waste disposal. It has a local food education program for young people, a farm enterprise business incubator for new farmers, business consulting services for established farmers, and a land preservation initiative. The state’s first and biggest CSA is based there (it has since spun off as an independent farming cooperative). So, as noted, has Chittenden County’s composting program.



All photos by The Intervale Center

### At a Glance

<b>Where</b> Burlington, Vermont	<b>Founders</b> Will Raap
<b>What</b> Develops sustainable agricultural and community food system solutions	<b>Year Founded</b> 1988
<b>Website</b> <a href="http://www.intervale.org">http://www.intervale.org</a>	<b>Number of Employees</b> 14 (2008)
	<b>Total Revenues</b> \$ 2,154,874



As an organization comprising multiple programs, initiatives and enterprises, the Center is continually evaluating its operations against a triple bottom line of profitability, environmental sustainability, and social responsibility. According to Glenn McRae, the Center's Executive Director, "Our conservation nursery works to provide farms with appropriate ecological services to become more sustainable in their communities. The Intervale farmers give back to the community in many ways. They participate in programs with local youth and volunteers that provide fresh food to local food pantries. It is a great cycle of mutual benefit when it is all seen together."

One of the Intervale Center's signature accomplishments is blending for-profit management with nonprofit enterprise. Couple that with the Intervale Center's deep sense of place and its commitment to the surrounding land, and you've got the Center's operational philosophy. "We hold an incredible community asset in trust," Glenn notes. "We could think about divorcing ourselves from the land, but the core idea of the Intervale Center is to revitalize this land and help it produce for the local community."

Unlike most nonprofits, the Intervale Center has placed a high premium on the financial sustainability of most of its programs. An example is the Farm Incubator Program that has provided start up support for emerging and small organic farmers since 1995. Incubator farms get subsidized rates and access to equipment and mentoring. The fees start low and only rise as the farmers' independent businesses expand and they reach enterprise status after three years.

"The Intervale is an incredible platform for young aspiring farmers to take a risk and launch an enterprise, and when they emerge from incubator status they are prepared to pay market rates to continue," observes Glenn. "It has proven to be a great model for establishing viable sustainable organic farm enterprises."

A new Center program, Success on Farms, continues the focus on incubation outside the Intervale. This farm viability program, funded by the Vermont Housing and Conservation Board, provides free, customized business planning and technical support services for growing farms throughout northern Vermont.

The Intervale's economic structure leverages revenue from its most profitable programs to underwrite other start-ups or initiatives with stronger social missions. New ventures often emerge from the direct needs of Intervale farms and the broader farm community, such as the identification and documentation of distribution and storage needs. "We're about fifty-fifty between our contracts and earned income

<b>Business Model Overview</b>	
<b>Sector</b> <i>Services:</i> Training and incubation	<b>Market</b> Local
<b>Ownership Type</b> Nonprofit	<b>Customers</b> Local youth and adults, local and regional farmers and food entrepreneurs, visitors
<b>Local Ownership</b> <i>Board:</i> Yes; <i>Producers:</i> Yes	<b>Niche(s)</b> Organic, urban agriculture, land restoration and preservation, farm enterprise incubation, community outreach and youth education programs
<b>Products</b> Entrepreneur incubation, youth training, community programs, local economic development, local food system development	

versus our foundation and charitable gifts," Glenn reports. "Because we don't have to generate all of our revenues, we can build up enterprises, look to evolving systems and needs, try to understand what the obstacles are, and how to fill them, try solutions out, and develop something that is really functional."

The desire to increase self-financing also has led the Intervale staff members to redesign programs or shut down those that are no longer effective. For instance, the composting program outgrew Intervale's ability to successfully manage it, and was recently turned over to the Chittenden County Solid Waste District. The Healthy City program built up a Youth Farm element that could not be effectively executed long-term, so it was replaced by an educational outreach program for Burlington's at-risk kids.

Should the Intervale Center have been a for-profit? "I could argue either side of that," says Will. "I do think that because we were talking about becoming stewards of a very large portion of open space and public land, we had to be a nonprofit entity. The city couldn't sell two hundred acres to a private buyer." But, Will adds, had the Intervale been a for-profit, it might have attracted private finance and been able to move more quickly on some of its business ideas.

Several factors have contributed to the success of the Intervale Center. The model could not have happened had there not been a large and underutilized parcel of land. It also required a formal partnership with city, county, and state officials who provided the leverage to secure the land



and needed capital. And it was critically important that, despite its nonprofit structure, the Intervale Center kept business development at the core.

## History & Drivers

Will Raap is no ordinary businessman. He seems to blend Bill Gates' large-scale ambition with the small-scale values of E.F. Schumacher, economist and author of *Small is Beautiful*. In fact, after getting an MBA and an urban planning degree, Will actually went to England to work with Schumacher.

In 1983, Will founded the Gardener's Supply Company (GSC), in part because of his interest in food systems. "When I was a student in California, I was watching agricultural valley cities shift to suburban malls, and watching them lose their identity. I believed for a very long time that investor agriculture was going to burn itself out as soon as the oil burned out."



Despite his commitment to small scale, Will had no qualms about growing his business to catalyze big social changes. Today, GSC is a successful mail-order company for home garden products that employs 250 people and is one of the largest companies of its kind in the United States.

Back in 1985, after two years of growth, he moved his first store to five acres at the entrance of the Intervale, where part of an abandoned pig slaughterhouse was standing. Two years later he approached then-Mayor Bernie Sanders (now a U.S. Senator) with his ideas for growing Burlington's local food system. Needing a new solution to the city's growing solid waste problem, Mayor Sanders liked Will's offer to move into the Intervale and set up a compost operation. The city leased land for operation to a division of GSC.

Since then, the Intervale Center has created a variety of self-financing projects related to local food systems. The revenue from these businesses supports various social initiatives. The Healthy City Program, for example, offers job training for and educational programs about local food to Burlington's at risk youth populations. A Gleaning Project provides local food to local social service agencies. The Intervale Community Connections Project allows the city's kids to engage with local food producers and brings hundreds of volunteers to the Intervale each year to work at the conservation nursery, school gardens, and at public events.



All this public education has fed back into more food business. The Healthy City Program, for example, has helped opened doors for the Burlington schools to buy more fresh produce from Intervale farms.

The Intervale Center is a work in progress. Sometimes programs work and sometimes they don't. For instance, the Intervale's composting program got to be too big, complex, and legally challenging. The decision was made to lease the land and facilities to the Chittenden County Solid Waste District. The District was able

to hire existing staff and easily take over the operation because it had been a key partner in the operation from the outset.

Another ambitious project not quite realized has been the EcoPark. The idea was to create an “industrial ecology” model, where the waste of one business would provide the inputs to another. Will recruited John Todd, one of the pioneers of the concept. The waste heat from the city-owned McNeil power plant was to support a beer company, whose water waste and mash would feed into a greenhouse, where mushrooms and hydroponic vegetables would be grown and tilapia would be harvested. The political vagaries of federal funding and complications with a neighboring industry sidetracked the effort in 2002. The Food Enterprise Center emerged as a more modest and simpler concept, still incorporating the use of waste heat but focused more narrowly on season extension and value-added processing.

***“The Intervale at its most fundamental level is about sustainable community development,” says Executive Director Glenn McRae. “Farms and food are the vehicles we employ to build better communities.”***

The past five years have witnessed huge changes, because of Will’s decision to move on to other programs. There has been a rapid succession of executive directors, each modifying the mission, tweaking old programs, and starting new ones. Glenn sees this as a natural evolution. “We don’t want to have programs that are static. So much of the learning that happens through the Intervale Center is experiential, not systematic.” He is now focusing on the emerging food infrastructure necessary to get more local food into local markets. “We are working through a new way of looking at Intervale... as a succession of products and services that ties the food system together.”

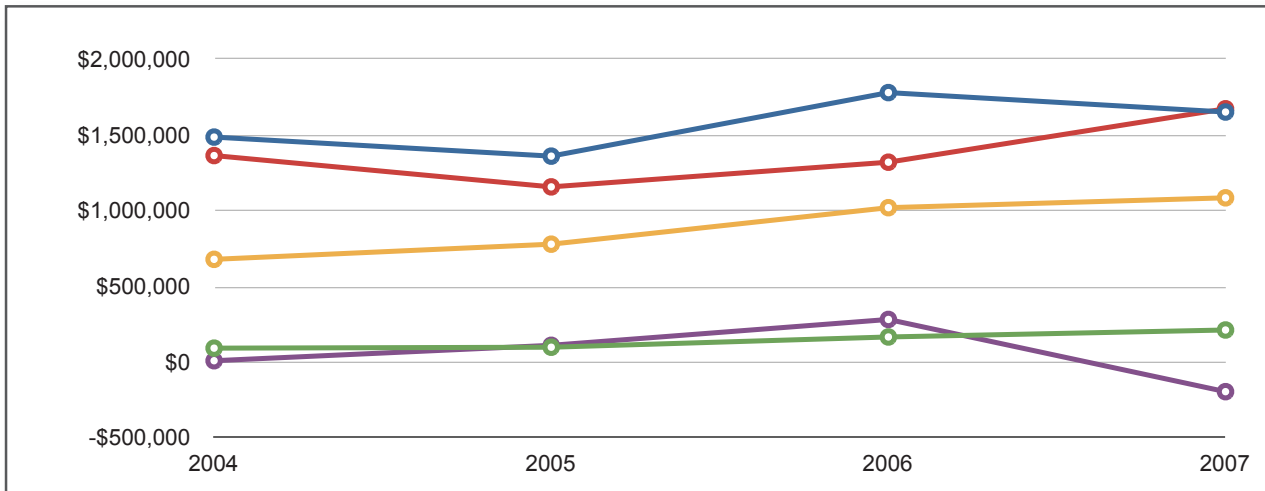
Will himself co-founded another company that specializes in rangeland and farmland restoration using carbon credits, wetlands banking credits, and other payments for ecosystem services. His underlying philosophy—that the way to grow markets for local food is to increase the number of local farmers and the quantity of productive local farmland—remains the same, only now he is applying it outside of Vermont. He’s developing the first organic CSA in Central America as one land-based enterprise in a 25,000 watershed restoration project. He still keeps one foot in Vermont, however, and is developing a 20-acre organic community farm at the South Village Community conservation development.

## Key Challenges & Lessons

In its 21-year history, the Intervale Center has faced five big challenges:

- *Diversification*—For most of its history, the Intervale’s cash flow was too dependent on its composting operation. A couple of years back, too much rain brought the operation, and its revenue, to a halt for several months. There’s a need to diversify the Center’s cash flow. Income from land leased to farm enterprises, along with the establishment of new enterprises such as the Food Hub and conservation nursery, has helped, but there is a need for even more diversification.
- *Focus*—Will appreciates that to succeed, the Intervale must keep to its expertise in self-financing food systems. He thinks it was smart to hand over the compost operation to Chittenden County. “Just like in most businesses today, you’ve got to focus on what you’re best at and get rid of the non-core initiatives.”
- *Politics*—The initial relationship with the city was critical to the startup of the Intervale, but it made the Center appear closely aligned with Vermont’s “progressive enclave” and subjected it to additional scrutiny. The result was a major regulatory dispute over the size and operation of the compost operation, once it grew to the point where it needed special licenses. It cost the Intervale \$300,000 to come into compliance and effect the transfer of the operation to the solid waste district to the county.
- *Leadership*—Will acknowledges that one of the key challenges for the Intervale has been himself. As long as GSC was providing funding to the Intervale, purchasing much of the compost, and leasing land to the organization, Will’s ongoing presence on the board presented a lurking conflict of interest. The Intervale had reached the point where it needed a board and manager totally independent of GSC. As noted, however, his departure triggered wrenching changes within the organization, and the challenge now is to stabilize.
- *Next Generation Programs*—If the Intervale is to meet the demand for the local food it is promoting, there will need to be more farmers and growers in the region, and

## Financial Performance



● Total Revenue (Sales + Support)  
 ● Cost of Goods Sold  
 ● Net Sales  
 ● Selling, General & Admin. Expenses  
● Net Income (Loss)

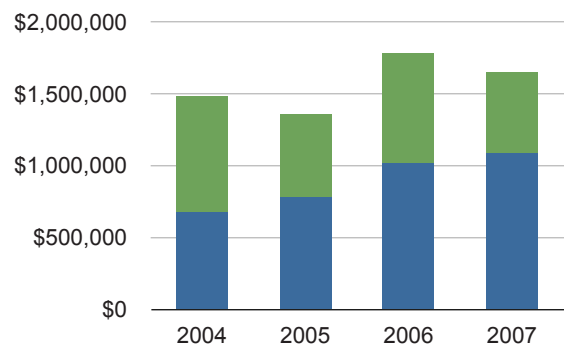
For the years 2004 - 2006, Intervale's finances looked generally consistent and solid. In spite of a consistently high gross profit, 2007 delivered the first net loss of the four years evaluated, which appears to have resulted from lower than expected grant income and higher than budgeted SG&A (sales, general, and administrative expenses) costs—particularly Utilities and Occupancy Expense and Miscellaneous Expense. Intervale appears to have sufficient assets to weather the year of poor performance.

the Intervale needs to target some of its incubation work accordingly. Increasingly, the challenge for the Intervale is to develop a systems approach. The Food Hub and its first enterprise, the Food Basket—an extension of a CSA model that involves multiple growers—is a good example of how the Intervale is moving deliberately toward making systems thinking a high priority.

Despite these challenges, people now come from all over the world to visit, study, and replicate its work—so many, in fact, that the Center is establishing a more formal consulting arm. With the Center committing to extend its mission and work beyond Burlington and Vermont, Will felt comfortable enough to move onto other projects.

“I think the Intervale Center,” Will reflects, “has charted a way to stop food production from moving farther away from Burlington and from reversing the decline in the percent of food retail dollars going to our farmers. The food system impacts we have had over twenty years are a main reason Burlington is in fact recognized as among the most sustainable cities in the United States.”

## Balance Between Earned Income & Grant Income



■ Support Income (grants, contributions)  
■ Net Sales

## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	No answer provided
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Part-time/flex work schedules ( 10% using)</li> <li>• Telecommuting</li> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• Health insurance</li> <li>• Dental insurance</li> <li>• Life insurance</li> <li>• Domestic partner benefits</li> <li>• Short-term disability</li> <li>• Paid sick leave</li> <li>• Paid vacation</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	Vermont Business for Social Responsibility
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	No
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy efficiency policies</li> <li>• 5-25% energy from renewables</li> </ul>
Membership in association(s) that foster environmental stewardship?	USDA Organic
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by local institution</li> <li>• Supplies and services: 40-60% of expenditures (other than labor)</li> </ul>

# Lorentz Meats

Don't waste time asking Mike Lorentz for advice on how to sell meat at a farmers market. "You won't make enough money to justify being there. It's great for a hobby, you might even break even. But you won't turn a profit." And, he adds with emphasis, "if isn't profitable, it isn't sustainable." For Mike, size matters, even for local food. He sees several "sweet spot" business opportunities for small- and mid-scale meat processors.

At the heart of Mike's company is a 10,000 square foot processing plant, built from scratch in 2000. It is fully certified by the USDA to process by hand not only cattle but multiple species like bison, pigs, and elk. It's just about the only plant of its kind in the United States in terms of its moderate size, high number of certifications, and variety of meat processed. It stands midway between mechanized slaughterhouses run by giants like Tyson that process thousands of animals per day and boutique farmhouse operations that process a few dozen home-grown animals per year. Mike believes he is proving that his scale is just large enough to work for small farmers and ranchers.

## Business Model

Lorentz Meats is a rare example of what Fred Kirschenmann, a leading scholar on sustainable agriculture, and his colleagues call "agriculture of the middle."<sup>20</sup> Kirschenmann argues that very small operations, whether family farms, roadside produce stands, or quaint locavore cafes, have their role, but they will ultimately never transform a food system dominated by Fortune 500 giants unless they can reach a size and scale that can better compete. His solution is to think regional instead of local and to pool production, processing, and distribution capacities across a wider area without growing so large as to lose vital connections to local communities, economies, and ecosystems.

Meat requires a larger scale than many other foodstuffs for some basic reasons. A tomato can be grown quickly, cleaned with a single rinsing, shipped without refrigeration, and displayed without any special casing or packaging. Cattle, by contrast, need to be grown over two years, and then killed, cut up, processed, and packaged in a refrigerated, antiseptic environment. "Once an animal gets to slaughter," Mike observes, "only about sixty pounds of middle meat, of the four hundred pounds of meat overall, are easy to sell. That leaves three hundred and forty pounds that are harder to sell. If you're only distributing to restaurants, the math kills you."

Mike believes that small ranching operations raising under 100 animals at a time can be profitable, but only if they have access to a reasonably scaled processing plant and deploy a solid direct marketing program. Put another way, economic success is only possible if a grower can move those less-



All photos by Steve Volavka, Ensemble Creative

## At a Glance

### Where

Cannon Falls, Minnesota

### What

Meat processing

### Year Founded

1968

### Website

<http://www.lorentzmeats.com>

### Founders

Ed and Mary Lorentz (parents of current owners, brothers Mike and Rob Lorentz)

### Number of Employees

45 (2008)

### Total Revenues

\$4,200,000





valuable 340 pounds. This is exactly what Lorentz Meats strives to provide.

Mike's assistance to small farmers, based on several decades of experience, comes down to some fairly succinct advice about volume and profitability. "Less than a hundred cattle, you should direct market. More than a thousand cattle, you're big enough to sell to restaurants and retail. In between and you're in an awkward middle ground. With a thousand cattle, you can direct market a hundred, and get five hundred to a thousand dollars extra per head, then sell the remaining head at commodity to buy down costs on the animals you direct market."

But what if a rancher currently has 200 or 600 cattle? "We're all about options," Mike clarifies. "Grow as many animals as you can within your husbandry requirements. Sell as many of those animals as you can direct market. Qualify for as many specialty programs as you can to get the premiums you've earned. Unload the rest for the underperformers on the commodity market to convert to cash to start the cycle over."

Indeed, some of Mike's clients only process one or two head per year and give the meat to friends as gifts. More typical clients produce 40-60 head a year. With these customers in mind, Mike launched his Market Maker Program to give his clients not only low-cost processing but also assistance with direct marketing. In collaboration with the Land O'Lakes cooperative, he secured a \$400,000 grant from the USDA to write a direct marketing curriculum called Branding Your Beliefs.

Mike focuses on direct delivery through relationship-based sales, word of mouth, farm-gate sales, and the Internet. Retailers normally impose a 35-50% markup on specialty meats. Outside distributors take 15%. This system doesn't leave much for the farmer. Lorentz Meats effectively helps its clients make an end run to the consumers. Most of the price that would have gone into the pockets of retailers and distributors can instead go into the pocket of the producer. Mike believes that helping farmers with direct marketing "exponentially expands our own business opportunities." A company brochure boasts, "In the arena of cooperative packaging, Lorentz looks for branded products that they can add value to by superior processing. Thus far, Golden Bison, Kowalski's, The Organic Meat Company, Sysco Corporation, Dixie's, Berkshire Country Meats, Ajishoku Foods, and Six Point Berkshire Pork (to name a few), have partnered with Lorentz' Specialty Processing and Sausage Divisions."

One tricky part of direct marketing is how to handle buy-backs. Many meat processing companies that perform

## Business Model Overview

<b>Sector</b> Processing, retail	<b>Customers</b> Dozens of small-scale local and regional meat producers and direct marketers; a handful of large to very large regional and national producers and retailers
<b>Ownership Type</b> C-Corporation	
<b>Local Ownership</b> Majority local (12 shareholders, far greater than 50% are local)	
<b>Products</b> Processes beef, bison, pork, elk	<b>Niche(s)</b> USDA-certified to process multiple meats by hand, USDA organic certified, EU certification for bison and elk, training programs in direct marketing, ability to work with small- and mid-scale producers
<b>Market</b> Regional to national	

"tolling" and marketing for small growers will take back any items not sold under a private label and then freeze, grind up, or cook up them up and resell them under the processors' label. The problem is that this puts the processor in direct competition with the clients' own private label programs, and serves as a disincentive for the processor to market aggressively the fresher products. Lorentz Meat has renounced this practice.

Despite Mike's passion for direct marketing, it is important to note that 80% of the volume of his meat processing comes from a handful of much larger customers. Fortune has it that just as Mike and his brother and co-owner, Rob, were building their current state-of-the-art facility, they crossed paths with representatives from the Cooperative Regions of Organic Producer Pools (CROPP), better known as Organic Valley, the largest supplier of organic products in the United States. Organic Valley quickly became Mike's largest customer, and today he does beef processing for CROPP's meat brand (Organic Prairie), as well as for Organic Prairie pork and value-added meat products. Another major client is Thousand Hills Cattle, a 100% grass-fed operation that processes 1,000 cattle per year. That relationship came about after Todd Churchill, a Lorentz consultant, decided to go into business for himself.

Mike's commitment, however, is still to help the little guy. A company brochure says: "Capitalizing on direct sales opportunities, Lorentz sees tremendous potential for increasing processing volume at its plant from independent,



family farmers. And on the coat tails of the farmer-direct connection with the community, the community is ultimately strengthened by keeping their food dollars close to home.”

Mike ticks off all the tests Lorentz Meats has passed that indicate its commitment to quality: USDA approval for organic processing; EU certification for bison and elk; customer audits by Gerber Baby Food, Organic Prairie, Steritech, and NSF-Cook & Thurber that are vendor requirements for companies such as Whole Foods Market, Costco, and Disney. Yet he insists that he doesn’t play favorites. Corn-fed versus grass-fed? Organic versus conventional? Humane versus conventional? He’s willing to work with anyone. “Who am I to judge who is good enough?” “Sure,” he concedes, “I tend toward alternative producers because they are the most motivated.” He then lets down his guard a bit and admits that, yes animal welfare has been a concern. “There is no need for these animals to suffer.”



Lorentz Meats actually has designed its holding pens around the theories of Temple Grandon, a Colorado State University professor whose most recent book, *Animals in Translation*, is all about empathizing with animals. Dr. Grandon has since visited the Lorentz plant, telling Mike they’d done pretty well but suggesting several modifications, which they promptly carried out. The slower processing at the plant facilitates a more humane slaughter, as does an observation room where visitors can see for themselves how the workers are performing. Michael Pollan noted and praised these innovations in his book, *The Omnivore’s Dilemma*.

## History & Drivers

On paper, the Lorentz family business hasn’t changed much since Mike’s father bought a butcher shop in 1968. Then there were 20-30 employees, now there are 45. Then there was a facility with 10,000 square feet, some of it dedicated to retail, and now there are 10,000 square feet, all dedicated to processing (with the former facility now used for storage). Then it was a locally owned, family-run C-Corporation, and it remains so today. But like other meat processors, the Lorentz family has had to change with the times.



The meat processing business was great throughout the 1970s. But in the 1980s, when the farm economy crashed, so did the demand for butchering. The Lorentz family tried to add other businesses to make ends meet—a deli, retail sales, weekend catering—but nothing seemed to take off. Mike frankly didn’t even see a future for himself in the company, so he went off to college and studied food science. His oldest brother Tom did the same and became a civil engineer. Their brother, Rob, stayed behind to help run the plant. By 1990, looking for a fresh start, Rob and his father asked Mike to come back into the company and see if they could use their collective smarts to reinvent the family business.

In the nearly two decades since, Mike and Rob have transformed the company into one of the country’s models of small-scale meat processing. Notes Mike, “as business partners, we have the good

fortune of offsetting each other's talents. Rob expertly manages the plant operations while I manage the business and marketing. I get to be the face, but Rob makes sure it gets done. It works well for us." While the brothers hold 60% of the stock of the company, they have also needed significant infusions of capital at various points, so there are now 10 other shareholders, most of them living near the plant.

By the year 2000, their business had grown large enough to justify building a 10,000 square foot processing plant with full USDA certification. Many of their peers thought they were nuts. Typically, a growing processing business will rehabilitate an existing plant to keep down costs. But old facilities, Mike argues, are notoriously troublesome, with designs way out of sync with modern health and safety codes and with machines prone to frequent

- **80/20 Rule**—Mike has had to embrace the “80/20 rule”—80% of his business is with a couple of large-scale customers, while 20% is with 300-400 local farmers that sell directly to consumers. The large-scale customers ensure that the plant operates near capacity, while the small-scale customers, who pay more for smaller batches, yield higher margins. With Organic Prairie and Thousand Hills Cattle, Lorentz Meats has the 80% nailed right now. But it needs to diversify its larger customer base to make sure this part of the business stays solid.
- **Direct Marketing**—For the small ranchers, the key has been to provide an overall marketing package that enables them to succeed and grow. As more and more small growers turn to direct marketing, Lorentz Meats will have to sharpen the tools it provides its clients.

***“By putting everything under one roof, [Mike] can minimize the distance from one operation to the next and improve quality control. “What we lack in scale we make up for in logistics. What you would have paid truckers and separate processors to do under the traditional processing scheme, we can cover in-house.”***  
~Mike Lorentz, co-owner

breakdown. By putting the new plant in a state-of-the-art industrial park, everything was up to code and the machinery first rate.

Mike argues that even though each of the steps in his plant may be less efficient and require more costly manual labor than the assembly line approach of much larger facilities, the overall efficiency of his operation is pretty good. By putting everything under one roof, he can minimize the distance from one operation to the next and improve quality control. “What we lack in scale we make up for in logistics. What you would have paid truckers and separate processors to do under the traditional processing scheme, we can cover in-house.”

## **Key Challenges & Lessons**

Lorentz Meats has posted positive net income in three of the past five years. Its sales growth is consistently positive and is outpacing growth in cost of goods sold. But it has taken the company more than a decade of experimentation and risk taking to find a winning formula. “Some of best lessons learned are those that cost you money,” reflects Mike.

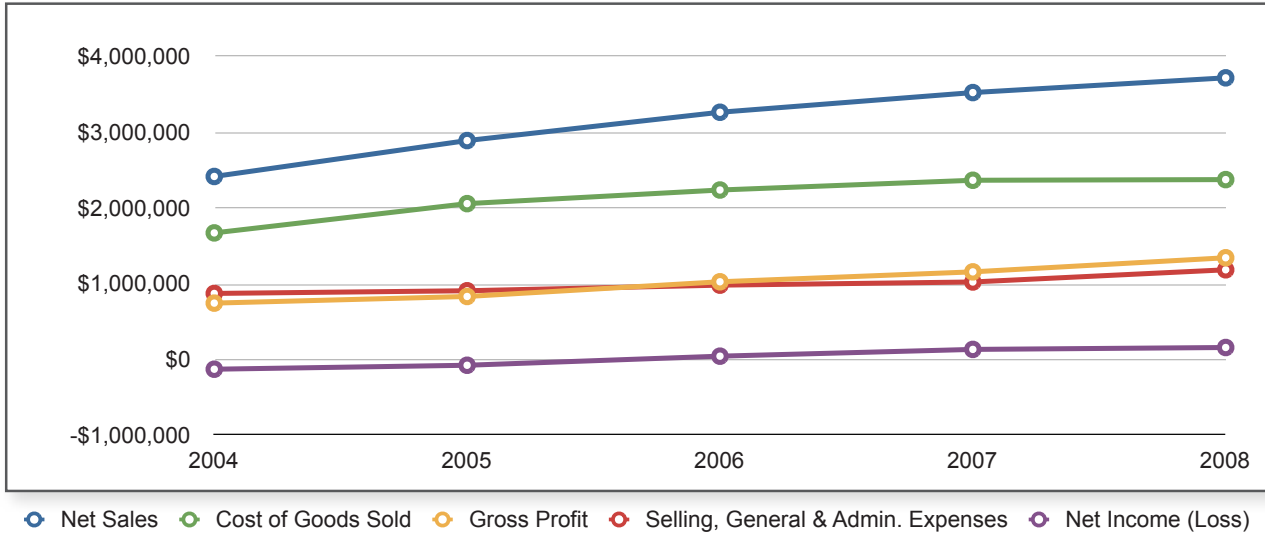
Here are some of the ongoing challenges the company faces to achieve profitability:

- **Good Food**—Mike is amused by what is and isn't fashionable. He's aware that many local foodies can be skeptical about the environmental, health, and labor implications of meat production and processing. But he believes that the key to “good food” succeeding is to have a flexible definition of it. To be sure, Lorentz Meats supports alternative production methods, local food, and local economies. But Mike aims to ensure that his business—and those businesses he counsels—are profitable, leaving the ideology about how to raise animals, or whether to eat them at all, for others to decide.

Can Lorentz Meats be replicated elsewhere? Mike certainly believes so. The opportunities for other companies to accomplish what he has—reaching profitability by capturing 1% of the regional market—seems achievable in Virginia, New York State, and elsewhere on the East Coast. Mike argues that Lorentz Meats is a template with multiple lessons that can and should be shared with other small- and mid-scale meat processors around the country.

This isn't just talk. The state of Minnesota has contracted with Mike to do a set of trainings based on his Branding Your Beliefs curriculum. He has shared his lessons about what works and what doesn't in Nebraska, Iowa,

## Financial Performance



*Lorentz Meats has posted positive net income in the most recent three of the past five years, and appears poised to continue on a positive trajectory. Sales growth has been steady and is outpacing growth in cost of goods sold, showing positive margin growth. They appear to be managing expenses well, though 2008 showed a slight uptick in SG&A (sales, general, and administrative expenses) costs. If current trends continue, their financial outlook seems good. It is also important to note that Lorentz Meats does not include the value of the meat they process in their profit and loss statements. In other words, the sales they post only include the “added value” from their processing, not the value of the products themselves. If they did include in sales numbers the full value of the products they process, it would increase their yearly sales to approximately \$14,000,000. As such, Lorentz Meats has a larger economic impact than their profit and loss statements imply.*

Wisconsin, Virginia, Georgia, Texas, and California. Local food groups around the country are flying him in to teach them how to do mid-scale meat processing and direct marketing. Mike emphasizes in these talks that he may seem opinionated, but he’s still learning and just mirroring back what he’s seeing in the real world.

And the message reflected back is simple. Yes, it’s getting more expensive to get into the business, because of pressures for greater food safety, labor rights, and humane treatment of animals. But all of these goals can be achieved at the middle scale, with the right approach. “There’s no reason you can’t do well while doing good.”



## Social & Environmental Performance

### B Corporation Report Card Score: *Pass*\*

\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Paid/unpaid medical sabbatical with job security</li> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• Retirement plan for full-time employees at least partially paid for by company</li> <li>• Health insurance</li> <li>• Dental insurance</li> <li>• Life insurance</li> <li>• Short-term disability</li> <li>• Long-term disability</li> <li>• Paid sick leave</li> <li>• Paid vacation</li> <li>• Paid maternity leave</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	No
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy efficiency policies</li> <li>• 5-25% energy from renewables</li> </ul>
Membership in association(s) that foster environmental stewardship?	USDA Organic
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by local institution</li> <li>• Supplies and services: 20-40% of expenditures (other than labor)</li> </ul>

# Oklahoma Food Cooperative

“We’ve finally found one thing that fundamentalist Baptists can come together with Pagans to agree about,” says Bob Waldrop, founder and president of the Oklahoma Food Cooperative, “and that’s local food. This coming together was a miracle.”

When delivery day for the Cooperative arrives, Bob explains excitedly, “It’s quite an experience. Thousands of products come in the door, starting about 9:00 a.m., from sixty or so different producers. About fifty-plus volunteers take those products, distribute them to six hundred and fifty individual orders which will be picked up at thirty-eight different pickup sites across the state, and by about 2:00 p.m., trucks are being loaded and heading out to the pick-up sites. It’s about sixty-five thousand dollars worth of economic activity compressed into about six hours.”

The Oklahoma Food Cooperative is a new concept in food distribution. It brings together regional food producers and consumers through an easy-to-navigate website. With a statewide network of volunteers, the enterprise pumps nearly \$1 million into the pockets of local food producers each year.

The model is so simple, so inexpensive, and so effective that it has spread to Idaho, Texas, Michigan, Iowa, Kansas, Colorado, and two locations in Ontario, Canada. Other imitators are moving ahead in Massachusetts and Missouri. But whether this social invention can graduate to a self-sustaining business still remains to be seen.

## Business Model

Because local and regional food distribution systems were largely scrapped over the last generation, it has fallen to scrappy, innovative entrepreneurs like Bob Waldrop to rebuild them. The Oklahoma Food Cooperative does this by taking advantage of one tool that many long assumed worked against local business—the Internet. At little cost, the Internet has enabled the Cooperative to put the best of the state’s homegrown producers on display in a kind of virtual farmers market. Producers maintain their own marketing identities and set their own retail prices. Consumers then choose as many or as few products from as many or as few producers as they like. The current revenue model charges producers 10% per sale and consumers 10%—a 20% total margin for each transaction.

On the monthly delivery day, producers bring all the items they sold online to a central location, marked with the Cooperative’s special order label, pick-up site, and member number. They are promptly paid, and the co-op volunteers take over from there. Items are packed into trucks, and delivered to pick-up sites across the state. Most customers go to the nearest pick-up site and grab their items. Through



All photos by Oklahoma Food Cooperative

## At a Glance

### Where

160-mile radius of Oklahoma City (plus a few farther-flung locations)

### Founders

Robert Waldrop

### Year Founded

2003

### What

Foods & non-food items grown, produced, & sold within the state of Oklahoma

### Number of Employees

4 part-time staff

### Total Revenues

\$790,829

**Website** <http://www.oklahomafood.coop>



the Oscar Romero Catholic Worker House, Bob also organizes several hundred deliveries each month outside the Cooperative for low-income people who don't have transportation.

The co-op generally operates within a 160-mile radius of Oklahoma City (one of its producers is from the Panhandle, which is about 300 miles away). "We have," explains Bob, "people in the most expensive zip codes and in the lowest income zip codes. So as a result we serve upper-, middle-, and lower-income people."

Not only do they sell fresh fruits, vegetables, grains, and herbs, they also offer value-added products like breads, casseroles, cookies, and cakes. "Plus," says Bob, "we have a lot of choice in meats: grain-fed and grass-fed beef and lamb. Bacon. Buffalo. Lot of cuts of pork. Sausages. Venison, although now less of it is available because restaurants are buying up supply. We also sell non-food items like body care products, soaps, some clothing. We could almost call ourselves the Oklahoma Food and Mercantile Cooperative."

The producers are a diverse bunch. Some are tiny, hobby operations. Another vegetable producer just doubled his production to 30 acres as a result of the co-op sales. Some producers have teamed together. "If it's a vegetable product," says Bob, "we have an instant market. It's going to sell."

Not every product, however, is allowed to be sold through the co-op. Raw foodstuffs must come from a grower who lives in Oklahoma. Value-added products must be processed locally, though they can have ingredients from out of state. Locally roasted coffee, for example, qualifies. But a processed food item with sausage has to use a locally made sausage. Nonorganic items also are permitted, but meats from concentrated animal feeding operations (CAFOs) are not. Anything using pesticides or herbicides must be duly labeled on the website.

A big part of the Oklahoma Food Co-op is educating producers and consumers. For producers, this means getting them to tell their story. "Farmers often balk at first," says Bob, "but they typically have really interesting stories. I tell them the more they share their stories, the more they will sell—which is borne out in their co-op sales." Teenage kids of farmers are helping their parents get the stories down. Bob helps too. He also encourages farmers to offer recipes on how to use their products. And he pushes farmers to come up with new products consistent with their story—soup bones, for example. "I had to encourage producers to get these back from the processor, that they were leaving money on the table. Now they are all are

## Business Model Overview

<b>Sector</b> Retail	<b>Customers</b> Consumer cooperative members within the state of Oklahoma
<b>Ownership Type</b> Producer and consumer cooperative	<b>Niche(s)</b> Exclusively homegrown (intrastate) foods and goods, online direct marketing, producer-determined pricing and marketing within common marketplace, distribution that aggregates and then regionally redistributes goods, environmentally-sensitive rules and labeling requirements
<b>Local Ownership</b> Regional (all within state of Oklahoma)	
<b>Products</b> Produce, meats, herbs, grains, baked goods, casseroles, and non-food mercantile items	
<b>Market</b> <i>Domestic:</i> regional/statewide	

offering soup bones. During the depression, people used every part of pig except squeal, because they had to."

That the Oklahoma Food Cooperative actually works at all is a marvel. The company flow chart contains 300 jobs, and up to now, none has been filled by a single full-time employee. Says Bob, "It has grown organically, and we make things up as we go along. I'm personally not an organized person at all." Bob convinced the board to hire part-time mid-level managers in 2008.

Delivery day now occurs in a 10,000 square foot warehouse. "We found an old warehouse that was in really bad shape, with really low rent: \$250 per month. We will have to spend \$35,000 up front to fix the roof and electricity. This figures out to \$1000 per month over five years, so we're saving money, we just had to pay up front." To finance this, they ran a "capital campaign" selling T-shirts and posters. "It's ready now, and not a moment too soon."

The flip side of Bob's militancy about keeping expenses bare bones is his commitment to making the business self-sufficient. "The danger with grants as free money is that you develop overhead before you need it." He's proud that the co-op has received only two grants so far, a small one during the organizational phase, and a recent USDA Community Food Security Program grant to buy trailers and develop their financial and product tracking software. "Other than that, we have been 100% self-supported through the sale of membership shares, commissions



we receive on the products we sell, and some donations from members.”

The bottom line for the Cooperative has been slightly negative for several years. Bob notes that some of this reflects their accountant’s decision to expense most of their capital investments. But there are positive trends too. Gross revenues for 2008 were 52% higher than in 2007, with some individual months improving upon past year figures by more than 80%. “If this kind of growth continues, in four years we will sell one million dollars’ worth in a month. Thus far, our growth is accelerating.”

Bob knows the co-op has had an enormous impact on his members, but he’s unsure how to measure it. “The thought of the Cooperative collapsing fills people with dread and despair because it’s increasingly how people are getting their food. We’ve had a real major impact at the micro level on members who buy regularly.” And, of course, it has been critical to the survival of small- and mid-scale farms and food businesses in Oklahoma.



## History & Drivers

By 2002, Bob Waldrop was committed to getting local food into the mouths of Oklahomans. His passion came from his convictions as an activist Roman Catholic and from his longing to bring back the family farms of his childhood in southwest Oklahoma. He also moderated a 7,000-member group on Yahoo called “Running on Empty 2,” which debated the implications of diminishing oil supplies and the emerging opportunities for local food production.

His first project, OklahomaFood.org, generated speaking invitations from all over the state. The reactions to his talks and listserv entries, he recalls, were “that’s all very interesting Bob, but you’re obviously a fanatic, which is obviously true—I’d almost be disappointed if someone didn’t think that—but how can we make this more normal and convenient? I was running around a lot to get local products at the source, plus time and gas to get all those places, so it was a fair question.”

“In December 2002, it all came together in my own mind that we needed to create a local co-op that would only serve local food. We determined we didn’t have enough people, food, or capital for stores. In my research on co-ops in general, though, I discovered that most start as food buying clubs. So, we asked the question: What if we reinvent this buying club concept based on local foods?”

Thus emerged the Oklahoma Food Cooperative. “We felt this new entity would need to have both customers and producers in one organization. This was hugely controversial. Experts told us that these two groups would work at cross purposes,” since producers would want high prices and consumers low prices. The solution was for the co-op not to buy wholesale and sell retail, as most co-ops do, but rather to let every producer set his or her own retail price and then charge for each transaction.





A dozen gatherings were then held around the state, where they drummed up interest and solicited ideas. Anyone was welcome to come. “We had both a Lesbian Unitarian minister and folks from the conservative Church of Christ at the first meeting. We all had the maturity, I guess, to recognize that if we focused on any one agenda, we could move something forward.”

There was an early debate about whether to be a cooperative or a nonprofit. “We wanted to spread equity, so felt we should organize a co-op where people could buy a membership share, just like a share of Conoco or Texaco. We were right: this created a huge emotional buy-in for members, and many of our buyers and producers volunteer.”

***“In December 2002, it all came together in my own mind that we needed to create a local co-op that would only serve local food. We determined we didn’t have enough people, food, or capital for stores. In my research on co-ops in general, though, I discovered that most start as food buying clubs. So, we asked the question: What if we reinvent this buying club concept based on local foods?”***

***~ Bob Waldrop, founder***

Another decision was not to charge an annual fee for the member-owners. “As a matter of fiscal discipline, we felt we should cover operations through revenues—use membership share cost for operating capital.” The cooperative originally charged \$50 a share. “Now I wish we’d charged more because it all costs more and takes longer than you expect.”

Operations began in November 2003. “The first month we had sixty members, with twenty as producers, though only fifteen had something to sell that month. We all showed up the third Thursday at a local church to compile all the products bought into delivery baskets, separated by consumer. This was the first delivery day. We generated thirty-five hundred dollars in sales to thirty-six consumer members. We thought we were the biggest thing since sliced bread.”

Sales nearly doubled the second month. Today, monthly sales are over \$65,000.

### **Key Challenges & Lessons**

Perhaps the biggest key to the Cooperative’s success, says Bob, has been the enormous consumer interest in local food. That base drives the demand for local products. The cooperative has also responded in a

number of smart ways to this demand. The website is easy and fun to navigate. It has mobilized and motivated hundreds of volunteers. It has organized producers and consumers over a wide region effectively. This reflects unusually good leadership, though Bob claims he’s not much of a businessperson.

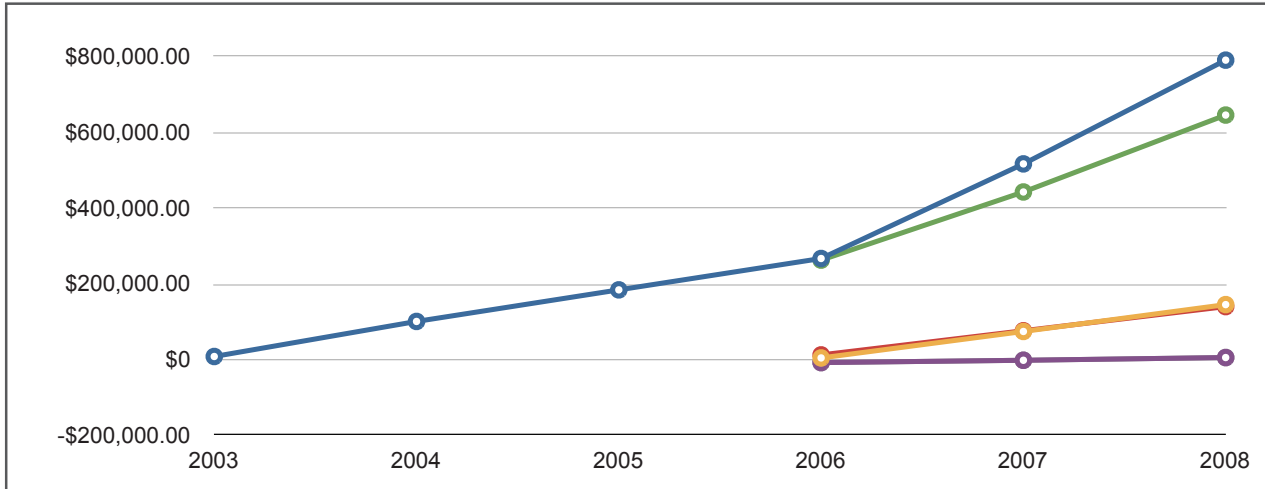
“Most aspects have worked really well,” reflects Bob, yet he recognizes that the Oklahoma Food Cooperative is a work in progress. Some examples:

- *Low income customers*—“One of the failures is we haven’t been able to accept food stamps. We’ve written letters and met with senators. But federal legislation doesn’t have a category that fits what we’re doing. What we’d have to do to qualify is to open a brick and mortar

store and have it open three days a week for eight hours a day with a certain specified amount of product. We may do this with our existing warehouse space, but the real goal is to allow food stamp customers access to all our products.”

- *Lack of staff*—The co-op has gotten remarkably far on volunteer labor, and more recently a few part-time staff, but Bob realizes this is unsustainable. “At the beginning, you need a few people who can invest a lot of sweat equity above the call of duty. But eventually we need some full-time people.”
- *Quality assurance*—Quality assurance thus far has been based on trust and the rotating inspections of a Producer Care Committee. The only complaint to date involved a pork producer who was suspected of surreptitiously buying his meat from a third party. The Disciplinary and Operations Committee formally launched an investigation, and the farmer decided to drop out of the co-op.
- *Governance*—Initially, the co-op had a hands-on board that discussed operational issues at every meeting. This made decision making difficult. Now there’s a separate operations committee, and a floor manager who reports to the committee.

## Financial Performance



● Net Sales     
 ● Cost of Goods Sold     
 ● Gross Profit     
 ● Selling, General & Admin. Expenses  
● Operating Income (Loss)     
 ● Net Income (Loss)\*

*\*The Net Income for the Oklahoma Food Cooperative tracks the Operating Income, and therefore is not visible behind the purple Operating Income line of the graph.*

*The Oklahoma Food Cooperative has grown sales consistently for the past five years. In the two years for which more financial data was available, they posted a net loss in both years but are coming nearer to breaking even. Given their reliance on volunteer labor at this stage in their growth, it is too soon to judge the long term sustainability of the enterprise, but the growth rates look positive if they can generate enough revenue to break even in the coming years. Their cash and asset position looks good.*

- **Accounting**—The original books were a mess, and a board treasurer invested “tons of hours” to clean them up. “If you’re going to spend money, the very first thing you do should be to ask for accounting help, unless you can get a volunteer accountant. Budget for a real accountant. A member can do payment posting, but you need adequate financial statements to know if your organization is gaining or losing.”
- **Competition**—“The issue comes up about restricting certain number of producers in a product category. But the customers overruled this. If we turn an application down, it’s a standards issue, not an amount issue. We have kind of a free market. No one producer has enough product to satisfy everyone. It also keeps producers on their toes.”

That the Oklahoma Food Cooperative is replicable seems indisputable given the expanding number of imitators. Bob and the board are very conscious of this, and the Cooperative has sought to build features into its model that will make it easier to replicate, such as developing open-source software and providing in-person trainings.

But the jury is still out on whether this model is a temporary device for distributing local food, until something better comes along, or a truly viable, long-term business model. As far as Bob is concerned, it doesn’t matter. “Some people are asking, ‘Who are we to do this?’ My response was ‘well, we’re the ones who are doing this, and that’s all the authority we need.’”

## Social & Environmental Performance

### B Corporation Report Card Score: *Pass*\*

\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Part-time/flex schedules (100% using)</li> <li>• Job-sharing (0% using)</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	No
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Question not on their version of the survey
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy efficiency policies ( 0% saved last year)</li> </ul>
Membership in association(s) that foster environmental stewardship?	None
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by local institution</li> <li>• Supplies and services: 60+% of expenditures (other than labor)</li> </ul>

## Swanton Berry Farm

Jim Cochran is used to having his ideas brushed aside. Two decades ago, when he set out to grow strawberries organically without the pesticide methyl bromide, many of Jim's peers in the strawberry industry thought he was nuts. He persisted and wound up developing one of the first organic, chemical-free approaches to growing strawberries on a commercial scale. When he began negotiations with the United Farm Workers to represent his workers, other strawberry farmers warned him this would kill his business. And yet, today, after becoming the first organic farm in the country to become 100% unionized and to offer family medical and dental coverage, profit-sharing, a stock ownership plan, retirement plans, and vacation and holiday pay, Swanton Berry Farm is thriving.

Cochran's 200-acre operation now spans five leased farms. His strawberries and vegetables are sold directly through his own farmstand, two "U-Pick" locations, and 14 farmers markets. He also sells to several independent grocers, as well as 15 Whole Foods Market stores in the San Francisco Bay Area. Annual sales have reached \$1.9 million, and profits have been positive most years, averaging approximately 3%.

### Business Model

Farming is the original CFE. For millennia, family farmers met the food needs of themselves and their community. As national and global trade grew, farmers increasingly focused on distant markets, expanded the scale of their operations, liberally applied pesticides and fertilizers, relied on unpaid family labor, and otherwise strove to minimize payrolls. They deployed machinery where mechanization was possible and low-cost workers where it wasn't. For fruit and vegetable farming in the United States, migrant workers have been the mainstay for more than a century. Many are undocumented immigrants from south of the border taking jobs Americans wouldn't, and they are among the lowest paid workers in the country.

Swanton Berry Farm has embraced a different logic. Yes, be efficient but also be attentive to quality. And with high quality organic growing methods and a labor force highly motivated by fair compensation, a product can command a higher price. Moreover, quality and social responsibility solidifies brand loyalty, which makes possible direct sales to committed consumers that yield a higher profit margin.

The signature product of Swanton Berry Farm is the strawberry. Jim Cochran fell in love with strawberries 25 years ago: "I already knew about the chemical way of growing strawberries. I felt like it might be possible to grow them without chemicals, even though most people thought that was crazy and couldn't be done."



All photos by Swanton Berry Farm

### At a Glance

<b>Where</b> Davenport, California	<b>Year Founded</b> 1983
<b>What</b> Fruit and vegetable farm	<b>Number of Employees</b> 50 (2008)
<b>Founders</b> James (Jim) Cochran and Mark Matze	<b>Total Revenues</b> \$1,000,000
<b>Website</b> <a href="http://www.swantonberryfarm.com">http://www.swantonberryfarm.com</a>	



Strawberries actually represent only about 10% of Swanton's 200 acres. Due to water shortages and crop rotations, Jim leaves as much as 65% of his land fallow each year, keeping just 70-90 total acres in production at any one time. Around 30 acres are reserved for broccoli and cauliflower, both of which are used to suppress soil disease. Another 20-40 acres are dedicated to bush berries, kiwis, artichokes, peas, and brussels sprouts.

The choice of crops reflects Jim's awareness of place: "Strawberries are capital and management intensive. So the other crops I chose because they are comparatively easy to grow. The coast of California is one of defining characteristics of this area, with warmer winters and cooler summers. If you go even five to ten miles inland, you get more extreme temperatures. Certain crops like these climates. Tomatoes do not thrive on the coast—they need hot summers, as does corn. But broccoli, peas, strawberries, on the other hand—they do well at the coast."

Swanton's business model rests on three markets. The first, what Jim calls an "easy target," is the top 20% income bracket. Swanton reaches these consumers through upscale farmers markets in Marin County, San Francisco, or Menlo Park, and in higher-end grocery stores in wealthy neighborhoods.

The second market is made up of "committed food people, broken into organic food people and the flavor food people." Some have high incomes but many do not. "They pay the price," says Jim, "because they appreciate the product." Examples might be buyers at the farmers markets in Berkeley and Santa Cruz.

The third market contains "accidental customers from middle and lower income strata, who stumble upon our products at farmers market or the farmstand and U-Pick, which is right on the highway." Jim disputes the notion that only high-income customers buy premium foods. People drop by for all kinds of reasons. Some are drawn by the sign advertising the strawberry shortcake. "After they taste the product, they'll pay the money for it. When it comes right down to it, my strawberries compare favorably to Oreo cookies.... Pretty much everyone can afford to pay for Oreo cookies. If you weigh out what you can afford per pound in strawberries versus Oreos, the strawberries are really not a bad value." "The catch," he says, "is that we're not talking about something that's abstractly grown under good labor and abstractly under organic practices. It really needs to be a superior product."

The farm has expanded over the last 25 years, from a handful of employees to now 50 people comprising the part-time and full-time workforce. Twenty five long-term

## Business Model Overview

<b>Sector</b> Production, wholesale, and retail	<b>Market</b> <i>Domestic:</i> local/regional (100-mile radius)
<b>Ownership Type</b> S-Corporation	<b>Customers</b> <i>Direct sales (~45%):</i> Farmers markets, on-farm sales; <i>Wholesale (~55%):</i> Independent natural foods stores, regional locations of national supermarket chains
<b>Local Ownership</b> Yes (100%)	
<b>Products</b> Certified organic strawberries, cauliflower, artichokes, sugar snap peas, kiwi, brussels sprouts, shelling beans, jams, and other value-added products	<b>Niche(s)</b> Direct marketing, on-farm sales and tours, 100% unionized, California and USDA Organic, superior quality and flavor

staff members hold the production end together, and they hire another 5-10 or so every peak season. Several employees staff the farmstand and U-Pick site. The big turnover occurs for those working the farmers market booths. "Many are college grads who want to be artists or folks who don't want to work full time. Eventually they get tired of it and move on."

As noted earlier, Swanton provides a full raft of benefits to all its employees working 30 hours per week or more. Jim is one of the few farm employers to pay by an hourly rate instead of piece rate. He offers low-cost housing to his workers that three out of four take advantage of.

Jim also offers his workforce an employee stock ownership plan (ESOP)—a rarity in the world of production and agriculture. It took about 10 years to amass the \$50,000 needed for the legal and accounting work. Jim is aware that his employees cannot afford to buy shares all at once, so he is taking "a gradualist approach," where, at some point in the future, his ownership stake will be diluted to a minority status.

Jim further holds himself accountable to his workers through open-book accounting, which means that the books are always available for staff examination. He hires an outside evaluator to review the financials and to set a fair market price for the value of the shares given to employees. And once a year he holds a meeting with the



staff to review them.

Jim notes that his model “is profitable, but just not very profitable.” And the company’s books bear this out. While Swanton’s returns are below the industry’s average and they’ve had losing years, they have most often been in the black. Even though it’s unusual for a farm to be unionized—“it’s not always been an easy path financially”—Jim is unswerving in his conviction that it’s the right path.

“When people are really building a solid business,” reflects Jim, “does it really make all that much money when you look at all the inputs? Even when people think they’re making money, or they have a boom market, it may just be for a few years. If people really look at how much they’re working, the stress on their family, if they think about how am I living, that sort of thing, how much do I enjoy my work...there are huge costs that might not be taken off the financial bottom line but are certainly taken off the human bottom line.”



## History & Drivers

What got Jim interested in farming was working for farmworker-owned cooperatives in central California. With his friend Mark Matze, in 1983, Jim planted four acres of strawberries on rented farmland. They experimented with organic growing methods and were successful enough to pay the bills. Mark got married and ultimately moved to Argentina, leaving the farm in 1985. Jim continued to build the Swanton operation.

“We originally had a really hard time finding land in the area. Prime farmland tends to be tied up by established farms. When we came up here, we leased land that had been pasture land. It was good land but it was small and the microclimate was problematic.”

Jim got his first break in 1988 when a chemical farmer sold an established parcel and the new owners wanted an organic farm. Jim leased 25-30 acres from them. Then, another landlord in Watsonville, 25 miles away, also wanted organic, and he leased four acres there.

When the markets for brussels sprouts and artichokes, the predominant local crops, had several bad years, farmers began to let go of more land. Over time, Jim cobbled together leases on five different ranches, 200 acres in all. “The quality varies—some parts really good, other parts sort of bad, most is mediocre. Rent is relatively cheap, so that helps a bit.”

Jim’s first ideas about growing organically came from reading old books about farming, which made passing references to growing mustard as a rotation crop to reduce soil disease. (The mustard breaks down and releases mustard gas, which then eliminates certain soil pathogens.) His neighbor, a University of California Santa Cruz soil disease specialist, gave further suggestions. In 1987, Jim rented land where artichokes and brussels sprouts had been grown. He noticed that where the artichokes were, his



strawberries had disease, but where the brussels sprouts had been, there was no disease. The next year he used broccoli and cauliflower instead of methyl bromide and confirmed the beneficial effect of brassicas (broccoli, cauliflower, mustards, etc.) as a replacement for chemical fertilizer.

University agriculture experts dismissed the concept, but over time, Jim has won them over, along with the many others who have since adopted this technique. Indeed, unbeknownst to Jim, a thousand miles north, Gene Kahn's Cascadian Farms—another major organic producer—was using broccoli to keep pests away from their strawberries as well. Ultimately, Jim's efforts to eliminate the use of methyl bromide, which has been linked to depletion of the Earth's ozone layer, were honored by the United States Environmental Protection Agency in 2002.

***“Having a formalized structure for labor [is] like having one for organics—it holds you to a higher standard and gives you the credibility to talk about your standards in your marketing.” ~Jim Swanton, co-owner***

Regarding labor standards, it bothered Jim that the California Certified Organic Farmers (CCOF), after some internal debate, would not incorporate into their standards worker rights. If CCOF wasn't going to do this, he thought, maybe there should be some other set of guidelines or certification that could. And it was about this time that the United Farm Workers was organizing strawberry farms 30 miles away in Watsonville. For Jim, it was “a real opportunity.” He expressed his openness, and the union sent representatives out to talk to his employees.

Unionizing came with “a whole set of guidelines, like a contract, and includes things you wouldn't have thought of, like a grievance procedure, which turn out to be very helpful. With ten employees, you don't have much written out.” To Jim, having a formalized structure for labor was like having one for organics—it holds you to a higher standard and gives you the credibility to talk about your standards in your marketing.

Jim's positive experience here, however, hasn't caught on. “People think of unions as divisive, combative—they're thinking of the battles that often precede a contract. Once you have a contract, then you sometimes hear stories of struggles between management and labor, which can result in downward spiral of productivity and profitability. But the way I perceived it was as a partnership instead of as an oppositional relationship. And that's exactly how it has worked out for me—a mutually beneficial partnership.”

## Key Challenges & Lessons

Jim believes that Swanton has reached the right size now and is satisfied with its profitability. He has no plans to grow. But he does see room for improvements in operations and for better performance by his managers and staff. Here's what's topping his to-do list:

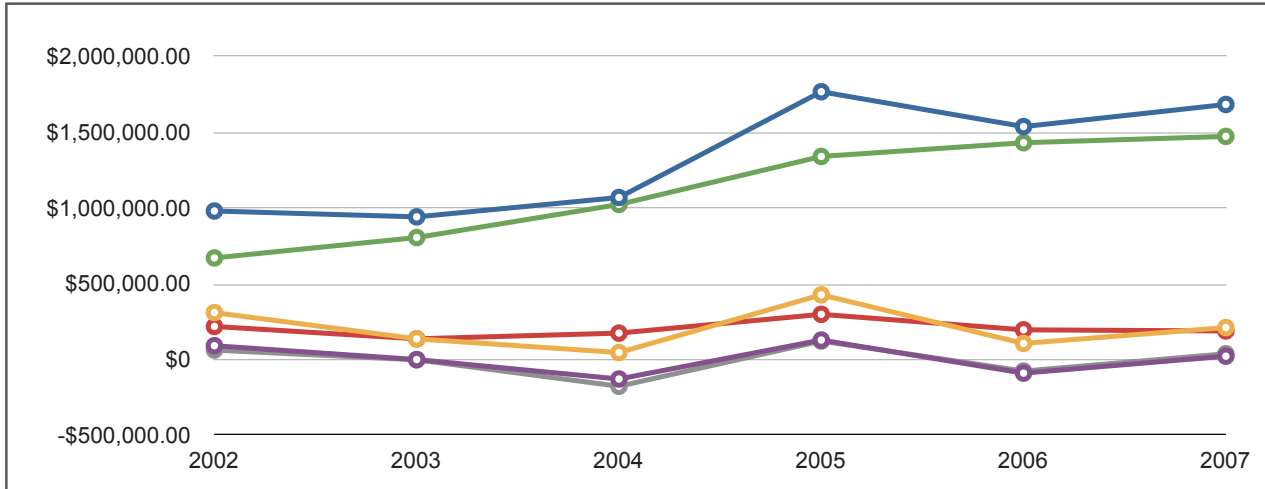
- *Additional Environmental Improvements*—He would like to improve Swanton's environmental performance. Jim is already tracking and reducing fossil fuel and water use.
- *Employee Rewards*—He recently created an employee satisfaction survey, and is gradually improving the rewards (financial, security, spiritual) that each receives for his or her work.

Jim believes that operations like Swanton Berry Farm have opened the way for all kinds of other organic farmers to follow in his footsteps, but concedes that the world is very different now than 25 years ago. When he got started, there was almost no competition for organic foods. Today that market has matured, and it's very important for new entrants to meet extremely high standards of quality on a consistent basis. Someone starting up now needs to be able to hit the ground running. Whole Foods Market won't automatically buy from them. Upstarts instead need to focus on farmers markets in out of the way places, or on specialized restaurants, or on stores that have not yet entered the organic market. “This is really hard work,” says Jim, “and this skill set is really unusual. It explains why a lot of people won't make it on their own.”

Jim sees more opportunity for new entrants with a better infrastructure for local food distribution. For example, it might be possible to create a honeycomb of thousands of new local retail food outlets, buying high quality food for new local food processors, who in turn buy fresh food from new farmers. Accomplishing this requires new models of collaboration. More and better commercial kitchens are needed for new processors to get started. So are agricultural parks where aspiring farmers can lease five acres and rent a tractor.

Ultimately, Jim believes that his passion is responsible for much of Swanton Berry Farm's success: “If you can make ends meet financially and do something you really

## Financial Performance



● Net Sales      ● Cost of Goods Sold      ● Gross Profit      ● Selling, General & Admin. Expenses  
● Operating Income (Loss)      ● Net Income (Loss)

Swanton Berry Farm has grown over the last six years, if somewhat unevenly. Despite the fluctuations in revenue, cost of goods sold and SG&A (sales, general, and administrative expenses) costs have followed a smoother path, serving to amplify the ups and downs in revenue and leading to three net losses in the past six years. They have had years with very strong gross margins; maintaining strong gross margins will be key to long-term sustainability of the enterprise.

believe in, then a lot of people would like to be able to do that.” But the irony isn’t lost on Jim regarding where he does business. “It is culturally a little bit weird to be next door to the Silicon Valley and its get rich quick model. To be doing okay by going slow and living right next door, it’s hard to watch sometimes. But I can’t complain too much about the Silicon Valley gazillionaires—because they are buying my strawberries!”





## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Part-time/flex schedules (20% using)</li> <li>• Job-sharing (0% using)</li> <li>• Paid/unpaid medical sabbatical</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	United Farm Workers (Part of AFL-CIO)
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy usage measured annually</li> <li>• Energy efficiency policies</li> <li>• 5-25% energy from renewable sources</li> <li>• &lt;5% energy from renewable onsite production</li> </ul>
Membership in association(s) that foster environmental stewardship?	USDA Organic, California Certified Organic Farmers
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by local institution</li> </ul>

## Weaver Street Market

When Ruffin Slater and his two friends, Marilyn Butler and Randy Tally, opened up Weaver Street Market in 1988, natural food co-ops meant big crates of dry grains. “We wanted something more than that,” says Ruffin, “something we could get the community involved in.” Today Weaver Street is a large, diversified community enterprise that lives its motto: “A co-op is a better economic system.”

Originally founded in Carrboro, a small artsy community adjacent to Chapel Hill in North Carolina, the Weaver Street Market is now a 12,000-member cooperative comprising three grocery stores, a food-preparation commissary, and an Italian restaurant called Panzanella. It has plied its success into other ventures as well. It has established an affordable housing cooperative and a locally owned radio station. It runs a Cooperative Community Fund and donates more than \$60,000 each year to local schools and other nonprofits.

To call Weaver Street Market a triple bottom line business misses the mark. Its mission statement lays out 10 bottom lines beyond profit: cooperative control of profits, local self-reliance, ecological balance, meeting basic community needs, non-exploitation of the workforce, inclusiveness of the community, education of fellow citizens, social interactivity, empowerment of customers, and integration in the local economy.

This isn't just hype. Unlike many cooperatives, Weaver Street has become an economic powerhouse in the region, with annual revenues now topping \$20 million. With its commitment to local, fair, and “authentic” food, it is demonstrating how to practice local sourcing, purchasing, and marketing profitably. Moreover, it has done all of this through a unique design of a co-op blending consumer and worker ownership.

### Business Model

Weaver Street came about because of two frustrations its founders had with food shopping in the Chapel Hill region: one with mainstream grocery stores, and the other with co-ops.

Ruffin likes organics but also believes that food should be produced locally and fairly. He grouses about Walmart's selling organic foods sourced from China, that most other organics are coming from big factory farms, that these organic marketers are increasingly shortchanging traditional family farmers. He wanted to create a store where people could buy food that was “authentic.”

The Weaver Street 2007 annual report defines authentic food as “organic products from small farms that embody the spirit of organic farming rather than factory farms that do the minimum to get by. Authentic food means products



All photos by Weaver Street Market

### At a Glance

#### Where

Hillsborough, Carrboro, and Chapel Hill's Southern Village, North Carolina

#### Founders

Ruffin Slater, Marilyn Butler, Randy Tally

#### Year Founded

1988

#### What

Three grocery stores, a bakery, restaurant, commissary, & several non-food spin offs

#### Number of Employees

250 (2008)

#### Total Revenues

\$515,000

**Website** <http://www.weaverstreetmarket.coop>



from local producers who contribute to a sustainable food system, retain artisan production techniques, and allow family farmers to stay in business. Authentic food means fair trade—fair payment to farmers in the developing world that produce crops such as coffee that can only be grown in warmer climates. Authentic food means products from our own kitchen and bakery, where we use high quality ingredients and maximize quality and freshness.”

Authenticity means that an aisle of Weaver Street should resemble a local street fair with vendors representing the region’s food system. You can find milk from Maple View Farms, fresh eggs from Hillsborough, flour from Lindley Mills in Graham, and all kinds of North Carolinian produce.

Weaver Street also has its roots in Ruffin’s frustrations with other food co-ops. “Historically, food co-ops have been marginalized in their communities—the hippies, the weird people, the weird food.” Weaver Street appeals to the mainstream. It emphasizes middle-of-the-road products with a local identity. Its community events involve more than just the co-op’s members—they draw all kinds of people. So does its in-house restaurant. “We’re not,” says Ruffin, “just the unknown store that people are afraid to try.”

In fact, much of Carrboro’s cultural life swirls around Weaver Street. The cooperative sponsors an average of four community events per week. Some are built around holidays, like “Ghost Stories under the Stars” at Halloween. Others have become regular features of downtown Carrboro, like the Sunday jazz brunch and the Thursday night music jams on the lawn.

Ruffin hopes that Hillsborough, the newest grocery store location, will create some of the same community impacts the Carrboro location has. Hillsborough’s downtown is currently filled with storefront vacancies and devoid of street life—essentially what was true of Carrboro before the first Weaver Street store opened. The Hillsborough location is designed with a café and outdoor seating, all plainly visible to people driving by to attract more activity.

But despite these positive community impacts, Ruffin laments that Weaver Street doesn’t currently serve everyone it might. “There are parts of the community we don’t reach. A lot has to do with price. It is impossible to compete with grocery stores on price, or fast food restaurants on price. We’ve developed a food system in the United States that provides really cheap, mass produced, mediocre-quality food that, if you’re on a tight budget, is seen as a good food option. High quality and organic foods cost more—at least right now.”

<b>Business Model Overview</b>	
<b>Sector</b> Retail, Value-added processing	<b>Customers</b> Local
<b>Ownership Type</b> Worker and consumer cooperative	<b>Niche(s)</b> “Authentic” local food products, worker and consumer ownership, hundreds of community events, community reinvestment, 10 social and environmental bottom lines, cooperative ownership used to launch many food and non-food community services
<b>Local Ownership</b> Yes (100%)	
<b>Products</b> Varies across grocery stores, restaurant, and bakery	
<b>Market</b> <i>Domestic:</i> Local/regional	

Ruffin also wanted Weaver Street to be a different kind of cooperative. Specifically, he wanted scale. He knew that successful natural food stores were shifting from being very small operations to being the size of large grocery stores, with Whole Foods Market being an example. As a college town, the Chapel Hill area was ripe for a large-scale natural food store.

One unusual feature Ruffin built into the cooperative was multiple stakeholders. It was to be not just consumer-member owned but also worker owned. Nearly 100 workers now are voting shareholders and participate in the cooperative decision making. “Consumer ownership can slow things down, people tend to like what they have and don’t want to risk it,” Ruffin explains. “Worker owned means being a lot more entrepreneurial. We’re willing to take more risks, to try new things. This is a critical element of our business success. If you’re not changing, then over time you’re going to lose market share.”

“Obviously the workers in an enterprise know a lot, if you can tap that knowledge, you can improve the business. We didn’t really obsess about how you actually do it. We just said—consumers own half, workers own half, and we go from there.”

Mindful of its community mission, its ambition, and its desire to evolve, Weaver Street has greatly expanded over the years into other businesses: a restaurant, a radio station, and a housing cooperative. It has plowed some of its net revenue into a Cooperative Community Fund that



supports local groups working on sustainable agriculture, food, hunger, malnutrition, environmental protection, and cooperatives. The ongoing need for capital led it to launch the Community Investment Initiative, which borrows money from members (the minimum is \$10,000), pays a simple 6% interest annually, and agrees to repay principal at the end of five years.

Besides the third store, another major expansion, also in Hillsborough, is a commissary kitchen and bakery called the Food House, which allows all the Weaver Street stores to expand the prepared-food market with quality cooking and local ingredients. The facility also provides enough warehouse space for the co-op to consolidate orders, improve efficiency, and begin to create a more comprehensive system of local sourcing.

Over its 20 year life, Weaver Street has earned enough net revenue to retire nearly all its debt. Now new debt is being taken on to finance the third store and the commissary. In 2007 its net revenue was \$360,000, nearly triple its 2006 revenue.



Ruffin gives a sense of how this translated for the members in 2007: “Our consumer owners received \$399,598 in discounts at the cash register. Based on total consumer share investment of about \$1 million, this represented a return on share investment of 39%. Our worker owners receive a patronage dividend based on hours worked, which totaled \$151,534, or \$1.01 for every hour worked during the year. Based on a total worker share investment of \$406,048, this represented a return on share investment of 37%.”

These economic impacts extend to the community in a big way that wouldn't be possible if Weaver Street were not locally owned. “This year our co-op passed the \$20 million sales mark, meaning that \$20 million was directed into the cooperative economy rather than the corporate economy,” Ruffin explains. “Since 41% of the money spent at Weaver Street Market is spent directly in the local community, and by applying standard industry multipliers to calculate total economic impact, we calculate a total of \$12 million in local economic impact that our co-op created last year. Another way we measure our contribution to our local economy is the amount we purchase from local farmers and food producers, which last year amounted to over \$2 million.”



An additional way Weaver Street measures its social bottom line is in the number and success of its community events. In 2007 Weaver Street hosted 194 community events throughout the year—an average of almost four per week.” Its environmental bottom line is equally impressive. “We purchased 10% of our electricity from green energy sources, and recycled 14 different waste streams in 2007. In our Hillsborough store we recycle waste heat from the refrigeration system and use it for heating water. We collect waste water from the sinks and use it for toilet flushing, and collect rainwater and use it for irrigation.”

Ask almost any resident of Carrboro about what the most important

businesses for the local economy are, and Weaver Street Market will come up. In 2006 the Chapel Hill-Carrboro Chamber of Commerce named it the Sustainable Business of the Year, calling it “a community fixture.” Yes! Magazine called it one of the seven best alternative businesses in the country.

## History & Drivers

Ruffin Slater is an unlikely grocery entrepreneur. He was a history major at Duke University looking for “meaningful” work after graduation when he got a part-time job at the Durham Food Co-op. “I just happened to like it because it was a good combination of very tactile, physical labor—stacking shelves, whatever—and also a lot of interaction with people.” He and his two partners began to imagine what a more ambitious cooperative could become. “The

Durham, and from a municipal revitalization program.

It took 10 years for Weaver Street to expand beyond the grocery business. “One of the breakthroughs was that the board of directors saw opportunities to impact the community besides selling natural food. The traditional growth path of a co-op, a Whole Foods Market or most food businesses is product driven. Our thought process was a bit different. What is it, we asked, that we can bring to the community, and what is it that the community wants or needs that a co-op community can provide?”

“That logic,” Ruffin continues, “led to the restaurant. It led us to the housing co-op. To the community radio station. Even within food, it has led us into opening a bakery, making our own prepared foods, partnering with farmers to organize a chicken processing plant.”

***“Since 41% of the money spent at Weaver Street Market is spent directly in the local community, and by applying standard industry multipliers to calculate total economic impact, we calculate a total of \$12 million in local economic impact that our co-op created last year. Another way we measure our contribution to our local economy is the amount we purchase from local farmers and food producers, which last year amounted to over \$2 million.” ~ Ruffin Slater, general manager***

principal idea at the beginning was to take the concepts we believed in that weren’t being executed [at the Durham Co-op] and to look at a way to have a bigger impact on the community. We wanted the best food possible and a community-owned business model.”

When Weaver Street Market first opened, it occupied just a small part of a building in front of the Carr Mill Mall. “We had an intuitive sense that we wanted to be in the heart of downtown. We weren’t at all interested in a strip mall. This goes to the type of interactions, the stimulating and interesting work environment, we were looking for. ‘Let’s be in an interesting place in the middle of things that could engender casual interactions that could organically create an experience they would like.’”

The co-op started with only 250 members, and it took all kinds of grassroots organizing—street fairs, mailing-list swaps, and word of mouth—to sign them up. The small membership meant that fees, \$75-135 per household, covered only a tiny portion of the \$500,000 needed for start up. The rest of the capital had to come from borrowing. Two dozen of the members were willing to loan \$5,000-10,000 each. Ruffin then leveraged that capital for loans from the recently opened Self-Help Credit Union in

Some of these entities became legally independent of the co-op. Because of broadcasting law, the public radio station has to be a separate nonprofit. The housing co-op also became an independent nonprofit so that it could go after foundation grants. “Weaver Street incubated them. We’re still involved, but primarily through representatives on their boards. We also subsidize them with space and free rent so they can focus on operations.”

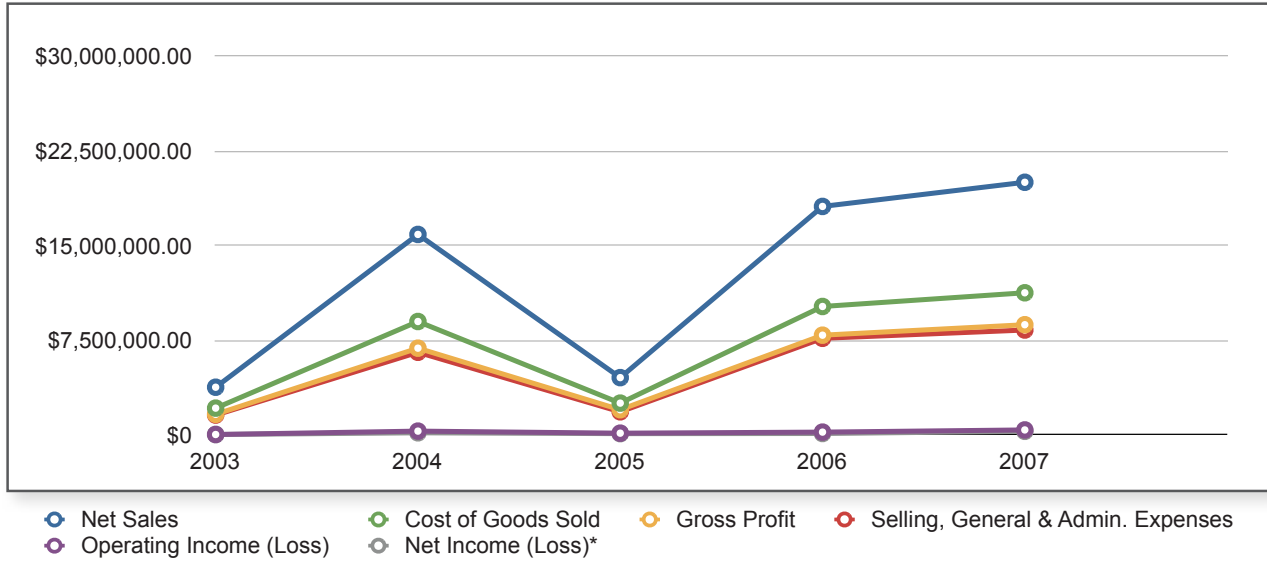
Despite the proliferation of businesses, Ruffin still sees value in some specialization. “The most important things we’re doing are still around food. That’s what we’re best at, where we have some economy of scale, where we have the most experience. Our radio and housing businesses are successful, but not nearly as impactful or successful as food.”

## Key Challenges & Lessons

When Ruffin puzzles over the coming challenges Weaver Street faces, he comes up with three:

- *Local Sourcing*—The presence of entrepreneurial farmers and local food businesses in the Chapel Hill region made the first phase of local sourcing relatively

## Financial Performance



\*The Net Income for Weaver Street tracks the Operating Income, and therefore is not visible behind the purple Operating Income line of the graph.

Data for years 2003 and 2005 appears to be quarterly, although that could not be confirmed with Weaver Street. If these are all annual numbers, the business appears to be rather erratic. In either scenario, both gross and net margins are consistently positive, with gross margin hovering tightly around ~43% and net margin fluctuating slightly more, between 0.75%-2.75%. Additionally, the cooperative has grown equity considerably over the last several years, which is a great source of low-cost financing for further growth.

there's a clear need for processing meat locally, and these operations are capital intensive.

- **Multiple Bottom Lines**—Another challenge is getting all the stakeholders—workers, consumers, suppliers—to develop a consensus on choices that affect multiple bottom lines. For example, how do you discontinue newly endangered seafood varieties without driving shoppers to the competition?
- **System Change**—Ruffin remains enough of a historian to know that even a large, successful Weaver Street cannot change the larger food system on its own. He mentors other cooperatives, like the Chatham Marketplace, but he wants to change much more. “We’re doing well in this, better than many, but there are so many larger food system barriers.”

Ruffin believes that any modest-sized community can achieve what Weaver Street has done. He concedes that his hybrid model is not as familiar as other cooperative models, but the other keys to success are not rocket science: Amass the needed capitalization from member loans, vertically integrate the food supply chain to increase

control, emphasize the social benefits of a great place, and move the cooperative into other critically needed enterprises. Ruffin also sees the importance of momentum and reputation. “If you’re successful, people will come to you.”



## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Part-time/flex work schedules (25% using)</li> <li>• Counseling services</li> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• Retirement plan for full-time employees at least partially paid for by company</li> <li>• Health insurance</li> <li>• Dental insurance</li> <li>• Life insurance</li> <li>• Domestic partner benefits</li> <li>• Paid sick leave</li> <li>• Paid vacation</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	No
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy usage measured annually</li> <li>• Energy efficiency policies</li> </ul>
Membership in association(s) that foster environmental stewardship?	USDA Organic
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Supplies and services: 20-40% of expenditures (other than labor)</li> </ul>

## White Dog Café

For 25 years Judy Wicks' wake-up ritual was to go to her bedroom mirror and chant a four-word mantra: "Good morning beautiful business!" Her commute to the business, the White Dog Café, was about 60 seconds, as she wound her way down the stairs of her three-story brownstone, through the offices of the nonprofit White Dog Community Enterprises, past her retail shop called the Black Cat, selling locally made and fair trade gifts, and finally entered the restaurant. Besides being a popular eatery and bar featuring local food, organic produce, and humanely raised meat, the White Dog has become ground zero for efforts in Philadelphia, and nationally, to organize locally owned businesses.

If the White Dog has a "homey" feel to it, it's because the building, across the street from the University of Pennsylvania Law School, has actually been Judy's home. Each of the half-dozen sitting spaces in the restaurant has a special ambiance: tables out front resembling a neighborhood porch; a living room with big, bright windows and lace curtains; a darker room with a piano; a horse shoe bar next to the entrance. Scattered throughout the restaurant are funny dog statues, pictures, and knick knacks. The menu features its own canine labels of wine, "Snaggletooth," and microbrews under the name "Leg Lift Lager."

The two upper floors of the White Dog were Judy's home and office. "It would have been impossible to raise my children without living above the shop. A restaurant is so intensive, with people here almost 24-7...My daughter, Grace, was a bus girl at one point, one of our first sales girls in Black Cat, and is now Director of Community Programs. My son, who is more shy, tended not to go down as much as she did, but he did work as a busboy in high school and as our tech guy before he left for college. It has been a real family business."

This past year, two momentous changes have taken place. First, Judy finally sold the business to another local proprietor to focus on White Dog Community Enterprises and moved into a new house. And second, White Dog Community Enterprises merged with the Sustainable Business Network of Greater Philadelphia, a local network of the international Business Alliance for Local Living Economies. But more on these shortly.

### Business Model

Today, the White Dog Café and the Black Cat total \$4.4 million in annual sales, down from a high of \$5 million several years back. The scale of operations—seating for about 250 people—has not changed much since the early expansions in the 1980s. Despite this, Judy reports, "For, the first twenty years we grew every year in sales, but rather than continual physical growth, we grew deeper by expanding our educational programs and growing our sustainable business model."



Carl Beth Head for the Wallace Center at Whinnock International

### At a Glance

<b>Where</b> Philadelphia, Pennsylvania	<b>Year Founded</b> 1983
<b>What</b> Restaurant	<b>Number of Employees</b> 90 (2008)
<b>Founders</b> Judy Wicks	<b>Total Revenues</b> \$4.4 million
<b>Website</b> <a href="http://www.whitedog.com">http://www.whitedog.com</a>	





Until the recent sale, the White Dog Café was an S-Corporation and Judy the sole owner. This wasn't always the case, however. "During our earlier years, the manager and the chef each owned some of the restaurant. I didn't have enough money to pay the manager when she first started at the muffin shop [the precursor to today's full-service restaurant]....so I paid her in stock. She stayed ten years and owned ten percent, while the chef owned five percent until he left five years ago."

The performance of the White Dog as a restaurant business has been impressive. True, nearly half of Americans' food budget these days goes to eating out, but their priority is fare that's fast and cheap—and Judy's is neither. At the higher rungs of the industry, restaurants become faddish, then obsolete, faster than hula-hoops and yo-yos.

One reason regulars keep coming back is that the food is superb and reasonably priced. Judy searches for high-quality ingredients, fresh and local, whenever possible. Customers also are drawn to the steady stream of speakers, art openings, and special events, all advertised through a quarterly newsletter that contains Judy's sharp commentary on world affairs. "I think the community events identify the restaurant, our values, and what we stand for. I assume that's a big part of our success. We get customers at certain events that wouldn't normally come and build a community of shared values among our clientele."

The programs of the White Dog are perhaps its most unique signature, along with its fresh local food with moderate prices. "There are some restaurants like mine...that buy from local farmers like Chez Panisse. But they don't do all the programming. Nora in Washington, D.C., she's organic, but her prices are a lot higher. We can't do that because we're on a campus in Philly, which isn't New York City or DC." The White Dog, while not cheap, is able to draw a steady traffic of budget-conscious students.

Judy has always viewed the White Dog not just as a restaurant but as a platform for social change. "I think that the type of programming we do—more and more focusing on local food, sustainability forums, corn dinners, sustainable fish dinners—are educating on what I feel are the crucial issues of our time. We do farm tours, solar house tours, water conservation workshops—these are the things that people need to know. That has become part of our product along with food and service."

Mindful of her global mission, Judy struggles to balance within the restaurant business the three P's: profit, people, and planet. "When I have a good year profit-wise, I try to figure out how to make business more socially sustainable... like offering benefits and healthcare and

<b>Business Model Overview</b>	
<b>Sector</b> <i>Service</i>	<b>Customers</b> <i>Direct sales (100%):</i> Locals and tourists
<b>Ownership Type</b> S-Corporation	<b>Niche(s)</b> Fresh, local food; moderate prices; creation of a web of local food producers, distributors, and retailers; triple bottom line values; educational and community programming
<b>Local Ownership</b> <i>Yes (100%)</i>	
<b>Products</b> Restaurant fare, community programming	
<b>Market</b> <i>Domestic: Local</i>	

401(k)s to our servers."

Her triple bottom line initiatives are impressive. Judy has steadily sought to localize her ingredients and educate her customers about supplying farmers and food producers. For items she must import, like coffee and cocoa, she prioritizes fair trade sources. She opted into a local green energy program, making the White Dog's electricity 100% regional wind power. She pays her lowest-rung employees a "living wage" to ensure that full-time work raises the beneficiary family above the poverty line.

## History & Drivers

Judy dreamed of having her own restaurant three decades ago while working as a waitress at another restaurant nearby. She worked her way up to becoming general manager but hit a dead end. "Though I was promised ownership, and played the role of the proprietress, the partnership was never formalized, so I set out on my own. I had to start from scratch after working for ten years to build this other business. But this was better than trying to be a partner with someone whose values didn't align with mine."

Initially the White Dog Café was a take-out muffin shop. Judy tapped every source she could find for the initial capital: \$30,000 from her savings, \$60,000 borrowed from various family members, \$75,000 from a friend who sold a beach house, \$50,000 in a low-interest loan from the Philadelphia Community Development Corporation. As the land value escalated, in part due to the success of the restaurant, bigger loans from banks became possible. Because she lived where she worked, Judy could secure loans in the form of a mortgage.



White Dog Café

Judy sought to improve the socially responsible behavior of her restaurant at every turn. One key moment occurred in the late 1990s. After learning about the abysmal confinement of pigs in factory farming, she removed all pork products from the menu until she could find a local farmer who raised his pigs humanely. When she found one but discovered that he did not have a way to transport his meat, she extended him a low-interest loan to buy the truck. To ensure that his truck was full on each trip, she organized other restaurants in Philadelphia—her competitors—to substitute humanly raised pork as well.

She started a nonprofit, White Dog Community Enterprises, initially funded by the restaurant's profits, to support local food initiatives through its Fair Food programs, including chef consulting in local purchasing, local farm tours, farm-to-school and farm-to-hospital programs, and the Fair Food Farm Stand. Future plans of the Foundation include helping inner-city residents create their own sustainable businesses.



Cari Beth Head for the Wallace Center at Winrock International

While serving as board chair of Social Ventures Network (SVN), a national consortium of progressive businesspeople, Judy recognized the need for organizing local networks of independent businesses. She despaired when she saw how many of her friends in SVN had sold out to larger companies—Ben & Jerry's was bought by Unilever, Stonyfield Yogurt by Group Danone., and Odwalla Juices by Coca-Cola. Her response was to help launch, in 2001, the national Business Alliance for Local Living Economies (BALLE). At the same time, Judy launched a BALLE-affiliated local effort called the Sustainable Business Network of Greater Philadelphia and made it a project of White Dog Community Enterprises.

All these initiatives, Judy argues, were an integral part of White Dog's "business." But the price of this expansive view of her job, as well as her irresistible impulse toward assuming leadership, was exhaustion. "When you have a hundred employees, and young people, there are always emergencies—deaths, babies, quitting, firings. It's what makes the business interesting, but it's also what makes it tiring after so many years."

By the time we did our first interview with Judy, in early 2008, she had decided it was time to retire from the restaurant business. "I've been running restaurants my whole adult life, thirty-five years, and I don't want to do it anymore because my nonprofit work is pulling me away, and that's where I feel I can do the most good."

She began shopping for new partners. She had hoped that her daughter might take over the business, but she has "seen how hard it is for me, and doesn't want to be responsible for running the business...." She looked on websites like iHospitality and through job-hunting companies. "[But] I just got hacks."

"I need someone who really understands the restaurant business," Judy complained, "but many in the restaurant business have lousy values. People who are smart and socially active often don't want



White Dog Café

to run a restaurant or don't know how to. We're a really odd combination."

She thought about moving ownership to her employees, but concluded that "they're not, I don't know what you would call it, entrepreneurs? It's hard—restaurant work is often a working class job—cooks, servers, bartenders. There is often a big difference between someone who owns and someone who works in a restaurant. It's rare to find someone in this kind of business who starts as waitress or bartender and who becomes an owner. It happens, as I did it, but it's rare."

"To get high caliber people, you need to give them a piece of the action. I think that's a better ownership model. That's what I'm looking for now. I would like to have shared ownership again, but haven't found the right people."

Ultimately, Judy decided to hand the keys to her kingdom to an seasoned Philadelphia restaurateur. The unusual

I've been successfully doing for twenty-five years. A lot of people have been inspired by White Dog and have told me as much. They might not do all that we do, they might do different pieces or parts of what we do, but they do borrow. I want to continue to encourage young and idealistic people to use restaurants as a vehicle [for social change]."

Still, the White Dog story suggests many of the challenges facing restaurants, along with those that strive to meet a triple bottom line:

- *Profitability*—As Judy notes, "Popular restaurants come and go in cities, and not many are around for a long time." Recent downturns in the U.S. economy have been especially tough on the White Dog's bottom line, and Judy worries how it will stay competitive: "We're twenty-five years old, and there are so many new restaurants in town with flashy new decors and new ideas." A new concern is rising food costs. Mindful of

***After learning about the abysmal confinement of pigs in factory farming, she removed all pork products from the menu until she could find a local farmer who raised his pigs humanely. When she found one but discovered that he did not have a way to transport his meat, she extended him a low-interest loan to buy the truck.***

aspect of the sale, which took place in January of 2009, is that Judy retains ownership of the brand and licenses it back to the new owner with a "social contract." Through the contract, Judy protects the values of the business, including local purchasing, humanely raised meat and poultry, composting, recycling, and a host of other practices that must be adhered to in order to use the name "White Dog Café." Any additional restaurant locations must abide by the same contract including local, independent ownership. But beyond policing the social contract, Judy no longer has to worry about the daily management headaches. Plus, she now has the financial and time resources to devote her full attention to nonprofit work.

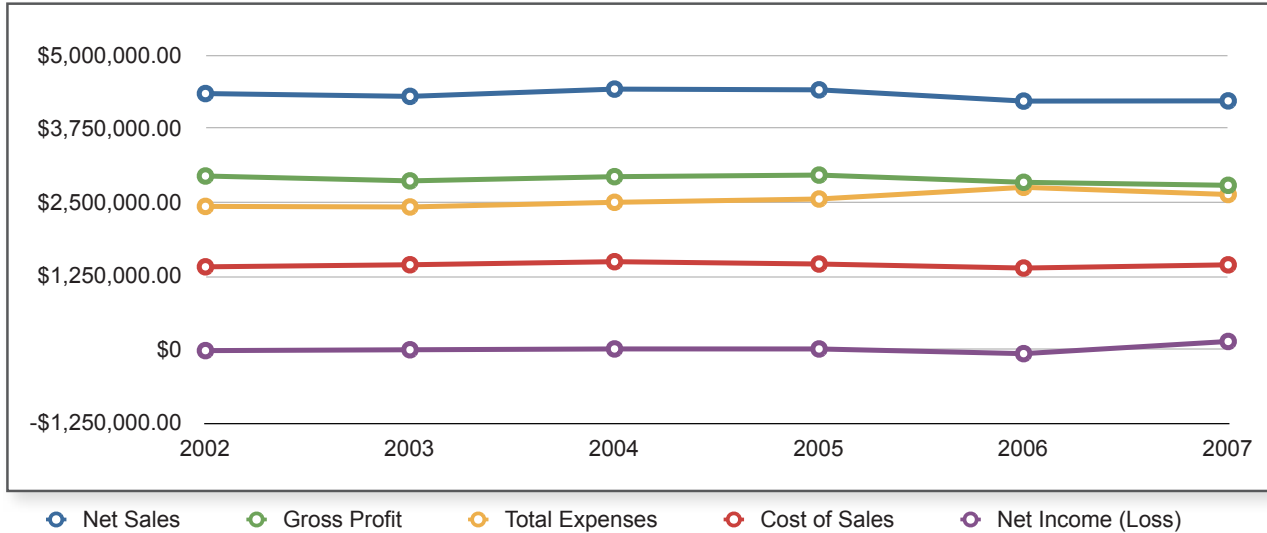
## **Key Challenges & Lessons**

The difficulty Judy had in exiting her business suggests the big questions facing others who might follow in her path. How can anyone possibly copy the personal signature of the White Dog? Yet many aspiring restaurateurs from around the country come each year to the White Dog, study what Judy has done, and incorporate elements in their own businesses. "I don't discourage people from going into the restaurant business," Judy says. "Restaurants are an incredibly viable vehicle for what

the restaurant's mid-scale clientele, she observes, "Our prices are now up to twenty-five or thirty dollars an entrée, and we can't really go any higher."

- *Balancing Three Bottom Lines*—"Allocating resources is always a challenge—when there's a good profit, how much should go to increasing employee benefits and profit-sharing, how much to community contributions, and how much for installing a solar hot water system or composting project?" Attention to people and planet means that the White Dog periodically skirts on the financial edge. 2008 was a tough year, and 2009 promises to be tougher still.
- *The Double-Edges of Social Responsibility*—One of the most painful experiences Judy had in her restaurant's history involved a labor dispute during a sabbatical she had taken to write a book. "While I was gone, the servers organized because they felt the person I hired was too corporate, and they were afraid they would lose their excellent benefits, which are unheard of in this business." Ultimately, the staff decided not to unionize, but the fight was costly. "It was heartbreaking. I couldn't believe after all I'd done to have a model workplace... the servers organized against me."

## Financial Performance



*On the surface, this business appears to be in financial distress. Sales are consistent and gross profit appears healthy, but the company's liabilities consistently exceed their assets and equity is negative. With the exception of 2007, long-term debt to their shareholder has increased annually. From the information available, it appears that the business is being kept afloat by financial infusions from the shareholder. Further investigation into accounting practices and the flow of money between the sole shareholder and the corporation need to be investigated to fully understand what is going on with this business. From the available information, it does not look promising.*

That her "beautiful business" has been such an intimate part of Judy's life has been both a strength and a weakness of the business. "It really requires an owner who is here all the time, who wants it to be her life. When it was my life, I enjoyed it for many years." Now that it doesn't consume so much of her life, she can enjoy it even more.



White Dog Café

## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Part-time/flex work schedules (30% using)</li> <li>• Paid/unpaid medical sabbatical with job security</li> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• Retirement plan for full-time employees at least partially paid for by company</li> <li>• Paid sick leave</li> <li>• Paid vacation</li> <li>• Paid maternity leave</li> <li>• Paid paternity leave</li> <li>• Counseling services</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	Sustainable Business Network of Greater Philadelphia (BALLE network); GreenAmerica; Social Venture Network; Chefs Collaborative
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy usage measured annually</li> <li>• Energy efficiency policies (5-9% saved last year)</li> <li>• &gt;50% energy from renewable sources</li> <li>• 5-25% energy from renewable onsite production</li> </ul>
Membership in association(s) that foster environmental stewardship?	Sustainable Business Network of Greater Philadelphia (BALLE network); Social Venture Network; Chefs Collaborative
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Supplies and services: 60+% of expenditures (other than labor)</li> </ul>

## Zingerman's Community of Businesses (ZCoB)

"Who really believes they couldn't live without a ten dollar corned beef sandwich?" chuckles Paul Saginaw, whose facetious question tries to explain why Zingerman's emphasizes high-quality food and remarkable service. The surprising answer, though, is tens of thousands of people living in and around Ann Arbor, Michigan, rich and poor alike, who collectively spend about \$27 million at one of the eight Zingerman's companies.

Not bad for a 1,200 square foot deli that cleared sales of \$100 on its first day of operations in 1982. Started by Paul and his partner, Ari Weinzweig, the Zingerman's Community of Businesses (ZCoB) has since expanded to include a catering company and events business (part of the original deli company founded in 1982), a bakery (1992), a consultancy called ZingTrain (1994), a mail order business (1994), a creamery (2001), a full-service restaurant called Zingerman's Roadhouse (2003), a coffee roastery (2004), and Zingerman's Service Network, the administrative business that supports all the companies. Together, these enterprises employ 525 people in this modest-sized university town.

Part of the quality formula is serving fresh, healthy, local food. The ZCoB takes advantage of Michigan's diverse agriculture by using excellent local vegetables, fruits, hogs, chickens, eggs, and dairy products. For a time, they used only locally ground flour (that supplier moved). The Roadhouse restaurant boasts that it cooks almost entirely with American ingredients.

The Zingerman's CoB is not only about selling local foods—it's also about the art of producing them and integrating them into value-added products. The Bakehouse, for example, grew out of many frustrating years in search of quality and consistency in this vital item on the Deli's menu. Paul and Ari, and Bakehouse managing partner Frank Carollo, sought out the baking expertise and training of Michael London of Greenwich, New York, and established what has since become one of the premier bakeries in the country.

For Paul and Ari, profits are really about underwriting community service. Among their proudest accomplishments has been the launch of Food Gatherers, which delivers over 2,000 pounds of surplus food six days a week to community agencies feeding people in need. In April 1995 they received the first Humanitarian Award from the Jewish Federation of Washtenaw County. Last year, Food Gatherers was awarded a 4-star rating from Charity Navigator, an independent charity evaluator—it's fifth consecutive year to earn this designation.

Paul and Ari's easy-going, jocular style can obscure their highly disciplined planning and ambitious business ideas. Vision 2020, the most recent long-term planning document produced by the ZCoB partners, foresees establishing another 12-18 businesses over the next decade. Ideas currently



All photos by Zingerman's Community of Businesses

### At a Glance

#### Where

Ann Arbor, Michigan

#### What

A branded group of eight food production, processing, service, and training businesses

#### Website

<http://www.zingermans.com>

#### Founders

Paul Saginaw and Ari Weinzweig

#### Year Founded

1982

#### Number of Employees

525 (2008)

#### Total Revenues

\$27,035,666



include an Asian noodle bar, a Mexican restaurant, a Belgian-style brewery, a local farm for growing hard-to-find inputs, even a small boutique publishing company. There is also a proposal for a sliding scale restaurant, where residents with little or no income can buy healthy, local food served with care and dignity, and choose to pay whatever they can afford. (The idea has been prototyped by the restaurant One World, Everybody Eats in Salt Lake City and by the Sane Café in Denver.)

The one word that is not in Zingerman's plans, and never has been, is "franchise." Vision 2020 is very clear that whatever businesses ZCoB partners open, they will be based in Ann Arbor.

## Business Model

Business schools have long taught that a successful small business should "go to scale" by multiplying themselves through franchising or branching. This then enables entrepreneurs to sell the company to a global player and cash out as multi-millionaires. Hundreds of other major restaurant chains have followed this path, from low-end pizzerias like Uno's, to high-end steakhouses like Morton's, to delis like Schlotzsky's.

Paul and Ari, however, rejected this from the outset. They have long believed that quality comes from a business being one-of-a-kind. Says Paul, "We knew we wanted to have just one store and that we were not going to grow by replicating ourselves. For us, by definition, if there was more than one store, it wasn't unique anymore. This wasn't a political belief or ideology; it was a lifestyle we wanted to live." That lifestyle meant hanging around the store, getting to know the employees and customers, and continually fine-tuning their goods and services for the Ann Arbor community.

As Paul told the New York Times, "We've had dozens and dozens of opportunities to franchise, sell the name, take the check, and walk away." Some suggest that staying local means repudiating growth. To the contrary, Zingerman's has grown spectacularly but in one place. Paul clarifies: "We grow deep." This is increasingly the philosophy of smart local entrepreneurs, as documented by Inc Magazine editor Bo Burlington in his 2006 book, *Small Giants*, which profiled Zingerman's and 13 similar community-based businesses.

Each of the eight Zingerman's companies is a separate legal entity, locally owned and controlled. The older companies are C-Corporations; the newer ones are LLCs. Each is owned by one to three shareholders, or "partners" as they call one another, one of which is Paul and Ari's

## Business Model Overview

<p><b>Sector</b>  <i>Goods:</i> Retail, wholesale;  <i>Services:</i> Training</p> <p><b>Ownership Type</b>          Portfolio of C-Corporations and LLCs, with the two founders' financial interest in each business held by Dancing Sandwich Enterprises (which the two co-founders co-own 50/50)</p> <p><b>Local Ownership</b>          Yes (100%)</p> <p><b>Products</b>          Deli sandwiches, baked goods, dairy products, and restaurant meals</p>	<p>made in-house; food items and coffee made elsewhere; catering service; training</p> <p><b>Market &amp; Customers</b>  <i>Domestic:</i> National for mail-order and training; local for all other businesses</p> <p><b>Niche(s)</b>          Community of linked businesses ("growing deep") with shared branding and decision making; employee empowerment, engagement, and advancement</p>
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jointly-owned company, Dancing Sandwich Enterprises.

A ninth ZCoB entity, largely invisible from the public, is Zingerman's Service Network, Inc., a C-Corporation that provides all the enterprises services related to financial leadership and management, payroll and benefits, human resources, information technology, marketing, and graphics. This is the one business in which partners play an especially engaged role.

All the companies are independent of one another, but all 15 partners subscribe to a common set of guiding principles and make all major governance decisions across the companies by consensus. The partners meet every two weeks to report on their operations, to troubleshoot, and to plan for the future. "In the eyes of public," clarifies Paul, "we're one business because they don't know how we're set up. We strive to have the same quality levels, service levels, and pricing."

This structure requires enormous amounts of communication. As Paul explains, "The other businesses don't control you, but you want their support. We will discuss things way in advance and allow others to give input. It's your decision to make, but at least make a decision that everyone can live with. This is why we meet every other week, as all decisions are by consensus."

Growing deep has enabled Zingerman's to achieve



important improvements in quality. Businesses like the bakery and the creamery improve the quality of foodstuffs going into the delicatessen and the Roadhouse. Building local loyalty around the Zingerman's brand motivates satisfied customers at one business to try the others. And the sheer diversity of businesses hedges risk, balancing the challenges in one business with the success of the others.

Growing deep also has meant giving employees a greater stake in the decision making. In addition to providing employees with health care, food discounts, and generous vacations (as much as six weeks after 20 years), the partners involve employees in setting the goals for each enterprise every year, and share part of the profits whenever the goals are exceeded. Vision 2020 also sets out an organizational imperative for diversifying the staff and partners group, and this in turn has led Zingerman's to develop closer partnerships with local high schools, community colleges, and universities.



For the future, Paul and Ari have begun exploring ways to allow all employees to share in the financial success of Dancing Sandwich Enterprises, the holding company currently owned by the two co-founders.

## History & Drivers

Paul Saginaw is a native Detroiter, whose earthy language and self-deprecating one-liners—"my high school class voted me Least Likely to Have a Positive Effect on Society"—betray his pure genius. At 16 he started the Let the Sunshine In Window Washing Company. This was followed by the Pongo Painting Company. Then, after dropping out of a public health program in grad school, he worked at a local restaurant. "After a while, you kind of look around and realize this is what you're going to do." He started Monahan's Fish Market in 1979 with partner Mike Monahan, a business that still operates. But his biggest catch was his former co-worker, Ari, who joined Paul in rehabilitating a tiny corner grocery store into a delicatessen.



The Zingerman's name? Well, that's totally made up. Shortly before opening the deli under the originally planned name, Greenberg's, another Greenberg's let Paul and Ari know that the name was already taken. Armed with beer, phone books, and the advice of Paul's grandfather, the two entrepreneurs concluded that they wanted something at the beginning or at the end of the alphabet, something Yiddish sounding, something, well, zingy. This clever use of language, design, images—light, irreverent, funny—remains one of the hallmarks of the Zingerman's experience.

The original business model envisioned the deli also serving as a neighborhood grocery store. Paul and Ari set out to have great local sandwiches alongside fine, artisan-made food products from around the world. In the years since, they have won blind corned-beef tasting competitions in New York City and become one of the



top sellers of traditional cheeses in the United States.

Also integral to the original vision was a meaningful workplace—a place with dignity, a sense of community, and opportunities for ownership. Says Paul, “We are at the top of this industry in terms of specialty or fair food, but we’re not accumulating a lot of wealth. We can’t give our workers high six-figure salaries. But we can give them ownership in a really great brand.”

No part of the business receives greater attention than the employees. The first day orientation for new employees is always given by Paul or Ari. “It’s the last thing we would ever delegate,” emphasizes Paul. “It’s very important that you hear from the founders what it is we are trying to accomplish as an organization. I tell people that if you want to stake a career here, I have a responsibility to work with you and see that it happens.”

## Key Challenges & Lessons

Zingerman’s is one of the most financially stable and profitable of the enterprises studied in this report. Our financial analysis shows that over the last three years, revenue has grown more than 10% per year and profits have steadily increased as well. The ZCoB has become a model for other local businesses in terms of its planning, management style, and customer service. Yet there have been a number of unique challenges the partners have had to cope with:

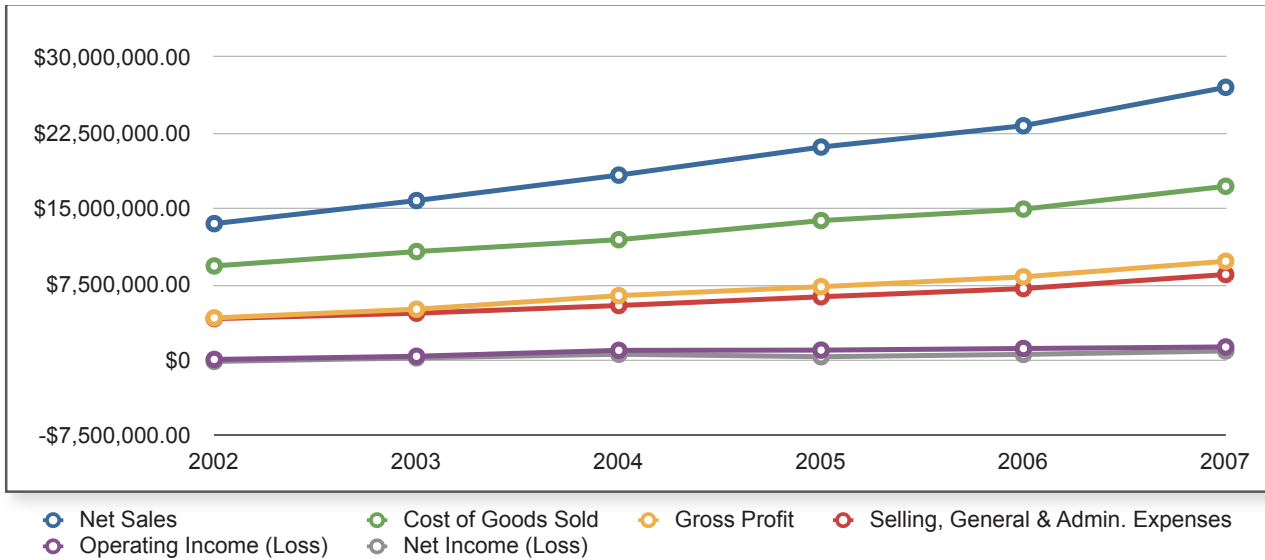
- *Margins*—The Zingerman’s partners are constantly struggling with to how to maintain the inherently slim margins in their businesses. This is especially tough with their commitments to provide decent wages and benefits to their employees, to support local producers, and to give back to the community.
- *Growth*—Ten years after its founding, the deli could no longer provide new opportunities for staff. Managers felt stifled and left. Mid-level employees were waiting on people to move away or retire so they could move up in the organization and grow professionally and financially. Observes Paul, “We had spent enormous amounts of time and resources training staff, but now we were losing them to competitors.” When Zingerman’s put together its first 10-year vision and strategy document, Zingerman’s 2009, the problem was solved by creating an expanding community of local businesses.
- *Brand Protection*—Perhaps the biggest threat to Zingerman’s has been from copycats in the region. Paul admits, “We got complacent, thought we owned the market, but people aren’t stupid and understand what

parts of your business are successful. Competitors come along and offer fifty percent of your quality at seventy-five percent of the price, embarrass you and make you look like you’re ripping off the public.” The answer has been to focus relentlessly on quality products, excellent service, and innovation.

- *Workplace Democracy*—Paul and Ari are devout believers in fostering a participatory organization, but also believe that an organization needs someone to say yes or no at the end of day. They have worked very hard to create a workplace where decisions are made not based on who has the most authority, but rather by those who have done the research and have a viable solution.
- *Sustainability*—Paul feels Zingerman’s still has much progress to make in greening their enterprises, such as purchasing more local and organic foods, using energy more efficiently, seeking out renewable sources of energy, taking advantage of transportation efficiencies, and more. Identifying needed environmental improvements and then executing them is now an organizational imperative.
- *Inter-Business Collaboration*—One problem in the ZCoB model is that occasionally the interests of one business lie opposite to the others. Paul explains one such incident: “We have the Delicatessen, and the Bakehouse that sells to the Delicatessen. The Bakehouse also sells to a lot of other wholesale customers; seventy percent of their business is outside of the ZCoB. Yet the Delicatessen sees the Bakehouse as their partner, but it’s a partner who is selling to their competitors. If they each owned some portion of each other’s businesses, then the sale of bread would be the sale of bread for the ZCoB no matter which business it’s happening out of.”

None of the Zingerman’s businesses are unique. In just the United States, there are thousands of successful delis, restaurants, bakeries, creameries, and coffee roasters. Nearly all of them are small. Many are successful. What ultimately is unique about Zingerman’s is the relative volume, productivity, and visibility of its enterprises. And much of this comes about because of the common brand and joint efforts at quality control. Many small businesses dream of diversifying, but those that do usually create new branches or subsidiary companies. Few create sister programs or businesses under a common vision and set of principles, or deliver such a unique experience to customers, coworkers, and the community.

## Financial Performance



*Zingerman's appears to be a successfully growing and financially sound operation, on a solid growth trajectory. Revenue has been growing at least 10% a year, and both gross and net profits are healthy and have increased consistently for the past three years.*

What is also distinct about Zingerman's is the brilliance of execution. Among their business peers, Paul and Ari are recognized for exemplary leadership and business practices. To their credit, they have tried to ply everything they have learned into the ZingTrain seminars—yet another successful enterprise. The fingerprints of Zingerman's can thus be seen on dozens of ZingTrained businesses across the country.



## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Part-time/flex work schedules (40% using)</li> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• Retirement plan for full-time employees at least partially paid for by company</li> <li>• Health insurance</li> <li>• Dental insurance</li> <li>• Life insurance</li> <li>• Domestic partner benefits</li> <li>• Short-term disability</li> <li>• Long-term disability</li> <li>• Health &amp; wellness program</li> <li>• Counseling services</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	Think Local First Washtenaw County (BALLE network)
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy efficiency policies</li> </ul>
Membership in association(s) that foster environmental stewardship?	Think Local First Washtenaw County (BALLE network)
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by local institution</li> <li>• Supplies and services: 1-20% of expenditures (other than labor)</li> </ul>

## Ajddigue Women's Argan Cooperative

As a doctoral student at Mohammed V University in Rabat in the mid-1980s, Zoubida Charrouf studied argan trees. These indigenous flora, which grow in concentrated clusters only in the arid semi-desert climate of southern Morocco, look like gnarled wild cousins of the domesticated olive tree. The trees produce nuts, and inside each nut are a few almond shaped pods which, when crushed and processed, yield an oil that is valued for its taste and flavor across Morocco.

The argan tree is a relic of the Tertiary age—an ancient species that formerly spanned most of North Africa. Today, due in part to overharvesting for timber and livestock grazing, its range is limited to southwestern Morocco, prompting UNESCO (United Nations Educational, Scientific and Cultural Organization) to make the area a biosphere reserve in 1998. The argan tree has a deep root system that is resistant to drought and helps prevent soil erosion, critical ecological functions in the semi-arid lands north of the Sahara.

The oil of the argan fruit has been eaten by Berbers in Morocco for centuries, and is today used across Morocco in couscous, salads and for dipping breads. Rich in vitamin E, phenols, and carotenes, the oil was traditionally used to treat skin conditions and has more recently found favor in the cosmetics industry. Despite its current cachet, argan oil remains one of the world's rarer oils.

Zoubida was fascinated by the argan's biology, ecology, sociology, and economics. She saw how important the argan tree had become to the region of southern Morocco and was impressed that women were primarily responsible for harvesting its oil for their own food and cosmetics. She also was alarmed that the tree was rapidly disappearing. Zoubida wanted to figure out a way to preserve the argan tree and to empower women economically while they harvested it.

Zoubida founded the Ajddigue cooperative in 1997 to mechanize argan oil production and thereby widen the market for the oil, generate new work opportunities to local women, and provide new protections to the argan groves. Originally considered a marginal business, the cooperative today has 60 Moroccan woman members and continues to grow.

### Business Model

Ajddigue is a member-owned, women-focused argan oil cooperative with 60 current members and six staff. It is located near Essaouira, in southwestern Morocco, the epicenter of the world's remaining argan trees. Most of the cooperative's business focuses on oil extraction, a labor-intensive and low-yield process. Ajddigue takes the oil and makes organic argan products for fair trade.

The annual output of the cooperative is now running five to eight tons. During the 2006-2007 fiscal year, Ajddigue reported



All photos by Fouzi Shishi

### At a Glance

<b>Where</b> Village of Tidzi, outside Essaouira city, Morocco	<b>Year Founded</b> 1997
<b>What</b> Argan oil harvest and production	<b>Number of Employees</b> 6 (2008)
<b>Founders</b> Dr. Zoubida Charrouf	<b>Total Revenues</b> U.S. \$231,062 / 1,905,297 Moroccan dirhams (MAD)
<b>Website</b> n/a	



sales of nearly MAD 2,000,000 (over US \$242,000), up over 20% from the previous year—and double the sales during its first year of operation.

Most of Ajddigue’s original funding came from Canada and Japan. It also received funding and recognition from Slow Food International. Once it got started, however, most additional investment—for computers, labs, machinery, and buildings—has come from retained earnings. The company has very little debt.

Ajddigue’s membership is limited to women. Madame Zahra Kenabou, Ajddigue’s general manager, elaborates, “Traditionally the women would do all the work of collecting the fruits and extracting oils and other products and the men would sell the products and, since it is a patriarchal society, keep all the money and spend it at their discretion. The cooperative culture is changing that. Women in the Ajddigue cooperative are not mere workers, or housewives doing what they have traditionally done for free. They are full members and they collectively own the cooperative and share in its profits. That gives them a strong sense of ownership of their labor, of the products of their labor, and of the income this generates.”

Zahra describes the cooperative’s three major goals: “First, we have an economic goal. Our economic success translates into an economic success for the community. The women who work here own the enterprise. They are paid a living wage and they share in the enterprise’s profits... The change has been dramatic. In the past, families used to sell their argan oil for 30 dirhams (US \$4); now they are selling it for 250 dirhams (US \$33).”

“Our second goal,” Zahra continues, “is social. The Ajddigue Coop has a compulsory alphabetization [literacy] program. Our members also go through financial literacy programs. This contributes to the economic and social improvement of the community and the cohesion of the family.”

The focus on literacy is critical, since without it, rural women of Morocco face few economic options. Only about a third of women in rural Morocco today can read and write. Change is extremely difficult because of the male-centered mores of the predominately Muslim culture. Zoubida carefully designed the Ajddigue cooperative to offer literacy training but in non-threatening ways.

The third goal is ecological. “We strive to repair and reverse the neglect and destruction of the argan tree,” says Zahra. The cooperative plants new trees, and is doing research into how to successfully move and replant existing trees that might be slated to fall regardless. “We have reached out to government agencies like the Ministry of Water and

<b>Business Model Overview</b>	
<b>Sector</b> Production, wholesale and retail	<b>Customers</b> Various food and cosmetic industry wholesale clients; on-site retail to tourists
<b>Ownership Type</b> Producer cooperative	<b>Niche(s)</b> Women’s economic empowerment, literacy training, fair trade, organic production, argan tree conservation and reforestation
<b>Local Ownership</b> Yes (100%)	
<b>Products</b> Argan oil for food and cosmetic uses	
<b>Market</b> Some domestic, mostly export	

Forests, and entered into partnerships in a project that aims to transplant argan trees. And we keep working with other institutions for the protection of this source of livelihood for our community.”

Another example of Ajddigue’s ecological sensitivity is how it handles waste. The community used to throw away the shells of the argan nuts after extraction of the oil. Now the shells are used for cooking.

When asked how other emerging enterprises could learn from Ajddigue’s experience, Zahra offered this advice: “I would say: study your project well and be clear on your objectives. The central underlying objectives for Ajddigue were twofold: create culturally appropriate empowering opportunities for women, and save the argan tree. Staying focused on both of these missions has allowed Ajddigue to build its business.”

Another lesson is that Ajddigue paced its growth slowly, increasing its original membership by only 40 women over 15 years. It also was careful only to add infrastructure, like its lab and processing equipment, that was absolutely essential to the core business.

## History & Drivers

In 1997, with the help of both the Canadian and Japanese Embassies, Zoubida founded the Ajddigue cooperative. It started with 16 members, and quickly became the first company in the region to produce argan oil commercially for cosmetics and cooking. It was also the first argan cooperative to introduce mechanized processing methods.



During the early years, Zoubida concentrated on establishing and promoting the business. She recruited additional international investors, including the Belgian Embassy in Morocco, to support Ajddigue's processing plant. The investments came at an 80/20 match, with the cooperative contributing the larger share. She also created a comprehensive literacy program for the cooperative's members.

The concept caught fire and spread. Other argan cooperatives popped up in southern Morocco. In 2003, Zoubida founded an economic interest group (EIG) called Targanine to "federate the first cooperatives and help them market their product." Ajddigue was a founding member of the Targanine EIG. All this activity led the Moroccan government and the European Union to launch Le Projet Arganier (The Argan Tree Project) in 2005, which financed cooperative purchase of oil processing hardware and related training.



Ajddigue was able to use its relationship with Le Projet Arganier to build a laboratory and streamline its member education programs. More importantly, this relationship helped the cooperative increase oil output nearly sevenfold, expand membership, find new markets, bargain collectively, and almost double member dividends and wages.

As Ajddigue matured, it learned how to strengthen its core competency with outside collaboration. Empowering and employing women to harvest and process quality argan products is what it does well. Its skills at marketing, distributing, and exporting were always a little shaky. "By pooling available resources under an economic interest group, Ajddigue has been able to leverage its resources more powerfully." Today, Ajddigue is part of a new EIG.

## Key Challenges & Lessons

Ajddigue has faced four significant challenges in its 15 years of operation:

- *Pricing*—The market price for argan oil is currently unregulated. Zahra wants to step between the market and her members by setting a fair price they can count on.
- *Environmental Challenges*—The rapid disappearance of the argan tree, while a force for the formation of Ajddigue, remains a serious threat to the long-term viability of the cooperative. At least half of the original trees have been cut down in the past few decades and chronic drought may be accelerating their loss. It is not at all clear whether the replanting strategies of Ajddigue and other cooperatives will succeed. "We have a stock of argan fruit that allows us to work for two years," worries Zahra, "but this is not enough." Another approach to the problem, increasingly embraced by the cooperatives, is for the government to put the argan trees under stronger legal protection.



- *Unscrupulous Competition*—Zahra complains that not all her imitators have been honest: “Fake cooperatives use illiterate women to gain a nonprofit status but they do not treat the women as member-owners of the co-op. They simply use them as wage labor and pocket the profits. These fake co-ops target tourists who do not know any better. They drive the prices down and they sell bad oil.” Zahra is concerned this bad behavior will sully the reputation of all argan cooperatives.
- *Cultural Mores*—Ajddigue’s mission of empowering women challenges Muslim traditions that frown on women engaging in business, especially in leadership positions. Historically, Moroccan women, especially married ones, were discouraged or even banned from working. Many of Ajddigue’s first members were widows or single women. This is slowly changing, however. As the Ajddigue’s cooperative has grown and proven its capabilities, there are now instances of men escorting their wives and daughters to the processing plant to become members.

Despite these challenges, no one can doubt that Ajddigue has become a major force. There are now 130 other cooperatives for harvesting and marketing argan oil in Morocco.

“Our biggest strength,” says Zahra, “is the fact that we are a real cooperative with a sound social and ecological mission. Our cooperative is also economically viable and shows how rural women can be agents of development themselves. We have learned that the best way to survive is by fostering a culture of cooperatives that shares a socially conscious model of development and creates a network of support.”

## Financial Performance

**Editor's note:** Financial data analysis was not possible as financial data was not provided by the enterprise.

### Creating Argan Oil



Step 1: Drying the argan fruit in the sun



Step 2: The first cleaning process



Step 3a: Extracting the argan almond



Step 3b: Successfully extracted argan almonds



Step 4: Extraction of argan oil from the almond



Step 5: Bottling the bulk argan oil



## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• Paid sick leave</li> <li>• Paid vacation</li> <li>• Paid maternity leave</li> <li>• Onsite childcare</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	Fair trade certification
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy usage measured annually</li> <li>• Energy efficiency policies (Don't know % saved last year)</li> </ul>
Membership in association(s) that foster environmental stewardship?	Organic certification, fair trade certification
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by a local institution</li> <li>• Supplies/services: 60% of expenditures (other than labor)</li> </ul>

## Akiwenzie's Fish

"You can only sell bad fish to a person once," says Andrew Akiwenzie, "but your ability to sell good fish to people is unlimited." That, in a nutshell, is the business strategy of Akiwenzie's Fish, a sole proprietorship he runs with his wife Natasha. The enterprise is dedicated to catching, smoking, and distributing high-quality fish like perch, trout, and whitefish caught right outside their home in Cape Croker.

Cape Croker is a tiny hamlet on the Georgian Bay, perched on the eastern outcropping of Lake Huron in a remote part of the Canadian province of Ontario. The land is part of the Chippewas of Nawash Unceded First Nation, the members of which live on a 64-square kilometer reservation. For centuries, Chippewa people have been living here with fishing as a central part of daily life. Akiwenzie's Fish comes straight out of this tradition.

The business demonstrates both the opportunities and challenges faced by an independently owned micro-enterprise, particularly as it balances place-based cultural traditions against the particular rules of the reservation. Key to its success has been tight quality control, direct sales, and strong customer relations.

### Business Model

Akiwenzie's Fish is technically owned by Andrew, but it is effectively run by the entire Akiwenzie family. During prime fishing season, Andrew goes out in his own boat and makes his own catches with his own lines. Natasha, a quality control perfectionist, sorts the fish and manages the processing. When the couple's three kids are not in school, they staff the farmers market tables, assist with processing, and sometimes work on the boat.

The family's involvement is both a choice and a necessity. It allows Andrew and Natasha to pass on to their children their cultural traditions in fishing, and to teach them how to operate a small business. But the truth is that Andrew also can neither find, nor afford, reliable help.

If the weather cooperates and it is not spawning season (when fishing is restricted) Andrew takes his boat out three times a week. He can pull up to 180-200 pounds of fish per trip. He handles the catch meticulously so as to not damage it. Then Natasha begins the time-consuming tasks of hand sorting and selecting the best fish, which she debones and fillets. Lower grade fish are prepared for brining or smoking in the family kitchen. Some fish that do not meet Andrew's or Natasha's standards are rejected altogether.

Before he takes the boat out each day, Andrew makes an offering to honor the water, the environment, his Chippewa heritage, and his family. He practices this by striving to limit



All photos by Charmian Christie

### At a Glance

**Where**

Cape Croker, Ontario, Canada

**Year Founded**

2001

**Number of Employees**

2 (2008)

**What**

Micro-capture fishery specializing in local filets and smoked fish

**Total Revenues**

Averages US \$91,000—136,000 / 100,000-150,000 Canadian dollars (CAD)

**Founders**

Andrew and Natasha Akiwenzie

**Website** <http://akiwenziesfish.blogspot.com/>



waste. He uses processing waste—like fish heads or bones, for example—to feed the local birds. He will not fish during spawning season, to allow the fish stocks to replenish themselves. He uses a small boat and a small vehicle to minimize emissions. And he uses tours of his business as a way to give Chippewa children, including his own, a positive experience beyond the economically distressed Reservation.

A key feature of the Akiwenzie products is freshness. “By the time my competitors get the bone out of their fish,” says Andrew, “my customers are eating it.” Akiwenzie’s fish is sold quickly, and directly, at local farmers markets or to chefs and restaurants in Toronto (over 250 kilometers away from Cape Croker).

Andrew does not do any coordinated marketing or formal advertising. Customers come to him by word of mouth. But once they begin buying his product, Andrew reels them in and treats them as long-term family. “The relationships you make are important,” he says. “All the way along the line, we’ve had customers that have pushed us a little bit further, helped us, and opened doors, because they liked the product and wanted to help us. In Toronto, if I say I need something, I only have to speak it a few times and someone will say ‘I know a person for you.’”

Andrew also credits his customers for improving the Akiwenzie products. For instance, as Natasha developed her now-famous smoking recipes, customer feedback helped her fine tune the blend of smoky spices and sweet flavors that would be most marketable. Direct interactions with consumers also keep the Akiwenzies in tune with what their customers do and don’t understand about fishing itself. In this way, Natasha believes farmers markets represent a larger opportunity to educate both consumer and producer. “We get re-educated all the time based on customer questions that wouldn’t have occurred to us. For example, a surprising number of people tell us they only want to buy happy fish, which prompts us to explain our fishing methods. Other vendors also tell me they regularly have to explain their processes and the values of locally produced food.”

Selling via farmers markets also keeps the Akiwenzie family well nourished. “We do a lot of bartering,” explains Natasha. “A couple of pieces of fish for a few baskets of vegetables. That is not a bad trade off. It benefits the farmer and our entire family. Our area is very rocky and cold, and we wouldn’t get a lot of fruits and vegetables without the access our fish bring us.”

The business operates on a cash only basis. Andrew claims to keep all the important business transactions, balance

## Business Model Overview

<p><b>Sector</b> Wholesale and retail/ direct-marketing</p> <p><b>Ownership Type</b> Sole proprietorship</p> <p><b>Local Ownership</b> Yes (100%)</p> <p><b>Products</b> Wild-caught fresh and smoked fish from Georgian Bay (whitefish, lake trout, and occasionally rainbow trout and salmon)</p> <p><b>Market</b> <i>Domestic:</i> Regional</p>	<p><b>Customers</b> <i>Wholesale:</i> Several restaurants and chefs; <i>Retail (direct-marketing):</i> A handful of Toronto farmers markets, including Riverdale, Dufferin Grove, Owen Sound, Green Barns (Wychwood), Brickworks</p> <p><b>Niche(s)</b> Wild-caught fish, hand processing, natural smoking without preservatives, development of direct customer relationships, family-run enterprise</p>
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sheets, and financials in his head. This is in keeping with the Chippewa’s oral tradition, but it is also possible because nearly all of Akiwenzie’s business is tax exempt. Income tax does not apply to business conducted on First Nation reserve land. And the transactions are exempt from sales taxes under Canadian law, because the only salable product is fish, a grocery item.

What few records Andrew has suggest that Akiwenzie is achieving a small but positive profit. In 2007, total sales hovered around CAD 208,000 (US\$ 194,174). The gross weekly profit averaged CAD 300-500 (US \$280-\$467). To many businesspeople, Akiwenzie’s performance is more at the level of a subsistence fishing operation than a for-profit business.

If a balance sheet did exist, the business would probably look reasonably healthy. It has only received one grant, a tiny one from the Ministry of Natural Resources. Due to the regulations governing First Nation businesses, the Akiwenzies are not eligible for bank loans and therefore carry no debts. The modest capital items involved in the business—a boat, an ice maker, a smoker, a vacuum sealer, a few refrigerators, and a few electronic scales—are all fully paid for. Most profits have been plowed right back into expanding the business.

At one point, the Akiwenzies tried to supplement sales by setting up a fish and chips truck on their property during



the summer tourist season. After just three months, however, it became clear that the venture was losing money and they shut it down. Now, they are only doing what they do best, which means concentrating on providing the highest quality fish at the best price directly to their dedicated customers.

## History & Drivers

Fishing runs deep in Andrew's genes. Like many Chippewas, he grew up fishing the remote and rural northern shores of Lake Huron. Before school every morning he would help his uncles fish. Some of that fish was occasionally sold, but much of it went to feed his extended family. Fishing also became critical for his mental health, a way to escape periodically the bitter realities of poverty.

Andrew's first job as an adult was with Hydro One, one of Canada's big electric companies. When he was laid off, he began exploring how to transform his lifelong passion for fishing into a successful venture.

For a time, he worked as a commercial fisherman. "But when we had the boys," remembers Natasha, "we realized we couldn't make ends meet. So, that's how we began almost seven years ago."

Andrew wanted to do better than the environmentally and economically unsound practices he saw being practiced by the big, commercial fishing operations at Cape Crocker and the Georgian Bay. Many of his competitors deployed huge nets that were overfishing local stocks, and then processed the catch in unsanitary conditions. They also sent large catches to the United States for processing and had the fish sent back over the border for sale.

When Akiwenzie's opened in 2002, quality became its cornerstone. "We have two scrutinizers of the fish," boasts Andrew. "Me and my wife. If it's soft, it never gets past us. We're not driven by the money like others—even if the fish are soft others keep pushing it, because they already paid for it and they need to get their money back."

The earliest customers were local processors. But Andrew had trouble meeting their demands for large catches, delivered on clockwork schedules. So he and Natasha began processing smaller batches themselves, deboning the fish by hand to maintain its freshness. Fish not good enough to be filleted was smoked in Natasha's unique blend of garlic, salt, and honey. The fillets and smoked fish were then sold directly at local farmers markets in Toronto.

Word about Akiwenzie's fabulous fish soon got out. One person who noticed was Jamie Kennedy, one of Toronto's celebrity chefs and a leader of the area's Slow Food Convivium, who began using Akiwenzie's fish and singing its praises. Since then, Slow Food



Toronto has sent Andrew and Natasha in 2008 to the International Slow Food Salone in Italy.

Andrew now thinks it's time to grow his business. "I love to fish, but I'm at the point now where I hope to make the jump from fisher to producer." He would like to find an investor who can help them get bigger processing equipment, more storage space, a bigger boat, and a web-based ordering system. He'd also like to recruit another partner he could trust to maintain the same quality standards.

## Key Challenges & Lessons

For the Akiwenzies, operating a business on the Reservation gives Andrew and Natasha the opportunity to live their traditions, but it also brings, and sometimes exacerbates, the challenges of operating a small business. Here are five big ones:

- *Production Limits*—The Canadian government limits the Chippewa to fishing out 90,000 pounds annually. That limits the long-term growth of Akiwenzie's.

***A key feature of the Akiwenzie products is freshness. "By the time my competitors get the bone out of their fish," says Andrew, "my customers are eating it."***  
~Andrew Akiwenzie, owner

- *Scale*—Short-term limits are imposed by Andrew's boat, which only carries between 150-200 pounds per run. As the sole fisherman for Akiwenzie's Fish, Andrew sometimes can't meet his own demand, so he needs to source fish from other vendors whose fish don't meet his strict quality standards. Consequently, the Akiwenzies would like to get a bigger boat, a new processing facility, and more staff. Expansion, however, will be difficult, because the Chippewa lack access to banks and other common sources of capital.
- *Insurance*—Canadian law also virtually prevents the Chippewas from buying insurance. This means that the Akiwenzies have no protection against accidents or lawsuits. The positive implication is that it has heightened their commitment to the highest quality product and strictest safe food handling procedures. But it also means "you can't make a mistake," says Andrew. Any major disruption, from a lawsuit to a broken boat to a personal injury to a span of terrible weather, could knock Akiwenzie's Fish out of business.

- *Workforce*—The Akiwenzies also are concerned that the reservation has not supported a strong work ethic, which means it is difficult to train, and retain, reliable help. "The reserve is supposed to be a place where we felt free but....we're so far from an economic base that it's almost like a prison."
- *Harassment*—Andrew reports that his lines are cut up to three times a year and he wonders if the culprits are his competitors or possibly racially motivated hate criminals. Repairing the nets is a huge cost and headache.

Despite the challenges, Akiwenzie's Fish has emerged as an important model in Ontario's regional food system. Its success can certainly be replicated by other fishing businesses equally attentive to quality.

The Akiwenzies encourage those who might follow their path to adopt some of the successful strategies they have learned: Base the business on your own background, skills, and passions. Carefully define a market and methodically serve it. Grow the business slowly and overcome challenges with creativity rather than cash. Identify investment partners (something the Akiwenzies didn't do up front, but are looking for now). Pay close attention to detail and personally cultivate a customer network. And above all, stay true to your values and cultural beliefs.

## Financial Performance

Scale	
Number of Employees	2
Total Revenues—Best Case Scenario (no time off for vacation, sickness, equipment malfunctions, or water freezing over early)	\$212,026.88
Profitability	
Net Profit Margin	45%
Gross Profit Margin	59%

*The financial information for this operation is not recorded, and as such, was recounted orally to the interviewer. As full financial information was not available, our standard financial analysis could not be performed. There is considerable discrepancy between the financial data orally reported. Primarily, it appears that we did not receive a full listing of expenses. Net income calculated from the data provided yields a net income of CAD 93,717, but the proprietor reports gross annual profit of CAD 21,600. The operation has minimal debt and has a low debt-to-asset ratio.*



## Social & Environmental Performance

### B Corporation Report Card Score: *Pass*\*

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	n/a
Benefits provided to employees and their families?	n/a
Membership in associations that foster labor, community, or societal stewardship?	None
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Question not in their version of survey
Energy conservation or renewable energy practices?	None
Membership in association(s) that foster environmental stewardship?	None
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by a local institution</li> <li>• Supplies/services: 1-20% of expenditures (other than labor)</li> </ul>

## Cabbages & Condoms

Even open-minded westerners are taken aback when they walk into the original Cabbages & Condoms Restaurant (C&C) in Bangkok. Posters on the walls display prophylactics from around the world. Neat rows of multicolored condoms appear under the glass tops of dining tables. Condoms decorate lamps and flower vases in rest rooms. Bowls of “condom-mints” are presented as party favors. A sign assures customers that “our food is guaranteed not to cause pregnancy.”

Welcome to the fundraising epicenter of Thailand's biggest nongovernmental organization (NGO), the Population and Community Development Association or PDA. The chairman and founder, Mechai Viravaidya, contends that “birth control should be as accessible and as easy to buy as vegetables in the market!” Hence the name “Cabbages & Condoms.” Mechai's communications strategy is to deploy jokes and catchy visuals to overcome resistance, by locals and tourists alike, to issues like sex, family planning, and HIV/AIDS.

Mechai is known by locals as “Khun” Mechai, or the Condom King. Formerly a well-known government official, he's been directing PDA's sex education programs so long that condoms in Bangkok have become widely called “mechais.” Despite his good sense of humor, Mechai's mission with Cabbages & Condoms—“good food at competitive prices in a good atmosphere for a good cause”—is serious business. The Cabbages & Condoms brand includes his dozen restaurants, plus a chain of gift shops, hotels, and resorts. The net revenue generated by this network of 12 companies underwrites nearly two-thirds of the direct costs of PDA's activities, such as free vasectomies, mobile health clinics, empowerment programs for people living with HIV/AIDS, and rural development programs.

Mechai is now a global evangelist for his business model. He strongly believes that depending on donations alone prevents NGOs—and those they serve—from reaching their full potential. “Managers of NGOs must pay as much (if not more) attention to finding funds as they do to using those funds,” he says. “To be permanently dependent on others is against the realities of life. We could be a beggar forever but there is no evidence that in the long run a beggar can prosper.”

### Business Model

Superficially, Cabbages & Condoms is a successful small restaurant chain operating in a dozen locations in Thailand. Each branch serves traditional Thai cuisine with chemical-free vegetables and herbs, with some food sourced from farms run by PDA and the rest purchased from nearby farmers and local fresh markets. Several of the restaurants also include gift shops, with handicrafts sourced based on fair trade principles, and made by villagers throughout Thailand.



All photos by Aree Chaisriatien

### At a Glance

#### Where

Based in Bangkok, Thailand, with 12 locations throughout the country co-located with the parent organization's 18 locations

nonprofit Population and Community Development Association, or PDA)

**Year Founded**  
1986

#### What

12 restaurants (including catering services) and 2 resorts

**Number of Employees**  
289 PDA staff and contractors

**Total Revenues**  
US \$1,173,696.51 /  
34,941,843.00 Thai baht (THB)

#### Founder

Mechai Viravaidya (founder of Cabbages & Condoms and the...

**Website** <http://www.pda.or.th/c&c/>





It's the grand design of Cabbages & Condoms that is truly unique. Mechai calls his approach "BSP," or Businesses for Social Progress, where a nonprofit like PDA sets up one or more for-profit subsidiaries to help underwrite its activities. In 2005 his Bangkok branch alone donated nearly \$1 million to PDA, and by 2007 that amount had reached \$1.7 million. "The establishment of a variety of BSPs, where profits are dedicated to social and economic development," explains Mechai, "is a new strategy to mobilize and accumulate resources for income generation in Thailand's poor and rural areas."

The C&C restaurants are expensive for the average Thai but no more so than most middle-range restaurants. A plate of pad thai costs THB 120 (US \$3.50) versus THB 40 (US \$1.25) at a roadside stand or a local store. For foreigners, these prices are very reasonable, especially since the quality of the food is excellent.

The customers vary from location to location. The seaside resort and restaurant in Pattaya caters mainly to holiday goers and families, both Thai and foreigner. The majority of visitors to the Sap Tai Resort and Restaurant, in the vicinity of the Khao Yai National Park, are families; groups attending seminars and company retreats, including corporations and UN agencies; and retirees. The other northeastern branches, such as Nang Rong and Chakkarat, are used primarily for youth trainings and local guests, including local administrative officers who usually hold meetings and seminars.

The restaurants are legally registered as a separate private entity from PDA, bound by an internal regulation to only use their profits for three purposes: reserves, business expansion, or donations to a charitable cause (in this case, PDA). "For twenty-one years," Mechai says, "the restaurants have been making profits. We reached break-even in the tenth month after the opening of the first restaurant in Bangkok, where the annual growth rate in terms of revenue is around eight to ten percent. The main reason for this growth rate is that we are careful about raw food material costs. We have opened twelve branches and not one has been closed down."

Several factors have contributed to the profitability of the restaurants. First, all the restaurants operate without rent, either on PDA-owned or privately donated land. "Our major investments are just initial building construction," says Boongit Gongthongluk, director of the office of PDA's president. "We run the business the Chinese way, by starting small and growing as we can."

Another key to keeping costs low is local sourcing. Much of the produce, for example, comes from PDA farms near

## Business Model Overview

<b>Sector</b> Service	<b>Market</b> Domestic
<b>Ownership Type</b> Private corporations which fund the Population and Community Development Association (PDA), a large Thai non-governmental organization	<b>Customers</b> Locals and tourists, depending on the business and branch
<b>Local Ownership</b> Yes	<b>Niche(s)</b> Business for Social Progress (nonprofit self-financing through for-profit social enterprise), local economic development, public health and education programs, local food production in support of social aims
<b>Products</b> Various restaurant meals, handicrafts sourced locally based on fair trade principals, and a range of hotel/resort services	

each location. The farms are growing mint, chili, basil, lemongrass, fresh pepper, morning glory, Chinese kale, eggplant, papaya, and bananas. Cabbages, however, must be bought from the markets, where possible from local farmers.

Mechai pays very close attention to every detail in the businesses. He advises, for example, "Don't make the bathroom an afterthought because it should be as beautiful as any other room."

He is also a relentless marketer. "Doing business for social progress is fun," he declares. "If you want to make money or lose money, go to the stock exchange. If you want excitement, join us." Mechai's connections from his work, both as a government official and in the business sector, and the visibility of the PDA also helped bring in business associates to the first C&C branch, which in turn made it a phenomenon for tourists and foreigners. The social mission has made marketing easier. According to Boongit, "We have conducted a survey and found that customers love the green environment, the fun in the decoration, the taste of the food and the mission of the restaurant: that the income goes to helping poor communities in the rural areas. And the latter is the main reason the customers come again and again."

Location has also played a role in the model's success. PDA only sites new locations in communities where they



have already built relationships and have identified community needs. This generates support and a customer base for whatever business service they are offering. And they have strategically placed their most expensive restaurants and resorts, which provide a variety of amenities, in locations already receiving high traffic from vacationers and businessmen.

The Bangkok branch now employs 105 people, the Sap Tai resort provides jobs for 34 (7 PDA staff and 27 local contractors), and the other branches employ another 150 people. They all prioritize hiring women; the Bangkok restaurant staff is 60% women. In Sap Tai, they have also trained a group of young environmental guides who are now experts in local ecology. "Whenever our customers need a bush walking leader, we can arrange it for them, and the youngsters can have extra incomes," says Tittaya Metha, manager of the Sap Tai Cabbages & Condoms resort.



In addition to restaurants and resorts, PDA has established other BSPs in construction, research and consulting, health clinic management, and trading in both agricultural produce and handicrafts. Two examples include manufacturing cooperatives in the northeastern province of Buriram, and a café setup with help from KPMG (Thailand) which, along with the Pattaya Birds & Bees Resort and Cabbages & Condom Restaurant, supports the Lamplimat Pattana School in Buriram.

Cabbages & Condoms strives to integrate its social mission into its labor practices. It avoids hiring job-ready professionals from distant regions or countries. Instead, it actively recruits from the surrounding rural population and provides on-the-job training.

C&C also tries to hire HIV-positive employees. According to Boongit, "If there are two applicants for a position here and one is HIV-positive, we give the one who is HIV-positive a chance. For one HIV-positive employee who has been with us for a long time, but does not have the strength to work anymore because his condition has worsened, we have provided him with half of his latest salary every month."

C&C pays its staff a living wage and provides benefits such as housing, health, and dental programs. At the Sap Tai resort, local contractors are paid THB 170 (US \$5) a day plus three free meals (the average wage in the area is THB 120 or US \$3.50).



Mechai is now working to franchise Cabbages & Condoms restaurants outside Thailand. In 2008, the first C&C franchise launched in Kumamoto, Japan. Rather than require all profits to come to PDA, Mechai is asking the franchisee to contribute just 3% of revenue. Another franchise is in the works in Bordeaux, France, with an owner who is HIV-positive and wants to deliver the sex education messages of the C&C restaurants.

"We want to beat McDonald's," declares Mechai. "And among the best strategies are to be active in finding new markets, and to have our staff trained in special skills to be professionals. Right now we

are looking for new joint ventures in Singapore, Australia, the United States, and Europe. With an increasing demand for chemical-free vegetables, we plan to have local farmers provide for us in all these areas. We have also now launched Coffee & Condoms where you can get condoms with your coffee, so watch out Starbucks!”

## History & Drivers

Mechai founded PDA in 1974 to promote family planning and eradicate poverty. The first Cabbages & Condoms restaurant was set up in 1984 in Bangkok’s Sukhumvit area. Initially it was just a commissary to provide lunch to PDA’s staff. It gradually expanded to 40 seats, catering primarily to the friends and family of the staff. Finally the general public was invited in. By 1986, the first location was making a profit for PDA, and word began to spread to tourists and foreigners.

“It’s all because of the guidebooks,” says Boongit. Glowing

***Cabbages & Condoms strives to integrate its social mission into its labor practices. It avoids hiring job-ready professionals from distant regions or countries. Instead, it actively recruits from the surrounding rural population and provides on-the-job training.***

reviews made the restaurant a must-visit stop for tourists to Thailand. Additionally, Mechai’s ongoing work with various UN programs and other NGOs brought in many curious foreigners. In 1995 the Bangkok restaurant was renovated, expanding its capacity to 450 seats. Today 90% of the patrons are foreigners, more than half Americans and Europeans, and the rest are mainly Japanese and Chinese.

The real impact of Cabbages & Condoms can be seen in the targeted programs of the PDA. The organization once stood alone in undertaking AIDS education in the country. Although many other organizations are now involved in the field, Mechai still chairs the national AIDS Committee. PDA’s initial work in promoting birth control, a generation ago, has now multiplied into a wide array of programs promoting gender equality and democracy, tree planting and environmental protection, and community empowerment and income generation.

The Sap Tai branch, for example, was founded to preserve wild animals in the surrounding rural areas and provide new income sources for local poor who previously engaged in poaching and logging. They also trained local farmers to produce food without the use of chemicals, and to adopt practices that prevent deforestation. They have created a recycling system that sorts waste, sells used plastic bottles,

and makes natural fertilizers from dried leaves. And they run a “Carbon Bank” in which companies like Chevron underwrite opportunities for staff to plant trees on plots of public land near the neighboring Khao Yai National Park.

Other locations focus more on conservation practices within the establishment. According to Boongit, “in the case of our Pattaya branch, the resort is an environmentally conscious establishment. We recycle wastewater from the laundry and dilute it with rainwater in order to water our gardens and trees. All the in-room freebies have packaging made from recycled paper.”

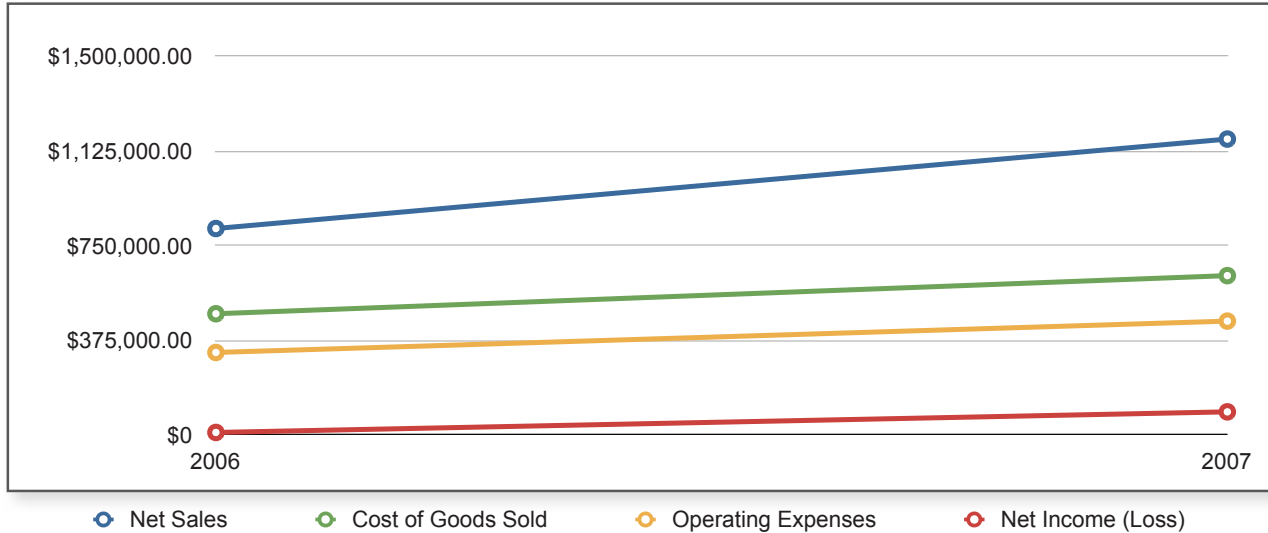
The Pattaya restaurant supports a secondary school run by PDA for rural children in the northeastern province of Buriram. It deploys project-based learning and teaches basic living skills like weaving and sewing. It’s free for all who attend—the school covers its expenses through PDA’s established BSPs.

## Key Challenges & Lessons

Mechai is not easily satisfied by his success. Here are three challenges he and his colleagues continue to puzzle over:

- **Customer Base**—According to Tittaya, “expanding the number of customers in Sap Tai has been a challenge. We tried to attract more local people but most of the nearby factories already have their own function rooms and catering.” So the focus remains on tourists. Similarly, the company is planning to tap deeper into the tourist market in Bangkok by opening another two branches there in 2009.
- **Local Staffing**—The policy of hiring local, non-professionals is a “trial-and-error process,” according to Tittaya. Were she to start over, she might at least hire department heads with formal training in the hospitality industry such as the Pattaya Birds & Bees resort and Cabbages & Condoms restaurant manager.
- **Prices**—Although the primary objective of the Bangkok branch is to raise funds for PDA projects, it still bothers

## Financial Performance



*In the two years for which data is available, Cabbages & Condoms was able to grow both the top line and bottom line significantly. Net income was small but positive in 2006 and gross margin and net margin both increased in 2007 as revenue outpaced cost of goods sold and operating expenses. At this time, Cabbages & Condoms appears poised to continue on a healthy trajectory.*

Boongit that some locals can't afford to eat at certain C&C locations like those in Bangkok. Other locations already serve mostly local populations at a lower price point. Even at the Pattaya branch, a popular resort area, half the customers are locals. Led by Boongit, the company is toying with the idea of a C&C Express with prices which would be more approachable for the average Thai consumer.

Despite these challenges, Mechai believes his BSP model is a winner. He has successfully reproduced the model in multiple sectors throughout Thailand—food, hotels, shopping, construction—and multiple times within each sector. To facilitate the spread of BSPs, PDA has partnered with several universities in Bangkok in the 2007-2008 school year to offer a training course for nonprofit executives worldwide entitled “NGO Financial Sustainability and Corporate Social Responsibility Through Village Development Partnership.”

But Mechai goes further. He would like the Thai government—indeed, all governments—to be more enterprising through the BSP model. In a position paper, he writes, “The government should promote philanthropic activities through fiscal measures, providing additional tax incentives (e.g., a 200% tax deduction on money

spent to establish BSPs or money donated directly to the Village Development Partnership), or a specialized skills training program for the poor (e.g., machine and tool skills, carpentry, cooking, and hospitality services).”

“Creating jobs for communities is a sustainable way to help communities. The old attitude of the government to eradicate poverty is charitable hand-outs, but in the long run, it is a way to teach the poor to be dependent. I believe business is the right medicine in solving poverty.”

## Social & Environmental Performance

### B Corporation Report Card Score: *Did not qualify\**

\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"

Explanation of Results: The B Survey was created by the non-profit B Lab as a certification process for social and environmental performance. As such, their rating system did not always match with the values of the CFE study, but did serve to reveal where enterprises are strong in performance and where they could focus in the future. Although the average Thai person may not frequent Cabbages & Condoms restaurants and resorts, they are certainly well-served as employees and as recipients of a wide range of public health, community, and environmental programs made possible through profits from these enterprises. Given the entrepreneurial innovations of this business model—finding a sustainable and replicable solution for the typical grant-reliant nonprofit—and the enterprise's fundamental commitment to serving its communities, we believe Cabbages & Condoms is worthy of being considered a "community food enterprise."

For our full assessment of the B Survey results for Cabbages & Condoms, please see Appendix 1: About B Corporations.

### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Part-time/flex work schedules (10% using)</li> <li>• Paid/unpaid medical sabbatical with job security</li> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• Health insurance for some full time employees</li> <li>• Dental insurance</li> <li>• Life insurance</li> <li>• Short-term disability</li> <li>• Long-term disability</li> <li>• Paid sick leave</li> <li>• Paid vacation</li> <li>• Paid maternity leave</li> <li>• Health and wellness programs</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	Not formally, but the fundamental tenant of this business model is to generate revenue for nonprofits that benefit community and society
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy usage measured annually</li> <li>• 1-5% energy from renewable sources</li> <li>• &lt;5%energy from renewable onsite production</li> </ul>
Membership in association(s) that foster environmental stewardship?	None
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	No
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Supplies and services: 40-60% of expenditures (other than labor)</li> </ul>

## Cargills (Ceylon) PLC

“This is not a corporate social responsibility program,” says Ranjit Page, CEO of Cargills (Ceylon) PLC, one of Sri Lanka’s oldest and largest businesses, “CSR is our business.”

For its first 140 years, Cargills imported not only food but clothing, pharmaceuticals, and alcohol, largely to serve expatriates and the country’s urban elite. Today the company focuses on growing raw farm products and selling them within Sri Lanka. The mission of Cargills (which is no relation to Cargills USA), says Ranjit, is to “serve the rural community, our customers, and all other stakeholders through our core business—the food we love—and other related businesses. Our work is based on three main principles: enhancing youth skills, bridging regional disparities, and reducing the cost of living.”

To achieve its mission, the company has put together, virtually from scratch, the infrastructure to purchase a wide variety of food commodities—at prices based on fair trade principles—from over 10,000 Sri Lankan small-holder farmers. To create an integrated food delivery system, including the largest chain of supermarkets in the country, the company partners with, and offers technical assistance to, almost 2,000 small and medium-sized Sri Lankan companies. Many of the foods sold in the over 130 Cargills retail locations are processed within the company, including a wide variety of dairy products and meats, and they reach over 40,000 retailers across the island.

Born in northern Sri Lanka and brought up in Colombo, Ranjit himself is a one-man balancing act. He has sought to retain the local character of his family-controlled public company but add global shareholders through a publicly-traded ownership structure; to prioritize local consumers but keep reaching out to global markets; to stay focused but dream expansively. In recent years his business has been lauded by the World Bank, by the Bill & Melinda Gates Foundation, and by others as a model for economic development via local food production and corporate social responsibility.

### Business Model

Most publicly traded companies, with shares that can be bought and sold by anyone on the planet, cannot be considered community food enterprises. Cargills, however, is still largely owned by the Page family in a country with a land mass roughly the size of the U.S. state of West Virginia. Only about 10% of the company is publicly traded, so the company remains local under our study’s definition.

Sri Lankans know Cargills as a major supermarket chain that purchases its raw foodstuffs locally. Roughly half of its farmers grow vegetables, and the rest are producing fruit, rice, milk, and—just recently—engaged in fishing. But Cargills also is



All photos by Dushyanthini Kanagasabapathipillai

### At a Glance

#### Where

Colombo, Sri Lanka with 9 regional collection centers, 3 production and processing facilities, 138 retail locations in 22 districts, 15 restaurants, and an island-wide distribution operation

#### What

Supermarket chain; food processing/ manufacturing and distribution; restaurants; training programs

**Website** [www.cargillsceylon.com](http://www.cargillsceylon.com)

#### Founders

David Sime Cargill and William Miller

#### Year Founded

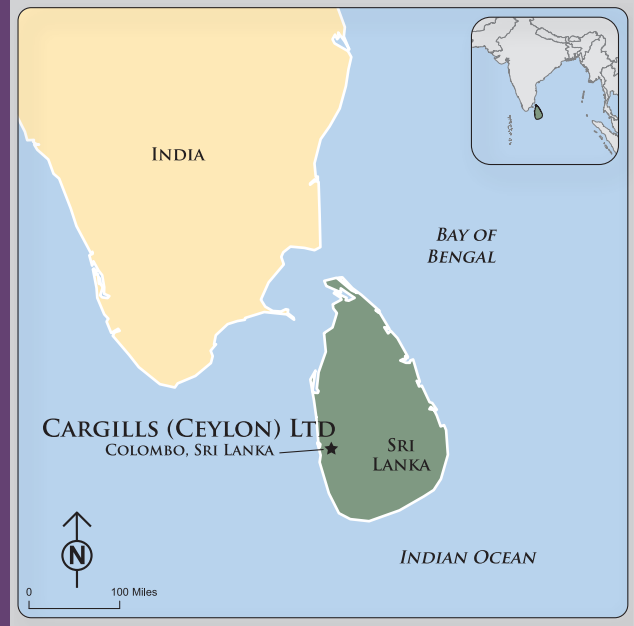
1844. 1946: Became public corporation; 1981: Ceylon Theatres Ltd took controlling interest

#### Number of Employees

5,605

#### Total Revenues

US \$111,884,782.46 / 12,053,952,000 Sri Lankan rupees (LKR)



a food-product processor and manufacturer, with its own lines of meats, dairy products, jams, cordials, sauces, and beverages. According to Ranjit, “We are proud to say that we are the only dairy company, the only meat company, and the only juice processing company in the country which has been certified with international standards.” Cargills also operates the Kentucky Fried Chicken franchises in the country. And starting in January 2008, the company began exporting processed foods to Australia and meats to India, the Middle East, and the Maldives.

According to Ranjit, Cargills’ purchasing networks are the largest in the Sri Lankan agriculture sector. The company employs directly 5,605 employees—more than 10 times the number in 1984. Its Food City brand is considered the third most valuable in the country and was a finalist for the Most Responsible Retailer of the Year award at the World Retail Awards 2009 in Barcelona. Sales have doubled every four years, and consolidated profits in 2007 were 62% higher than they were the previous year.

A key feature of the Cargills business model is that it guarantees its 10,000 farmers a minimum price 20% above estimated production costs. Cargills Director of Human Capital, Youth Development, and Rural Networks, Dr. Sunil Jayantha Nawaratne, explains the model this way: “Our farmers are living in rural areas, and they are in poverty. They lack market access. If we can bring the market to them with a guaranteed price for the whole year, we are working towards poverty alleviation, we are working with rural development, and we are training the next generation of leaders.”

Ranjit points out other services Cargills offers its farmers: “We take the market to them, we give them technical inputs, we drastically reduce the cost of finance to them. We do value addition, we innovate, we create new products from what we buy from them, and then we sell these products not only to local customers but now to international customers as well.”

Cargills can guarantee a higher price by eliminating the middleman. As Haridas Fernando, a deputy general for the company explains, “In a conventional supply chain, the farmer and customer are very far away from each other. There are five or six intermediaries involved....We have freed the farmers from the intermediary.” Through better coordination, efficiency, and integration, along with technical assistance to its growers, Fernando says that the company has been able to bring “the level of wastage of fruits and vegetables down from forty percent to three percent.”

Sri Lankan farmers eagerly embraced the model. “Before

<b>Business Model Overview</b>	
<b>Sector</b> Raw product aggregation, processing, distribution, retail, service	<b>Market</b> Domestic (since 1946)
<b>Ownership Type</b> Public limited liability corporation	<b>Customers</b> Lower, middle and high income Sri Lankans in 22 districts; also buyers in several other countries
<b>Local Ownership</b> Majority	<b>Niche(s)</b> Backward and forward integration, local purchasing and processing networks, in-country purchasing/ trade based on fair trade principles, entrepreneur and youth training programs
<b>Products</b> Raw agricultural produce; Cargills’ own products: dairy products, meats, jams, cordials, beverages	

getting involved with Cargills,” says R.P.N.L. Premathilaka, a smallholder farmer, “I managed to cultivate only two times per year. But after getting involved, I cultivate throughout the year, and always get a better profit....At the time of getting involved with Cargills six years ago, I used to cultivate in a half-acre area. Now I cultivate fifteen acres, and I can send my children to school from the money I earn.”

One way Cargills has grown is by carefully matching its products to the needs of lower- and middle-income customers. “In Sri Lanka,” says Ranjit, “the consumers pay close to sixty percent of the monthly income for food and food related expenses. How could we make a difference with this sixty percent? That’s what we focused on.”

With 80% of its employees in their 20s, Cargills has devised several programs to engage, train, and “skill-up” young workers. Its human resources department is called “Human Capital.” Every employee goes through its Albert A. Page Institute of Food Business, an in-house certificate program that offers free classes to employees at all levels. “After joining us,” says Sunil, “they become experts in retail, food marketing, supply chains, ice cream manufacturing, meat processing, and food processing. We even allow them to go abroad, and work as skilled laborers or professionals.”

The recruitment process is all about finding young people committed to lifelong learning and serving. “When they come here for employment,” says Sunil, “we give our mission statement, vision, and our values, serve lunch for



them, and ask them to go and work at the Cargills supermarket or factory for three days. Then they learn for themselves what's happening. They get two days off, and come back and make a presentation in front of us saying why they want to work at Cargills."

Word about Cargills' commitment to being a learning company has spread. "Earlier," reports Sunil, "the graduates did not come to Cargills to seek employment, because they thought it was an English-speaking high class company, and they would not be able to find jobs here. Now, if we put an advertisement in newspapers to recruit 100 Management Trainees, we get 1,000 applications."

Cargills aims to be an exemplary triple bottom line company. It works with farmers and small-scale suppliers, alongside universities and government agencies, to recycle water and increase energy efficiency. "When you know that billions are starving on this earth, billions of people who are getting less than a dollar per day," says Ranjit, "food waste is a crime." Cargills actively promotes the adoption of new technologies like solar cells, greenhouses, and better seed varieties. And it's the only dairy company in the country to get all three relevant international certifications (ISO 9001, 14001, and 22000).



## History & Drivers

For most of its history, Cargills catered to the needs of a few wealthy customers in urban Colombo, Kandy, Nuwaraeliya, and Bandarawella. The company was modest in size. By 1982, it had approximately 300 employees in four locations, and annually grossed US \$600,000. In 1983, the company decided to introduce the average Sri Lankan to the concept of a supermarket. Ranjit was instrumental in this effort, but ultimately disappointed that it reached so few consumers. "I was considering leaving the company by 1999," he says. "Walking into a supermarket was perceived as something for the affluent. I felt at that time I would not be able to change the regular customer who shops at the wayside shops."



Ranjit toyed with leaving the food world for a movie production business that was part of the Cargills holding company. During this period, he met a range of government ministers and officials, one of whom encouraged him to visit his rural farming electorate.

"Being an urban boy," says Ranjit, "I thought I was going to see some beautiful farms like the tea estates in Sri Lanka. But when I went there, I was shaken and challenged by what I heard from the people I met. I faced farmers in an auditorium, who asked me tough questions. They asked why we could not help them with transportation, why they were not getting the proper price, why there was no market for them, and why they were having to borrow at high interest rates. I did not have good answers."

"From that day onwards, I had to start from what I heard and what I saw." He returned to Colombo, met with Cargills' management and directors, and pitched them on developing an infrastructure



to purchase farm products directly from Sri Lankans at a high enough price to improve their quality of living. The company responded by creating a pilot collection center. Now, 10 years later, there are nine such centers.

## Key Challenges & Lessons

Cargills has reinvented itself several times in the past 25 years. Its leadership and staff are understandably excited about their accomplishments but also keenly aware of the challenges they have had to overcome:

- *Investing for the Future*—Cargills has resisted pressures to pay out higher returns to shareholders and has instead reinvested in the company. In recent years, for every rupee of profit paid to owners, the company has invested two back into itself. Says Ranjit, “We do this so we can keep increasing the opportunity for the consumer, for the farmer, and for the youth of this country.”

***“Our farmers are living in rural areas, and they are in poverty. They lack market access. If we can bring the market to them with a guaranteed price for the whole year, we are working towards poverty alleviation, we are working with rural development, and we are training the next generation of leaders.” ~Dr. Sunil Jayantha Nawaratne, director of human capital, youth development, and rural network***

- *Price Fairness*—To offer a higher-than-market price to farmers while keeping prices for customers low enough to serve lower- and middle-income groups, Cargills has had to expand to a scale unimaginable by many CFEs. It has been able to cut costs by increasing volume and gaining full control over the supply chain. By eliminating middlemen, the company can pass along to farmers and consumers the savings in transaction costs. Reflects Ranjit, “It’s difficult most of the time, but we managed to do it because of our better supply chain.”
- *Inexperienced Workers*—That a very high percentage of Sri Lanka’s workforce is under 25 years of age presents a challenge to every company in the country. Cargills took this problem and transformed it into an opportunity. By becoming a company with huge in-house training opportunities, it is now especially attractive for young people.
- *Technological Innovation*—To maintain all of the national and international certifications and stay on top

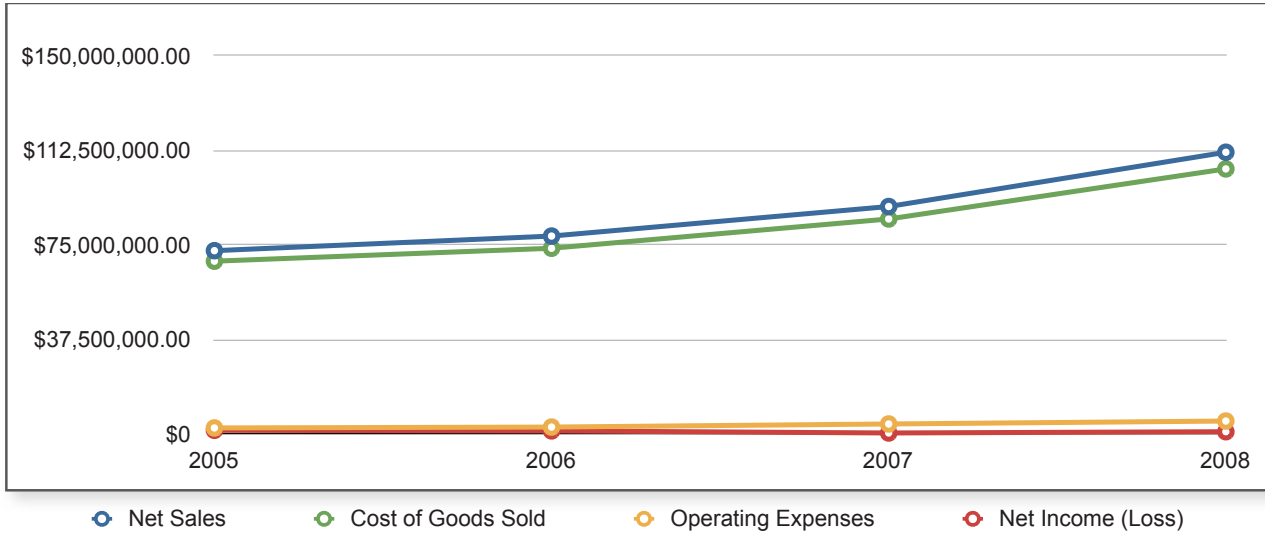
of its markets, Cargills has needed to “skill up”. One successful strategy has been to partner with universities to solve food processing problems. Another has been to bring in industry leaders from competitor countries like India to help learn about their innovations. The company has also started a food-business incubation program with the Chemical and Process Engineering Department of the University of Moratuwa, Sri Lanka.

- *Expanding into Agribusiness*—To date, Cargills has been in the business of purchasing agricultural products for processing and retailing. It has not engaged directly in farming or supplying farm inputs like seeds, agrichemicals, and farm machinery. Since these inputs are fundamental to profitable agriculture, Cargills has recently set up an Agri-business Center. The new Center aims to improve the standard of farming through production of quality inputs and through technology transfer.

A testament to Cargills’ impact is that other Sri Lankan companies are incorporating some of its practices. Cargills’ “graduates” are now in high demand in other food companies, particularly in the developing world. Ranjit himself is not content to see his model stay in Sri Lanka. He’s begun speaking at international conferences and has hosted a number of international research delegations.

“If the other companies also think like Cargills,” says Sunil, “we can meet the need of the hour which is to serve the nation. The private sector is the engine of the open economy. Public sector, private sector, and people’s sector need to work together for the prosperity of the community and country. ‘Peace and Prosperity through Public, Private, and People’s Participation,’—this is our slogan.”

## Financial Performance



Cargills' revenue growth has been accelerating over the past four years. Gross profit has held consistent at just under 6%, however net profit eroded slowly from 2.3% in 2005 down to just 1% in 2008, a worrying sign that SG&A (sales, general, and administrative expenses) costs are creeping up. Inventory turns have decreased in the three most recent years which could be contributing to the decline in net margin, but further investigation would be needed to verify that. One potential point of concern is that Cargills is also carrying quite a bit of debt, with current liabilities consistently exceeding current assets and financing costs that have been as much as half of EBIT (earnings before interest and tax).



## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• Paid/unpaid medical sabbatical with job security</li> <li>• Retirement plan for full-time employees at least partially paid for by company</li> <li>• Health insurance</li> <li>• Short-term disability</li> <li>• Sick leave</li> <li>• Paid vacation</li> <li>• Paid maternity leave</li> <li>• Health and wellness programs</li> <li>• Counseling services</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	Employers Federation, Ceylon Chamber of Commerce, National Chamber of Commerce
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy usage measured annually</li> <li>• Energy efficiency policies (5-9% energy saved last year due to policies)</li> <li>• 1-5% from renewable sources</li> </ul>
Membership in association(s) that foster environmental stewardship?	ISO 14001
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	No
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by a local institution</li> <li>• Supplies/services: 20-40% of expenditures (other than labor)</li> </ul>

# Fundación Paraguaya's Financially Self-Sufficient Organic Farm School

"We change peasants into rural entrepreneurs," says Martin Burt, executive director of Fundación Paraguaya, a nonprofit foundation that since 1985 has been providing micro-lending and sustainable training to Paraguay's farmers and other agricultural workers, as well as to women and young people.

Fundación Paraguaya's Escuela Agrícola Orgánica Financieramente Autosuficiente (Financially Self-Sufficient Organic Farm School, or "Farm School" for short) offers a solid high school education focusing on strong agricultural practices, business skills, and entrepreneurship. Its mission is "to impart practical and entrepreneurial education to poor farmers to empower them to succeed economically."

The school is located in Cerrito, an area outside the rural town of Benjamín Aceval, about 46 kilometers from Asunción, Paraguay's capital and largest city.

"What sets our model apart from other approaches," says Martin, "is that we have found a way to combine quality, relevance, and affordability. Our model offers high quality agricultural education at the secondary level, yet does not require poor students to pay any more than a token tuition fee. Other approaches either recognize the importance of quality but do not have a way to pay for it, or have found ways for the poor to pay for their education but cannot deliver quality."

## Business Model

"There's a natural assumption that the food chain starts with the farmer who knows how to farm," observes Nik Kafka, director of Fundación Paraguaya's sister organization, Teach A Man To Fish. "But the reality in most developing countries... is that that just isn't the case. The educational system is set up to deliver people a piece of paper that shows their academic prowess, but students aren't really learning how to be farmers, and this is the missing link in the food chain."

The Farm School is designed to be this missing link. It's a boarding high school for rural, low-income students that operates as an independent entity under the foundation's nonprofit umbrella. It employs 20 full- and part-time staff, including administrators, teachers, cooks, and other support personnel. Sometimes interns from around the world support the staff, offering additional training and services in exchange for room and board.

When Fundación Paraguaya first took over the ownership and operation of the Farm School in late 2002, it resolved to walk the talk of entrepreneurship—to make the school market-driven and financially self-sufficient. It immediately stopped taking state money. It did raise some grant money from the Skoll Foundation, the Peery Foundation, AVINA



Santia Role Schaffer

## At a Glance

<b>Where</b> Cerrito area outside Benjamín Aceval, Department of Villa Hayes, Paraguay	<b>Year Founded</b> 2002
<b>What</b> Rural agricultural high school specializing in entrepreneurship	<b>Number of Employees</b> 20
<b>Founders</b> Fundación Paraguaya	<b>Total Revenues</b> US \$310,516.47 / 1,446,280,704 Paraguayan guaraníes (PYG)
<b>Website</b> <a href="http://www.fundacionparaguaya.org.py/">http://www.fundacionparaguaya.org.py/</a>	



(which stands for acción, vida y naturaleza, or “action, life, and nature”) and other entities, but viewed these as investments in its social enterprise.

Besides maintaining self-sufficiency, the school has two other express missions. One is to give students agricultural skills, so that they can become successful agricultural extension agents, to start their own food businesses, or to teach responsible agricultural methods in their own communities. Another is to promote and replicate their model of a self-sufficient agricultural school elsewhere in Paraguay, Latin America, and globally.

To achieve self sufficiency, the school developed 16 sub-enterprises on campus, including a hotel, a dairy, a restaurant, and a farmers market stand. Each of these enterprises is designed to provide experiential education for the students and to generate additional revenue for the school. For example, Hotel Cerrito and its surrounding chalets can accommodate up to 140 guests at once, and can be used as a conference center and a destination for tourists and travelers. The facilities generate up to 30% of the school’s annual revenue, but also train students interested in hotel management and hospitality. The school’s dairy processes the milk produced on campus into dulce de leche, yogurt, and cheese. Students make the products, bring them to market, and sell them, which gives them experience with food processing, packaging, and retail.

Community experience is regarded as one of the best teachers. For example, students must take turns running the school’s farmers market stands. By being involved in local markets, students learn customer service, merchandising, financial management, and production, all while meeting people in the community. “It’s important for students to hear and learn to decipher and interpret the messages the market sends them,” explains Jose Luis Salomón, director of the Farm School from 2002-2007. “Our greatest teacher—the market—gives us big, important classes all the time.”

Other Farm School programs give students more than just rudimentary skills. They teach students how to meet Grow Biointensive organic standards, which employ intensive soil conservation practices to produce more food on less land. They introduce students to AgroWin, a basic software program designed for farmers to easily organize and analyze accounting, budgeting, inventory, and production data. The school also introduces students to solar energy, composting, and vermiculture (farming with worms).

According to Luis Fernando Sanabria, the chief operating officer of Fundación Paraguaya, “The number of employees

<b>Business Model Overview</b>	
<b>Sector</b> Service (education) and production	<b>Market</b> Local
<b>Ownership Type</b> For-profit enterprise under nonprofit ownership	<b>Customers</b> <i>School:</i> Students come from surrounding area; <i>Food products:</i> School itself and surrounding communities
<b>Local Ownership</b> Yes (100%)	<b>Niche(s)</b> Revenue-generating school through student-run enterprises, youth vocational and entrepreneurship training, experiential education, rural economic development, organic and Grow Biointensive organic production
<b>Products</b> <i>Service:</i> Entrepreneurial training for students; hotel accommodations; restaurant; <i>Products:</i> Range of produce items, dairy products, and eggs	

has been maintained or reduced—and in this sense we have gained efficiency. Sales volume has increased substantially. In five years, the school’s income level has tripled and it has increased not only its productivity but also the variety of campus enterprises.”

By 2007, the Farm School reported an annual growth rate of 10-15% and annual revenue reached US \$300,000—an operational break-even point. The school now operates debt-free and has also generated a cash reserve to be used for teachers’ retirements.

The school takes its community relationships very seriously. For instance, with the exception of durable goods like vehicles, computers, and hardware, the school purchases all of its supplies locally—within an hour’s drive—and teaches its students how to best use local resources. As a community-based employer, the Farm School tries to hire its instructors locally and provides them with good salaries. The school has played a role in improving the local food system, generating nearly 70% of its income by selling locally grown organic food to local markets. It is also very conscious of its energy impact on the surrounding community, and strives to minimize its carbon footprint with its new solar energy panels and composting program.

For Paraguayan communities generally, the school has become an invaluable resource. According to Fulbright scholar Sarita Role Schaffer, who lived at the Farm



Students of the World

School and studied its operations for two years, “Each year the school graduates roughly fifty young people who return to their communities not just to grow food, but to transform their local food systems by launching rural enterprises that introduce innovations at all points on the food supply chain. The Farm School graduates inject their communities with the vital intellectual inputs required to generate lasting social, environmental, and economic wealth from locally available resources.”

## History & Drivers

In the early 1950s, the San Francisco Missionary Brothers, a small Franciscan congregation, founded La Escuela Agrícola San Francisco de Asís, a parochial boarding school for the area’s poor boys. By 1980, the school had 70 students, 62 hectares of partially-forested yet cultivatable land, and 7,000 square meters of facility and conference space. It had also run into the ground financially. The Congregation of the LaSalle Brothers, another local congregation, took over the school, but again became mired in money problems and prepared to shut it down in 2002.

Around this time, the leaders of Fundación Paraguaya met at their annual staff retreat. When they learned that the Farm School was on the verge of closing, they saw an opportunity. Why not reinvent the school as a model for teaching sustainable agriculture?

As a condition for buying the school, the foundation made a commitment to educate rural kids in a boarding school model; to develop new sustainable business programs for teaching purposes; and to rebuild the school’s finances, facilities, and training programs. And Fundación Paraguaya committed to weaning the Farm School back to financial health in five years or less.

Within the first year, Fundación Paraguaya rejected state subsidies, rewrote the curriculum and got it approved by the Ministries of Education and Agriculture and Livestock, transitioned to organic farming practices, and made the teachers more accountable to the financial health of the institution. In 2006 the school went co-ed. In 2007 it created a cluster of campus-based, revenue-generating enterprises so that the school could operate financially self-sufficiently. In 2008 the Ministry of Education granted the school permission to issue its graduates certificates in Hostelry and Tourism, in addition to the certificates in Agriculture and Training Technicians.

The school has recently begun attracting international attention. According to a 2008 report of the Inter-American Development Bank: “[The school] achieves its value proposition of making a systemic change in the educational system to offer high quality technical entrepreneurial education to underprivileged Paraguayan youth who graduate with usable skills they can immediately apply on their family farm, in a new business venture, as an employee in the agricultural industry, or in university while also having access to credit and follow-up services.” The school also placed second



Students of the World



Students of the World

in the 2008 BBC World Challenge, which highlights the world's best small businesses and enterprising projects.

## Key Challenges & Lessons

The Farm School understands that being enterprising means identifying and confronting challenges head-on. Here's what tops its list of current challenges:

- *Maintaining Self-sufficiency*—As the owner of the Farm School, Fundación Paraguaya still provides the school with support, both in-kind and financial, when needed. It remains committed to growing the school's self-reliance, to diversifying its revenue stream, and creating a model that can be transported to other impoverished rural areas worldwide.

***As a condition for buying the school, the foundation made a commitment to educate rural kids in a boarding school model; to develop new sustainable business programs for teaching purposes; and to rebuild the school's finances, facilities, and training programs. And Fundación Paraguaya committed to weaning the Farm School back to financial health in five years or less.***

- *Teaching Teachers*—Currently, many of the school's teachers, instructors, and staff come from the surrounding communities. Many arrive with a good understanding of rural, agricultural Paraguay, but they still need to be trained by the foundation in how to best use experiential learning to develop entrepreneurial skills. "Before you can educate the children, you need to start educating the teachers," notes Nik Kafka.
- *Supplies*—Although the school has computers, internet access, and training software, basic classroom instruction is done with rudimentary supplies. Having only a limited supply of even pencils and paper makes it challenging to teach the latest approaches to business management.

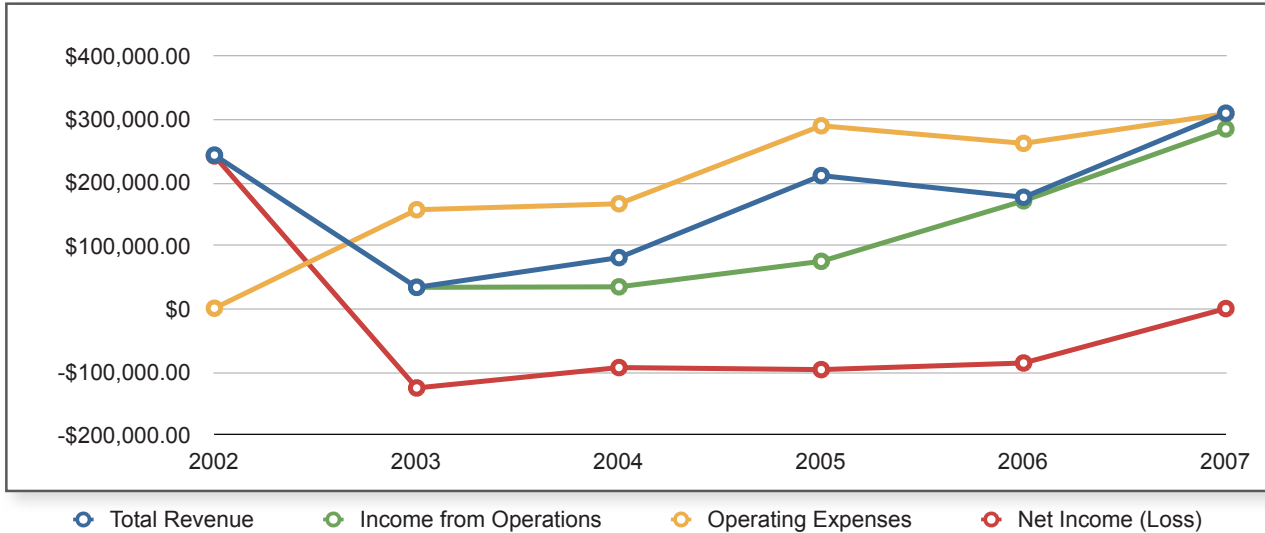
In 2005, Fundación Paraguaya created the sister organization Teach A Man To Fish (TAMTF) to help other communities, both regionally and internationally, develop similar educational institutions. Part of TAMTF's work is crafting a toolkit for each participating school, which has enabled parts of the Farm School to be effectively replicated at Escuela Agrícola San Isidoro Labrador in Paraguay as well as in seven other schools in Brazil, Nicaragua, Bolivia, and South Africa.

TAMTF emphasizes four elements: educate teachers about sustainable agriculture and entrepreneurship; focus the curriculum on both academic learning and business training; identify niches in the local market that teachers and students can use to create workable business plans; and engage all stakeholders—from students to teachers to families to the nearby residents—to position the school for success.

"The Financially Self-Sufficient Organic Farm School is not a pilot, it's a paradigm," says Nik proudly. "It's self-sufficient, which means it is endlessly replicable.... It's literally a revolution in the making and with potentially the same impact as the microfinance revolution. For the people who got in early on microfinance, they're the ones

with the biggest smiles on their faces today. And the people who get in early on education that pays for itself will be the people smiling very happily in twenty or thirty years, too."

## Financial Performance

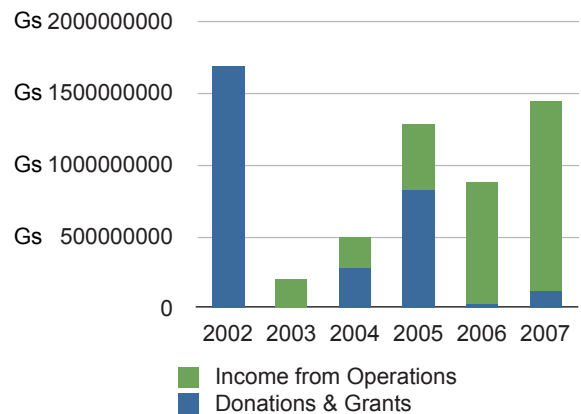


The Self-Sufficient Organic Farm School appears to be moving toward self-sufficiency. Income from operations has grown strongly each year since they began, and has gone from covering 20% of operating expenses in 2002 to 92% in 2007, a positive sign that they will be able to reduce and potentially eliminate their reliance on grant and contribution funding. This is fortunate given that revenue from grants and contributions has been somewhat erratic, which could complicate the financial health of the business over time. Balance sheets were not available for analysis.



Sarita Role Schaffer

## Balance Between Earned Income & Grant Income





## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Category	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	No established mechanism. Employees "sometimes" included in strategic management decisions.
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• Retirement plan for full-time employees at least partially paid for by company</li> <li>• Health insurance</li> <li>• Dental insurance</li> <li>• Life insurance</li> <li>• Short-term disability</li> <li>• Paid sick leave</li> <li>• Paid vacation</li> <li>• Paid maternity leave</li> <li>• Paid paternity leave</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	None
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy usage measured annually</li> <li>• Energy efficiency policies</li> <li>• 5-25% from renewable sources</li> </ul>
Membership in association(s) that foster environmental stewardship?	Not formally, but follows Grow Biointensive organic standards
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	No
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by a local institution</li> <li>• Supplies/services: 40-60% of expenditures (other than labor)</li> </ul>

## Kasinthula Cane Growers Limited

“Very shaky.” That’s how Brian Namata describes the financial situation now facing Kasinthula Cane Growers, Limited (KCGL), a producer-owned limited liability company where he serves as general manager. Yet KCGL also contains elements of a business model that, with a little tweaking and luck, could yet prove very successful.

Growing commodity sugarcane is always hard work, but it’s especially true in Kasinthula in southern Malawi, one of the poorest regions of one of Africa’s poorest countries. The region is beset by perpetual drought, and when it does rain, it floods. Irrigation systems are very basic and farmers are accustomed to farming for their own subsistence, not for commerce. Despite these challenges, sugar is one of Malawi’s top three exports, usually trailing only tobacco in volume and revenue.

KCGL is the country’s second biggest cooperative in the sugar industry—involving 282 farmers—and is also the world’s first non-organic cane sugar company certified by Fairtrade Labelling Organizations International (FLO). Its mission is “to grow quality cane for sugar production and earn increased returns with the aim of not only improving the farmers’ livelihoods but also those of the people within the greater Kasinthula area in line with government’s initiative to reduce poverty among rural communities.”

Although KCGL is providing its farmer-members with great opportunities, impressive community development initiatives, and certified fair trade sugar, KCGL must overcome an enormous, unwieldy debt that threatens both the company and its members’ livelihoods.

### Business Model

KCGL is an “operative company” founded and governed by the Shire Valley Cane Growers Trust. The Trust leases 755 contiguous hectares of sugarcane land from the Malawian government, and KCGL manages the land on behalf of the Trust. In partnership with Illovo, one of Africa and the globe’s biggest sugar exporters, the Trust owns 95% of KCGL, while Illovo owns the remaining 5%.

KCGL itself has an operating board of nine members, one-third of which are farmer representatives who report back to the Trust. A general manager runs the company’s daily operations. Various committees of farmers also contribute to management. Committee membership is determined by elections, which happen every three years, with special efforts made to engage women. From 1999 through 2007, KCGL used a local management company to run daily operations, but starting two years ago employees took control. Production follows a block farming system, with the Trust’s estate divided into two farms, each headed by farm



Gary Garriot

### At a Glance

<b>Where</b> Kasinthula, Chikwawa District, Malawi	<b>Year Founded</b> 1997
<b>What</b> Sugarcane production	<b>Number of Employees</b> 900 in peak growing season
<b>Founders</b> National government of Malawi and Illovo Sugar Corporation	<b>Total Revenues</b> U.S. \$2,900,000 / 410,350,000 Malawian kwachas (MWK)
<b>Website</b> n/a	



managers and supported by an accountant and a human resources administrator.

There are currently 282 farmers who are members of the Trust, one-third of them women. As a benefit of membership, each farmer is guaranteed a plot of land (2.7 hectares on average), which is subleased from the Trust for 25 years. The cost of operating the Trust is shared by the farmers and deducted from their revenues. The farmers work their own plots, though some employ additional labor.

In the peak production season (April-November), KCGL employs nearly 900 people. The company operates with a commitment to transparency, regularly communicating to farmers how much sugarcane has been cut and how much more is needed, so farmers can balance supply and demand effectively. The company also assists farmers with a significant operating infrastructure, including irrigation systems, pumping stations, and reservoirs. Illovo processes the sugarcane into sugar and handles all the marketing and most of the sales.

KCGL distributes all its profits to the owner-members. This feature enabled KCGL to become, in 2002, the first non-organic sugar company to be certified fair trade by Fairtrade Labelling Organizations International (FLO). Illovo now sells 100% of KCGL's sugar internationally under a variety of labels including Fair Trade Golden Granulated, Cooperative Fair Trade White Sugar in the United Kingdom, and Wholesome Sweeteners in the United States.

To get KCGL off the ground with the necessary capital, Illovo and the Malawian government secured two loans, in 1999 and 2000; one from the European Investment Bank for €3.5 million (US \$3.76 million), and another from Illovo Group Holdings Ltd. for €3.5 million (US \$3.76 million). The loans had a manageable repayment schedule that was worked into KCGL's business plan. In the first year, KCGL farmers serviced their loans appropriately. But in 2000 the national currency collapsed and the loans, denominated in major foreign currencies, ballooned. Moreover, confusing language in various loan agreement documents suggested that farmers might be individually liable for repayment. The latest documents clearly specify KCGL as the responsible party.

Without the loan repayments, Brian says, "KCGL is profitable with total revenues of 410 million kwachas (US \$2.9 million) in 2008. But include the loans and KCGL is technically bankrupt. And yet, the government cannot let the company collapse, because it will be suicidal to do so politically."

While the government is party to the loans, the current

## Business Model Overview

<b>Sector</b> Wholesale Production	<b>Products</b> Sugarcane
<b>Ownership Type</b> A limited liability company (LLC) owned by a smallholder farmers' trust	<b>Market</b> Export
<b>Local Ownership</b> Yes, 95% (Shire Valley Cane Growers Trust: 95%; Illovo Sugar Corporation: 5%)	<b>Customers</b> Illovo Sugar Corporation
	<b>Niche(s)</b> Fair trade, public-private-farmer partnership, guaranteed supplier and buyer relationship

outstanding balance is proving too difficult to service. So the Trust is currently seeking to expand its revenue and ease the payoff situation by recruiting new members. To this end, the government has set aside 550 additional hectares. The Malawi Ministry of Agriculture continues to work closely with the Trust and KCGL; besides involvement in the loan negotiations, the Ministry also has representation on the Trust Board. This additional land will be developed through a recent €2.5 million grant from the European Union.

In cooperation with Fairtrade Labelling Organizations International (FLO), KCGL has developed a larger plan to allocate fair trade premiums to building materials for farmers, infrastructure for the company, and investment in the community. In the third category, the company has thus far built wells for safe drinking water, allowing local families to avoid crocodile-infested rivers as their primary water source. It has also brought electricity to small villages, expanded a medical clinic at Kasinthula, made essential drugs available through the clinic to members of the community, provided HIV/AIDS education and treatments, and offered emergency aid during natural disasters. Communities hope to use their fair trade premiums to build a school and provide scholarships.

FLO also works with KCGL to help them minimize their environmental impact. The company is promoting waste reduction, and wants to undertake a massive tree-planting effort in the area. KCGL farmers have started to use more environmentally appropriate herbicides and fertilizers, and farmers are encouraged to use manure and other natural fertilizers. There are also plans to create land stewardship and sustainable farming training programs.

KCGL farmers recognize the benefit of fair trade and the direct impact it has had on their community. In a YouTube



Gary Garriott

video from the field, one farmer says, “Before fair trade, we were just farming sugarcane. It was very hard before. There was no money. But this time, we get things [we need] easy. .... This time, we are happy.” These efforts, directly related to fair trade certification, have strengthened the loyalty of the farmers to KCGL, and their willingness to share its operational costs.

## History & Drivers

KCGL goes back to the early 1990s, when Illovo, a South African sugar exporter, was looking to increase sugar production in Malawi. Illovo had just finished developing Alumenda Estate to south of its Nchalo Sugar Mill in the southern part of the country. “They wanted to expand further after developing the Alumenda Estate,” remembers Brian, “but to do so they would have had to evict the people around the estate as there was hardly any unoccupied land. So they had to find a role for these people, and provide them employment.”

Illovo offered people in the surrounding villages an opportunity to become growers to supply its mill with sugarcane—an offer which they ultimately refused for fear they would lose their lands to Illovo. Their decision was perhaps influenced by a period of wider instability in the country, as Malawi was transitioning from a one-party to a multi-party political system.

At the same time, many rice cooperatives throughout the country were disappearing due to mismanagement. Among those collapsing was the rice cooperative near Kasinthula. So the Kasinthula rice farmers initially approached Illovo with the idea of becoming sugarcane farmers instead. The government helped them by forming a public-private partnership to work the land. “The government decided it was a good idea,” recalls Brian, “given all of the political and thus economic change in the country, and then they approached the company together.”

These farmers eventually became the founding members of KCGL and the Trust in 1997.

## Key Challenges & Lessons

Clearly, KCGL’s biggest challenge is determining how to best manage its debt, and this challenge overshadows all of the company’s other goals. “We would like to increase the number of farm families and make sure that the home cash for members is increased,” laments Brian, “but this can only be achieved if the original loans KCGL obtained are dealt with.” All of the affected parties—the government, the Trust, KCGL, and Illovo—are trying to find a permanent solution to the debt problem. Current projections are that all of the loans can be paid off by 2014-2016.

Even if the debt problem is taken care of, other challenges remain:

- *Mounting Production Costs*—Rising production costs have shrunk farmers’ margins. KCGL farmers are trying to address



Frank Jumbe



Frank Jumbe

this by cutting their labor overhead and limiting the number of extra workers they bring on. That means that KCGL farmers are now doing more of the production work themselves.

- *Building a Sophisticated Business*—There are doubtless other ways KCGL farmers can increase their productivity, but Brian remains concerned that the farmers do not have enough business skills or acumen: “Many from the rural areas think that all the money generated by the company is profit, without understanding the costs that need to be covered—hauling, processing, machinery, and repairs.”

***KCGL farmers recognize the benefit of fair trade and the direct impact it has had on their community. [O]ne farmer says, “Before fair trade, we were just farming sugarcane. It was very hard before. There was no money. But this time, we get things [we need] easy..... This time, we are happy.”***

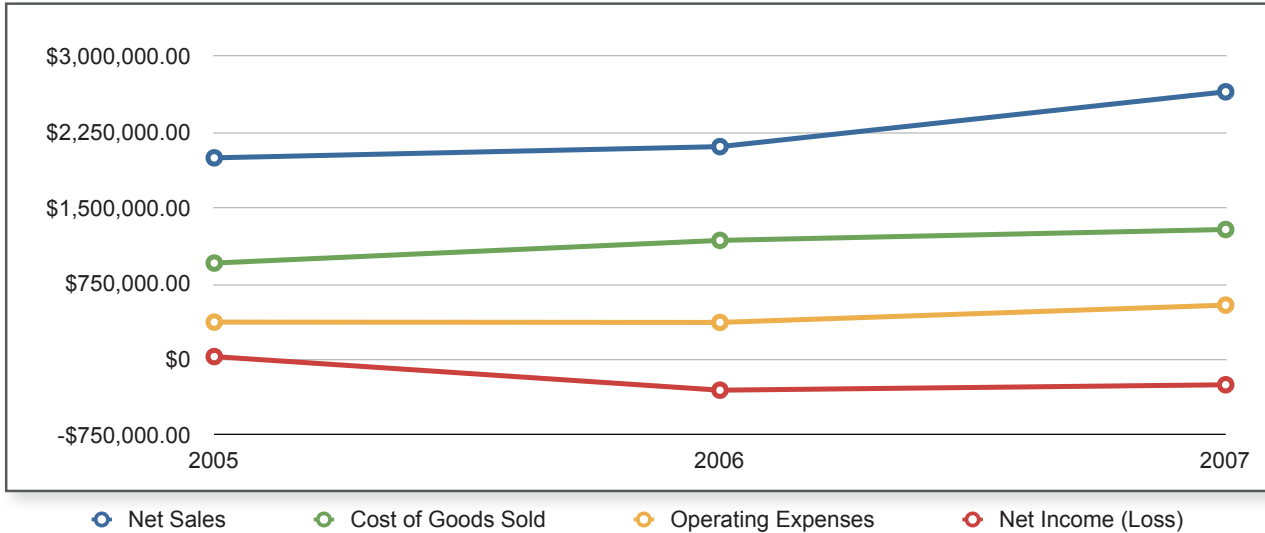
- *Changing Market*—The international market for sugar is exceptionally volatile. One consequence is that international subsidies are constantly being readjusted. For instance, at the request of the World Trade Organization, the EU recently eliminated sugar subsidies. By 2012 Malawi will no longer sell its sugar to the EU under preferential terms, so the price of sugar is predicted to fall nearly 30%. This will significantly impact KCGL’s bottom line.
- *Selling Directly*—All KCGL sugar reaches the international market through Illovo. While another exporter could be useful, in this case, it is complicated since Illovo is also the guarantor of the farmers’ debt. Until KCGL pays off its debt it will be unable to sell to profitable markets directly. But when it does, an agreement may be reached for Illovo to process the sugar with KCGL taking on more of the marketing function.

If KCGL does overcome its debt problems, it will represent an intriguing business model for other countries dependent on export of one food commodity. That it has turned around such a messy industry—with horrible, often unimaginable working conditions and with so many farmers in deep poverty—suggests that a modified cooperative model might be applicable elsewhere.

Through Trust ownership of their company, KCGL farmers pool their efforts, purchase shared irrigation equipment and tractors, and access operating credit from commercial banks that wouldn’t be available if they sought loans independently. And Trust ownership empowers members to have a voice in how the business operates at every link in the value chain.

Becoming fair trade certified and upholding the responsibilities required to maintain that certification have also given KCGL access to wider markets—and its farmers access to more opportunities.

## Financial Performance



*Kasinthula Cane Growers' financial position is precarious. While sales have increased year over year and gross margin is strong, they posted net losses in 2006 and 2007, liabilities have exceeded assets for these three years, and they have no equity. Their current financing is creating the problem: interest expense has taken them from operating profit to net loss in 2006 and 2007, and caused them to barely break even in 2005. For this business to survive and become sustainable they must find a lower-cost way to finance the business. Without the serious debt payment issues detailed above, this would be a profitable enterprise.*



Frank Jumbe



Gary Garriott

## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Paid/unpaid medical sabbatical with job security</li> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• Retirement plan for full-time</li> <li>• Short-term disability</li> <li>• Paid sick leave</li> <li>• Paid vacation</li> <li>• Paid maternity leave</li> <li>• Health and wellness programs</li> <li>• Counseling services</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	Fair trade certification through Fairtrade Labelling Organizations International (FLO)
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	No
Membership in association(s) that foster environmental stewardship?	Fair trade certification through Fairtrade Labelling Organizations International (FLO)
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by a local institution</li> <li>• Supplies/services: 1-20% of expenditures (other than labor)</li> </ul>

## Kuapo Kokoo

“The vision of our cooperative is to become a leading, caring, efficient farmer-based organization and the most globally recognized cooperative in cocoa production and marketing.” That’s how Paul “PCK” Buah, president of the Kuapa Kokoo Farmers Union, describes his community food enterprise’s mission in a 2007 annual report. As Ghana’s largest farmer cooperative, representing 45,000 cocoa growers, Kuapa Kokoo aims to be a “formidable Farmer-Based Organization” that can “mobilize and motivate its stakeholders to produce and market quality cocoa and cocoa products, improve members’ livelihood, and satisfy consumers.”

Kuapa Kokoo also owns 45% of its own chocolate company in the United Kingdom and a 33% of its sister company in the United States. “Our business is one hundred percent controlled locally,” says PCK. “Our farmers control what they produce and sell. This mode of operating allows us to control our own product and how it is marketed in order to optimize our profits and dividends, and through that, sustain our existence and survival.”

Kuapa Kokoo is one of the world’s first fair trade-certified, farmer-owned organizations, and is the first to be the majority shareholder in its own chocolate company. The fair trade movement aims to minimize the role of the middleman and return the savings to farmers, which is in line with Kuapa Kokoo’s commitment to raising the standard of living of thousands of Ghanaian cocoa farmers.

### Business Model

Kuapa Kokoo’s farmers come from 1,300 village-based “societies” in five out of Ghana’s six major cocoa producing regions. The typical farm is 1-20 acres and is mostly worked by hand. The typical grower is about 40 years old. Under the company’s guidelines, members own 100% of Kuapa Kokoo and most of its sub-companies.

Kuapa Kokoo has five distinct operations, four based in Ghana. The Farmers Union (KKU or KKFU) represents all of Kuapa Kokoo’s cocoa production farmers, creates opportunities for women farmers, and promotes sustainable agricultural practices. Kuapa Kokoo Limited (KKL) is the commercial trading wing of the Farmers Union. Kuapa Kokoo Farmers Trust (KKFT) is a trust fund which receives and distributes fair trade premiums and other funds for farmers and their communities. Kuapa Kokoo Credit Union (KKCU) enables members to access credit and to establish savings accounts.

The fifth business arm, Divine Chocolate, is also owned by Kuapa Kokoo members, though only partially. It’s a chocolate marketing and distribution company that buys cocoa from Kuapa Kokoo farmers, processes it into premium chocolate,



All photos by Divine Chocolate LTD

### At a Glance

<b>Where</b> Throughout Ghana (main office in Kumasi)	<b>Year Founded</b> 1993
<b>What</b> Cocoa-producing cooperative; international chocolate marketing and distribution company	<b>Number of Employees</b> 300 staff, 45,000 members
<b>Founders</b> Nana Frimpong Abebrese II	<b>Total Revenues</b> US \$77,711,409.47 / 699,472,632,510 Ghanian cedis (GHC)
<b>Website</b> <a href="http://kuapakokoogh.com">http://kuapakokoogh.com</a>	





and markets it as fair trade products in United Kingdom and the United States. By establishing and owning a 45% share in Divine Chocolate UK and 33% of Divine Chocolate USA, and putting resources into promoting the brand, Kuapa Kokoo has essentially guaranteed an international market for its cocoa and a reliable value for its product.

PCK notes that the company's primary revenue sources come from modest membership dues and direct cocoa sales. Kuapa Kokoo is now the world's largest supplier of fair trade-certified chocolate and receives revenue from fair trade premiums, some of which are facilitated through sales made under the Divine Chocolate label. In 2007 alone, Kuapa Kokoo provided £47,379 (US \$92,981) in distributable profits from Divine Chocolate to its members.

Even though all of Kuapa Kokoo's cocoa is produced under fair trade conditions, the amount sold as fair trade cocoa really depends on market demand, which is very unstable. Ultimately Kuapa Kokoo's profit margins and member dividend returns are based on prices set by CocoBod, the country's only state sanctioned cocoa purchaser and international distributor.

Through Divine Chocolate, Kuapa Kokoo supplies cocoa for chocolate in Starbucks (United Kingdom and Europe) and The Co-operative (United Kingdom). Kuapa Kokoo products are also available as ingredients in other well known international brands. The Body Shop, one of the original investors in Divine Chocolate, uses Kuapa Kokoo products in their cocoa-based body care products. Cadbury's, the world's biggest confectionery company, is starting to use Kuapa Kokoo cocoa in one of their lines of fair trade chocolate bars. The Fairtrade Labelling Organizations International (FLO) continues to have a strong, almost mentor-like relationship with Kuapa Kokoo, and is continually cultivating appropriate international partnerships.

Kuapa Kokoo's stated core values include "Transparency, Democracy, Equality and Equity, Commitment and Care for the Community." It tries to comport with these values by offering advanced training to its members, providing equal opportunity and empowerment to women, and tangibly reinvesting profits into the community.

Kuapa Kokoo's technical training educates members about how to employ more efficient and sustainable agricultural practices, and how to decipher and understand the global cocoa market. Over 10,000 Kuapa Kokoo members have taken advantage of these programs.

Kuapa Kokoo is committed to having members represented at every level throughout the organization. There is a

## Business Model Overview

### Sector

Production and wholesale (in Ghana); marketing and retail (in the United Kingdom and the United States)

### Ownership Type

Cooperatively owned: farmers union, credit union, trust fund; private licensed buying company (LBC); private multi-owner chocolate company

### Local Ownership

Regional (100%) for cooperative portions of the business

### Products

*Production and wholesale:* Unrefined cocoa powder;

*Marketing and retail:* A variety of finished cocoa and chocolate products

### Market

Export, largely to the United Kingdom, northern Europe, and the United States

### Customers

*Production and wholesale:* Kuapa Kokoo Limited;  
*Marketing and retail:* Wide range of retail locations throughout the United Kingdom and the United States

### Niche(s)

fair trade; farmer ownership of wholesale cocoa purchasing company and chocolate retail company

specific grievance procedure whenever something goes awry.

The cooperative is also committed to offering equal opportunities to its women members. Although membership is 70% men, Kuapa Kokoo by-laws require that women be equally represented at every level of the company, from the village-based society committees to the highest level boards. Out of 20 National Executive Council members, 12 are currently women. It is also developing new income-generating programs for women during the harvest off-season.

Access to fair trade premiums has enabled Kuapa Kokoo to provide income-generating opportunities to its members. For example, members can buy low-cost corn mills as well as palm kernel machines, which crack palm kernels mechanically instead of by hand. Good quality scales, which allow farmers to record and document their own harvests rather than relying on a broker, are also made available to each village society. Kuapa Kokoo has also deployed its fair trade premiums to build primary schools, safe drinking wells, and mobile medical clinics in rural Ghana.



As Kuapa Kokoo grows its staff, membership, and business, it also grows its benefits to its members. In a sense, the company has created a positively reinforcing series of efforts. The Credit Union, Farmers Union, Limited Board, Trust, and Divine Chocolate all work together to benefit members and grow the overall business. For instance, by offering a credit union, members can get the credit they need to expand their production, which in turn, benefits the entire cooperative. Kuapa Kokoo is also encouraging its farmers to adopt more sustainable agricultural products that are not as taxing to the land and the soil. These include planting trees, avoiding overly mechanized harvesting processes, and protecting surrounding forest lands. Production waste from the actual cocoa pod is reprocessed into soap or compost.

“We are a good corporate citizen,” PCK says. “We have invested hugely in social development projects by building schools and installing internet facilities, as well as providing potable water in many communities where we have societies.”



## History & Drivers

Ghana has been producing cocoa since the mid-19th century, and today is the world’s second largest cocoa producing country. Until the 1990s, however, the cocoa purchasing system in Ghana was controlled by Cocomob, a state sponsored organization which served as the country’s sole purchaser of the commodity. In 1992, Cocomob liberalized the country’s markets and opened up cocoa sales to state licensed organizations. These organizations eventually sell back to Cocomob, but help make the market somewhat more competitive.

In 1993, Nana Frimpong Abofren II, an executive board member of Cocomob charged with representing Ghana’s cocoa farmers, was concerned that liberalization left the farmers in a very vulnerable position. He was convinced that a cooperative model, where farmers would also be owners and decision makers, could help. So began Kuapa Kokoo. Soon 22 village-based societies joined the cooperative.



Twin Trading, a British nonprofit interested in fostering community-based economic opportunities in developing countries, offered Nana technical support to help launch Kuapa Kokoo. Demand met supply, and by 1996 Kuapa Kokoo became one of the first commodity cocoa companies to receive fair trade certification. It then established a Trust to manage the fair trade premiums and payments.

Two years later, in 1998, with a £400,000 (US \$671,000) loan from The British Department for International Development, Twin Trading, and Kuapa Kokoo teamed up to put together a manufacturing company, The Day Chocolate Company, in the UK, the world’s second-highest chocolate consuming country. Kuapa Kokoo cooperative members owned one-third of the company—a first in the world of cocoa processing—putting the farmers higher

up the value chain. The initial loan was repaid in full a few years later, and the farmer ownership share has since grown to 45% because The Body Shop donated its shares to Kuapa Kokoo. Other initial investing partners in Day Chocolate included Comic Relief London and Christian Aid.

For The Body Shop, a global company that tried to pioneer socially responsible behavior, investing in Day Chocolate was a social entrepreneurship opportunity and a way to demonstrate their support for more equitable trade with farmers.

The Day Chocolate Company was eventually renamed Divine Chocolate, and in 2007 it opened its second international operation in the United States. That was also the year that Kuapa Kokoo paid the first round of Divine Chocolate dividends to its members.

***By establishing and owning a 45% share in Divine Chocolate UK and 33% of Divine Chocolate USA, and putting resources into promoting the brand, Kuapa Kokoo has essentially guaranteed an international market for its cocoa and a reliable value for its product.***

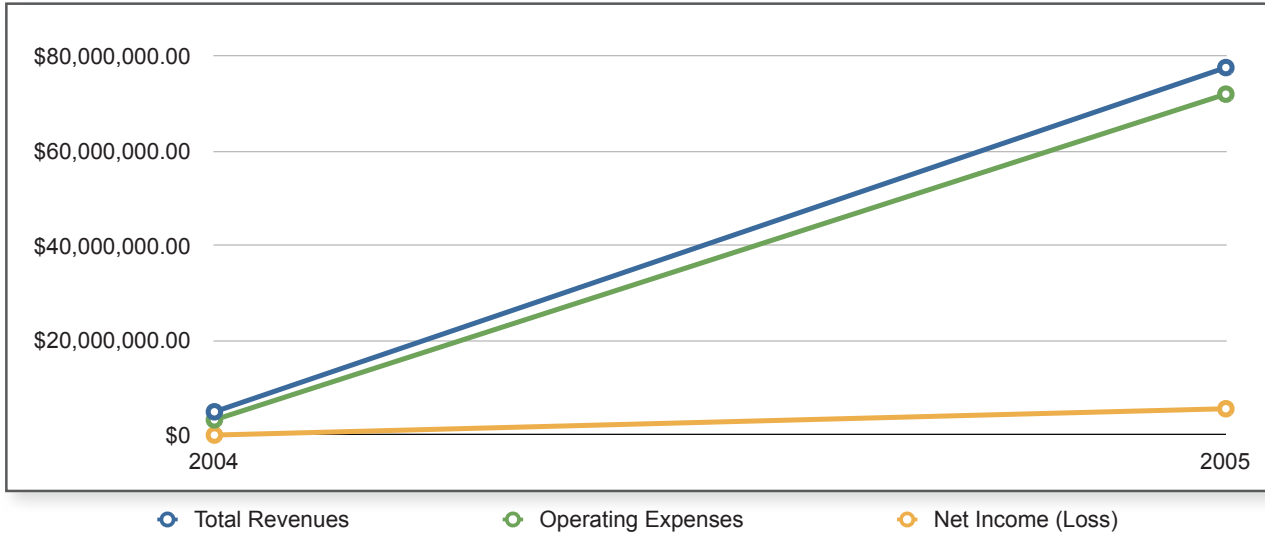
The success of Kuapa Kokoo in recent years, however, was temporarily stalled by the collapse of the Ghanaian local currency in 2006, which nearly quadrupled the company's operating debt load and affected its capital and financial overlay. The company recovered, but posted a weaker performance in 2007. Now that the currency appears to be stabilizing, the company's numbers are rebounding.

### **Key Challenges & Lessons**

Kuapa Kokoo wants to be the world's premiere cocoa cooperative. It sees evidence of progress in the number of national and international visitors who come to learn about how the business runs. But despite its successes, the company continues to struggle with a number of serious challenges:

- **Competition for Suppliers**—Within Ghana, competition for farmer sales is increasingly tough, bidding down the price fetched by cocoa growers. While the government's CocoBod is the only authorized purchaser of bulk cocoa, there are now more than 20 Licensed Buying Companies (LBCs) that purchase from farmers and sell to CocoBod. What's more, the largest private LBC in Ghana has a 30% market share and is owned 100% by CocoBod itself.
- **Cash Benefits**—Over the past several years, demand has grown among Kuapa Kokoo's member farms for cash payouts from fair trade premiums rather than social investments in infrastructure and community. When Kuapa Kokoo can't provide any significant cash benefits, or when it has delays in delivering dividends, it further undercuts its competitiveness and helps drive members to sell to other LBCs.
- **Managing Debt**—Although Kuapa Kokoo has paid off its original loan from Twin Trading, it still occasionally takes out smaller loans from local banks for various projects. Sometimes the loan terms are not favorable, such as a current loan at 27-28% interest for buying cocoa from farmers. What's more, the Kuapa Kokoo Credit Union is facing a credit crunch as farmer demand for loans has dropped in response to the going interest rates. Like many small businesses in developing countries with
- unstable currencies, Kuapa Kokoo has to balance the need for capital with the accompanying shifting debt burden and their ability to loan to farmer members. Finally, no matter how successful Kuapa Kokoo may be, it remains vulnerable to Ghana's weak currency.
- **Expanding Fair Trade**—Although Kuapa Kokoo was one of the world's first fair trade-certified cocoa companies, it only sells about 18% of its output at fair trade prices. Growing this market share will allow more Kuapa Kokoo farmers to reap more benefits from fair trade premiums. But the fair trade system is imperfect. The premium has remained constant at \$150 per ton for a number of years, even as costs have increased. Further, the cost of fair trade labeling is high at €15,000 (US \$22,000) per year, and Kuapa Kokoo will need to implement expensive traceability standards to meet new EU regulations.
- **Organic Market**—Kuapa Kokoo would like to expand into organic production given the increasing international demand for organic cocoa and chocolate. But CocoBod has yet to acknowledge organic certification or a willingness to purchase organic cocoa at a premium price. Until CocoBod allows for organic premiums in the Ghanaian marketplace, Kuapa Kokoo won't effectively

## Financial Performance



Due to a leadership transition in 2006 and 2007, and the Ghanaian currency crash in 2006, complete financial reports from FY2006 and 2007 were not available. Given the financial information that was available, it is difficult to obtain a solid understanding of Kuapa Kokoo's financial situation. Complete, audited financial statements were available for two years; however, in one of those years, data was reported for an 18 month period instead of for 12 months. The primary revenue engine for the cooperative is Kuapa Kokoo Limited. In the two years for which data was available, they showed a tremendous increase in sales. Without subsequent data, it is impossible to know if this level of revenue generation can continue. Problems with the financial analysis of this operation included: inconsistent reporting periods, missing data, and a currency change in 2007. The most that can be said is that the enterprise appears to be generating revenue and posting positive net income from that revenue.

be able to capitalize on this growing international demand.

- **Domestic Processing**—Currently all of the processing of Divine Chocolate's cocoa happens in Europe, but the company's leaders are interested in the potential for primary cocoa processing domestically. This would require new capital to invest in needed plant, technology, skills, and infrastructure, and is not yet a realistic aspiration given the current structure of the global cocoa industry.
- **Integrating New Leadership**—Much of the leadership of Kuapa Kokoo recently changed, and the new managing director has been in his position only about a year. The new slate of leaders is taking stock of past challenges and future opportunities.

In much of the world, cocoa production means nearly slave labor and absolute poverty. Kuapa Kokoo has demonstrated that it is possible to produce this commodity

both competitively and responsibly. In the Ghanaian language of Twi, Kuapa Kokoo means "Good Cocoa Farmers Company," and the company motto of "Pa Pa Paa" means "the best of the best." Despite some serious challenges, Kuapa Kokoo is living up to both admirably.



## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Part-time/flex work schedules</li> <li>• Paid/unpaid medical sabbatical with job security</li> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• retirement plan for full-time employees at least partially paid for by company</li> <li>• Health insurance</li> <li>• Dental insurance</li> <li>• Domestic partner benefits</li> <li>• Short-term disability</li> <li>• Paid sick leave</li> <li>• Paid vacation</li> <li>• Paid maternity leave</li> <li>• Paid paternity leave</li> <li>• Health and wellness programs</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	Fair trade certification through Fairtrade Labelling Organizations International (FLO)
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	No
Membership in association(s) that foster environmental stewardship?	Fair trade certification through Fairtrade Labelling Organizations International (FLO)
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by a local institution</li> <li>• Supplies/services: 60+% of expenditures (other than labor)</li> </ul>

## Mavrovic Companies

In 1998, when Zeljko Mavrovic entered the ring with Lennox Lewis for the heavyweight title in the National World Boxing Championship, one American reporter described him as a “mohawked mystery man with a macrobiotic diet and his own private mantra.” Even though he lost, the reporter conceded admiringly, “Mavrovic himself, far from playing the part of a walkover that had been scripted for him, proved awkward and frustrating, occasionally aggressive, and much better at handling a punch than the U.S. fight mob might have guessed.” Zeljko became a hero in his native Croatia. Many hoped for him to make a comeback, but no one expected it to be in local food.

Today Zeljko is a recognized grain producer and baker, in a country where the diet is centered on bread. “I decided to invest the money I made in boxing”, says Zeljko, “in something that would not only allow me to continue to grow personally, but also to bring benefits to a larger community and to planet Earth.”

He is applying the principles he learned as a boxer—hard work and a balanced diet—to his businesses. The Mavrovic Companies now include four independent enterprises: two organic grain and animal farms; a bakery; a resource/research center; and a marketing, sales, and distribution firm. Having grown into the biggest organic agricultural operation in Croatia, Zeljko finally appears to have scored the knockout his fans had hoped for.

### Business Model

Drawing from his personal experiences as a professional athlete dedicated to eating well, Zeljko decided to produce top quality, natural food that would provide his fellow Croatians with healthy food choices produced in an environmentally responsible way. Four enterprises, each operating independently, serve as the cornerstones of his business:

- Eco-Estate Mavrovic is a set of organic grain farms that includes two animal farms with pigs, heifers, and calves. It is a limited liability corporation (LLC) with Zeljko as the sole owner.
- Eco-Center Mavrovic is a research and education center. It is an agricultural cooperative with Zeljko as the current sole member-owner, but additional member-owners are being sought.
- Mavrovic Eco-Klara is a bakery. It is a limited liability corporation (LLC) shared 50/50 by Zeljko and Zagreb Bakeries Klara.
- Eco-Mavrovic is a marketing, distribution, and sales company. It is a limited liability corporation (LLC) with Zeljko as the sole owner.



All photos by Laura Dominkovic

### At a Glance

<p><b>Where</b> Slobostina, Croatia</p> <p><b>What</b> Organic grain and animal farms, bakery, resource/research center, sales/marketing division</p> <p><b>Founders</b> Zeljko Mavrovic</p> <p><b>Website</b> <a href="http://www.eko-mavrovic.hr/">http://www.eko-mavrovic.hr/</a> (Croatian language site)</p>	<p><b>Year Founded</b> 2001</p> <p><b>Number of Employees</b> 100 (2008)</p> <p><b>Total Revenues</b> US \$8,751,365.44 / 43,562,972.00 Croatian kunas (HRK)</p>
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Although each entity is separate, they work together as much as possible. They source from and sell to one another. The marketing firm leverages the Mavrovic name to promote all the businesses and products, from raw grains and meats, to finished breads and processed meat products. “It is interesting to notice,” says Zeljko, “that one-third of our profit comes from the sale of final products and two-thirds from the sale of the Mavrovic brand.”

From his own personal equity and a few small bank loans, Zeljko seeded the company with €1 million (US \$1.47 million). He was also able to secure funds from the European Community to build his initial grain silos from SAPARD (Special Accession Programme for Agriculture and Rural Development). Today, seven years later, the companies employ over 30 local workers and have annual sales exceeding US \$9 million per year. With well managed expenses, the cash flow of the businesses appears strong.

Eco-Estate Mavrovic, the original business, is a 400-hectare farm producing organic wheat, barley, ray, millet, corn, and soy. The firm only owns a quarter of the land. About half is leased under a 30-year agreement with the state, and the remainder is privately held. Zeljko quickly realized that just being a grower would not achieve his business goals or enough profit.

“Originally,” Zeljko says, “I only planned to grow organic grains. I educated myself about agriculture by talking to people who had practical experience. Soon I realized that a farmer and raw milk producer benefits the least and gets the smallest piece of the pie. I needed a value-added product. Since bread is the daily food found on the table of every Croatian family, making organic bread, rolls, and cookies was the logical step forward.”

So, in partnership with Zagreb Bakeries Klara, a local bakery, Zeljko created the Mavrovic Eco-Klara bakery. Zeljko manages the production, ingredients, recipes, and labor, while Zagreb Bakeries Klara maintains the actual facility. Under this agreement, all the bakery products are branded under the Mavrovic name.

In early 2009, Eco-Estate’s predominant focus on grain production expanded to include cattle breeding and pig farming. While the animals provide additional products and income sources, Mavrovic’s main interest was “closing the natural cycle of fertilization and food in the agricultural part of our work.”

The signature business, however, has turned out to be the Eco-Center, a combination of a research facility, an educational center, and a community gathering place. The research arm, led by two people recruited

<b>Business Model Overview</b>	
<b>Sector</b> Production and marketing	<b>Market</b> Domestic
<b>Ownership Type</b> A cluster of four independent but coordinated enterprises: two single-owner limited liability corporations (LLCs), a two-owner limited liability corporation (LLC), and one agricultural cooperative	<b>Customers</b> <i>Products:</i> Zagreb Bakeries Klara, and various wholesale baked goods and meat buyers throughout Croatia; <i>Services:</i> Community members (youth and adults) and regional visitors
<b>Local Ownership</b> Yes (100%)	<b>Niche(s)</b> Organic production, integrated supply chain, community education, rural re-development
<b>Products</b> Organic wheat grain, breads and baked goods, meats, and dry sausage	

by Zeljko, develops new methods of organic grain and meat production. As an education center, the Eco-Center organizes workshops, seminars, and lectures for children, students, businesspeople, and farmers. Topics are diverse, varying from ecological agriculture and sustainable development to personal development and healthy lifestyle habits. It also hosts annual festivals like the Bundevidjada (the Pumpkin Festival), which includes 40 other organic and local food vendors from around Croatia.

The education of fellow farmers is particularly important to Zeljko: “Together, Eco-Estate and Eco-Center generate the experience and knowledge needed to help family farms transition to organic agriculture on one hand, and on the other, they provide examples of how following the principles of organic agriculture can help the agricultural industry to be successful and competitive in the international market.”

Zeljko relies on Eco-Mavrovic, the fourth business venture, to do all the marketing and sales of the other three. A recently developed branding logo, “Mavrovic Personal Experience,” unites all Mavrovic’s current business ventures. It also reminds the consumers that Mavrovic has been present among them for nearly 20 years as a sportsman and a businessman.

The Mavrovic businesses take being a good neighbor seriously. Zeljko makes sure that the company’s lands



and grounds are well-maintained and trimmed, which creates a welcoming atmosphere. Eco-Center also has a composting program that incorporates wood leftovers from a local furniture maker, manure from a local dairy, and processing waste from the bakery. Zeljko has also developed a strong community partnership with Pet Plus, a local nongovernmental organization providing therapeutic support to drug addicts in the region. The business cluster directly donates funds to Pet Plus, and also provides employment opportunities, training, and other services to Pet Plus clients.

Zeljko is particularly proud of the emphasis his businesses have placed on workers' rights. Since the Croatian war, worker morale has been low and unemployment high. He has invested heavily in workforce training and services, with the result that his employees have been able to rebuild their homes and neighborhoods for the first time since the War. "The main resource of our project is our employees," he says. "Our motto is that only a happy and content employee can contribute to making a successful business with the products of his labor."



## History & Drivers

"Through boxing and winning," Zeljko explains, "people saw that I could do whatever I set my mind to, relying on hard work, dedication, self-confidence and courage. People learned to trust me. Today, my customers, remembering my sport successes and sport philosophy, trust the quality of our products and impatiently wait for new ones."

Zeljko originally wanted to start the first commercial organic grain farm in rural Croatia. He found an ideal site in the eastern part of the country, in the heart of the country's small agriculture belt. The land belonged to a former national cooperative that had dissolved when the Communist regime fell in the early 1990s, and it lay fallow throughout the ensuing Serbo-Croatian war. The land's designation as a "War Affected Area" allowed Mavrovic to access some special finance programs, and he emerged as a local leader in the area's economic recovery process.



Two books guided Zeljko's thinking in agriculture: *Ecological Agriculture: The Agriculture of Tomorrow*, by Darko Znaor, advocated a holistic approach to farming that included integrating pest management, land maintenance, field rotation, green manure, and other biodynamic approaches. *The One Straw Revolution: An Introduction to Natural Farming*, by Masanobu Fukuoka, a Japanese microbiologist, advocated total adoption of natural farming techniques.

Zeljko talked to local farmers to learn the trade. He brought the land he acquired back into production, turned an old weed-riddled village school into the Eco-Center, and transformed a dilapidated equipment shed into his mill. Zeljko and his employees cleaned up



the sites, revitalized the soil, and rebuilt the facilities, all with the goal of creating an integrated sustainable food system.

As far as Zeljko is concerned, his businesses will keep growing. “I may work hard to ensure the success of my companies’ projects on the level of management,” he says, “but my greatest love is staying on the farm and walking in the fields, watching the growth of plants.” He plans to apply for some bank loans to keep pace with the evolving agricultural and organic market in Croatia and the greater European community. “We are aware,” Zeljko says, “that the speed at which we adjust to meet the constantly changing and dynamic markets and business situations is crucial.”

## Key Challenges & Lessons

The Mavrovic Companies story has four ongoing challenges:

- *Managing Supply*—Zeljko wants all his baked products to be organic, but his farm doesn’t produce enough organic grain to meet his demand. So at this point, Zeljko uses 40% of his own organic grains in his bakery and supplements the rest with conventional locally grown substitutes. He is disappointed that he must supplement, but plans to expand production.

***“Originally,” Zeljko says, “I only planned to grow organic grains. Soon I realized that a farmer and raw milk producer benefits the least and gets the smallest piece of the pie. I needed a value-added product. Since bread is the daily food found on the table of every Croatian family, making organic bread, rolls, and cookies was the logical step forward.”***

“Although our baked goods are not made of 100% organic ingredients, they are the only such product on the Croatian market,” says Zeljko. “I hope that one day, when we succeed in increasing the fertility of our soils, we will be able to produce a larger amount of organic bleached flour to make our baked goods one hundred percent organic.”

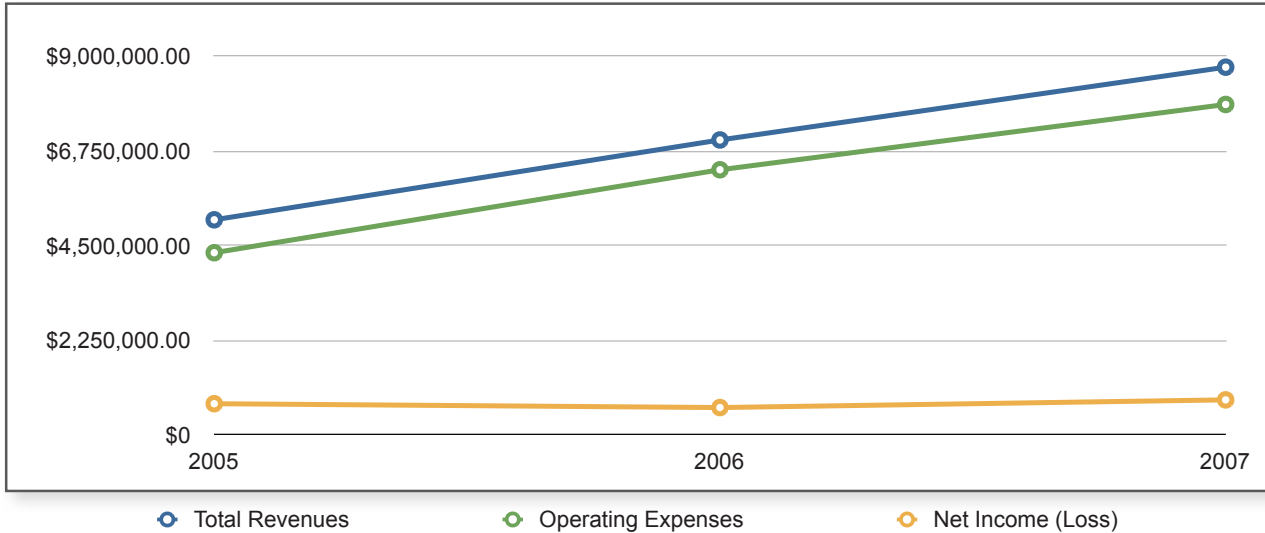
- *Operating in a Depressed Economy*—Croatia’s economy was ravaged during the war and has yet to recover. This has made it difficult for Zeljko to find good employees. “It was challenging to find motivated workers among the people who lost the sense of life,” he notes. “It was also challenging to find people with certain skills, who are available in larger urban centers, and bring them into an area where life is very simple and the consequences of the war are still present.”

- *Distrust of Cooperatives*—Zeljko has dreams of transitioning the ownership of his businesses into a cooperative model where his employees can become co-owners. But the reputation of cooperatives was sullied during the Communist regime. Rather than being independent, cooperatives were just additional instruments of state oppression and control. Farmers were required to join the cooperative system, but had no incentive to maximize their own production. Even though significant reforms have occurred in the post-Communist and post-war eras, many Croatians are still leery of participating in a cooperative.

- *Learning New Skills*—Starting a food enterprise was a major career shift for Zeljko and posed for him a steep learning curve. But drawing from his previous life as a professional athlete, he was able to focus on what he needed to master quickly. “I needed to learn a lot of technology that was new to me. While I already knew about producing organic grain, I had to pick up a tremendous amount of knowledge about processing, sales, education, branding, and everything else necessary for a successful business. But, my philosophy of being able to do anything with a lot of hard work, dedication, courage, and self-motivation helped me to overcome the challenges, just like it once helped me as a boxer.”

Despite these challenges, Zeljko has shown how even in a very tough, war-torn environment, an integrated business focused tightly on a market niche can succeed. To be sure, his name allowed him quickly to become a familiar brand, establish consumer trust, and secure market share. But the key element of his business strategy—to create four integrated businesses that could support one another and create a smooth local supply chain—could be easily replicated by others. “My personal experience and business practice is to create a whole value chain, from production of raw material to processing into a final product,” Zeljko says. “In that way one can form business sustainability.”

## Financial Performance



*This portfolio of companies has shown consistently strong sales growth over the past three years for which we have complete data. Operating expenses have been tracking right along with revenue, however, holding net income more or less flat. While as a group they appear to be relatively healthy and growing, each of the individual businesses seems to have its own story. In the three years for which we have data, it is worth noting that Eco-Mavrovic (the marketing, distribution, and sales company) has incurred significant non-operating losses (20% of revenue), much of which has been offset by non-operating income from the farm business. To ensure the long-term health of the group of businesses it will be important to assess each business individually and identify any weak spots which might threaten the financial health of the overall operation.*



## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Part-time/flex work schedules</li> <li>• Telecommuting (50% using)</li> <li>• Paid/unpaid medical sabbatical with job security</li> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• Retirement plan for full-time employees at least partially paid for by company</li> <li>• Health insurance</li> <li>• Short-term disability</li> <li>• Long-term disability</li> <li>• Paid sick leave</li> <li>• Paid vacation</li> <li>• Paid maternity leave</li> <li>• Paid paternity leave</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	None
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy usage measured annually</li> <li>• Energy efficiency policies</li> <li>• 1-5% % energy from renewable sources</li> <li>• 5-25% energy from renewable onsite production</li> </ul>
Membership in association(s) that foster environmental stewardship?	Organic certification
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Supplies/services: 60+% of expenditures (other than labor)</li> </ul>

# National Onion Growers' Cooperative Marketing Association (NOGROCOMA)

"To sustain the Philippines' self-sufficiency in onions." That's the mission of the National Onion Growers' Cooperative Marketing Association, or NOGROCOMA, according to Dulce Gozon, the organization's current chair and CEO. Founded in 1954, NOGROCOMA is a 206-grower cooperative based in Bongabon, a town of 70,000 people and 28 barangays (small villages) in the province of Nueva Ecija, 100 miles north of Manila.

More than 60% of all Philippine onions are grown in this area, on some of the most productive farms in Southeast Asia. They are typically grown in seasonal rotation, in rice fields in the dry season, from November to February, after the first crop of rice has been harvested.

NOGROCOMA has had its share of ups and downs over its 50-year history. Strong for several decades as a result of a countrywide ban on the importation of onions—which was won at the urging of the cooperative's founder, Congressman Jesus Ilagan—NOGROCOMA has struggled more recently with land degradation and increasing competition from non-member farmers in other villages. Now the cooperative faces new challenges from globalization. When the Philippines joined the World Trade Organization in the mid-1990s, the onion importation ban was repealed, opening local markets to increasingly tough competition from China and forcing NOGROCOMA to begin importing onions too.

## Business Model

NOGROCOMA is a producer cooperative currently owned by about 206 farmer-members (down from a peak of 800). Unlike many commodity cooperatives, NOGROCOMA does not get directly involved in the production of its core crop. It instead purchases onions from member farmers and focuses on marketing them. For every kilo of onions sold to NOGROCOMA, a farmer-member receives an immediate cash "patronage" of 1-2 pesos (US \$.02-\$.04) over the market price.

The cooperative's board is elected each year at an annual members' meeting. Most of the board members are onion farmers, but a few also represent other stakeholder groups. The members come primarily from villages surrounding Bongabon, but over time, the cooperative has attracted farmers from other regions. Anyone in the industry, from farmers to traders, is eligible to join, provided they pay the annual membership fee of PHP 500 (US \$10.50), which helps underwrite the cooperative's services.

What kinds of services? NOGROCOMA uses its collective purchasing power to help members purchase seeds at a reduced price. It provides members with access to microcredit and low-interest loans. It has invested in cold storage facilities



Jose Yorobe and Rod Rejesus

## At a Glance

<b>Where</b> Bongabon, Nueva Ecija Province, Philippines	<b>Year Founded</b> 1954
<b>What</b> Onion marketing	<b>Number of Employees</b> 5 (20 volunteers)
<b>Founders</b> Congressman Jesus Ilagan, father of Dulce Ilagan Gozon (current chair and CEO)	<b>Total Revenues</b> US \$60,371.26 / 2,481,350.40 Philippine pesos (PHP)
<b>Website</b> <a href="http://www.nogrocoma.com">http://www.nogrocoma.com</a>	



in Nueva Ecija, as well as Bulacan, Tarlac, Pangasinan, and Metro Manila (though NOGROCOMA's Manila facilities were lost to a fire in 2004). The cold storage service is particularly important, since it allows the cooperative to sell at points throughout the year when prices are high.

NOGROCOMA also engages in political advocacy and technological assistance, to improve the livelihoods of small farmers. It has helped develop national grades and standards for onions that have standardized and streamlined the industry. It has taken member-farmers to Taiwan and Japan, major onion exportation competitors of the Philippines, as well as to the United States, to study farming techniques and improve their competitiveness. It has assembled an effective collaborative network of traders, storage operators, and exporters.

To address the environmental challenges from increased production and indiscriminate pesticide use, the cooperative has facilitated over a decade's worth of technical assistance in integrated pest management (IPM) from USAID (U.S. Agency for International Development), local and foreign universities, and a host of international development and agriculture organizations. In 1995, NOGROCOMA initiated contacts with Virginia Technical Institute to use IPM techniques to reduce fertilizer and pesticide use, to cut production costs, and to improve their competitive advantage.

NOGROCOMA also works to spread IPM techniques to non-members. Over the past decade, the cooperative has worked alongside the Foundation for Resource Linkage and Development (FRLD), a USAID initiative, to organize an agricultural and food production trade show called "Agrilink." This annual gathering allows NOGROCOMA members to share IPM successes and learn what has worked well for others.

Though NOGROCOMA was originally founded to protect the domestic market, competitive pressures have moved it into exporting and now importing. To support these evolutions, NOGROCOMA has prioritized several strategies. It is providing special rewards to its members who achieve the best productivity increases at the lowest price. Over the next decade, it hopes to quadruple members' output per hectare. It will encourage wider adoption of organic growing and IPM techniques. It will invest in members' irrigation infrastructure. It is exploring new, specialty markets for export (the Japanese, for example, are especially interested in larger onions). And it is investigating the opening of a cooperative store for farmers that would sell all kinds of production inputs, diesel fuel, irrigation pumps, and small tractors.

## Business Model Overview

<b>Sector</b> Service	trade with Japan, Singapore, and the United States)
<b>Ownership Type</b> Producers' marketing cooperative	<b>Customers</b> Various wholesale clients
<b>Local Ownership</b> Majority (80% of member owners based in Bongabon)	<b>Niche(s)</b> Collective marketing and purchasing, integrated pest management (IPM), cold storage for year-round sales, technical assistance and action research, microcredit and loan assistance, leadership from and participation of women
<b>Products</b> Marketing of onions; production of coconut oil and coconut soap	
<b>Market</b> Domestic (and former	

While NOGROCOMA has raised much of its capital through member dues and retained earnings, it has also scored several significant grants. In 2001 the Philippines' Department of Agriculture gave a grant of PHP 8 million (US \$170,000) to NOGROCOMA to underwrite technical assistance for branding and marketing, to incorporate new onion production technologies in member farms, and to construct a nursery. The latter will allow members to substitute local seedlings for their current dependence on high-cost seeds from the United States.

One important feature of NOGROCOMA's work is the participation of women such as Dulce Gozon. While onion farming is still dominated by men, Dulce says that "women are better at handling the product with TLC, good at selling, and are better marketers than men." Dulce—herself a powerful agricultural leader—actively encourages women's participation in farming and cooperative management, and promotes women's development through her advocacy. For over two decades, she has been a member of Soroptimist, an NGO that works to improve the lives of women and girls in communities throughout the world.

## History & Drivers

NOGROCOMA was founded in 1954 with a simple goal: That the country with some of the best onion farmers in the world should not be importing onions from India, Australia, and Japan. After failing to create a viable investor-owned



Jose Yorobe and Rod Rejesus

corporation, Congressman Jesus Ilagan formed a cooperative, with the mission of improving the standard of living for farmers in the region and developing a stronger domestic market.

A cooperative was a natural choice. The early 1950s was a time when the cooperative movement was gaining strength in the Philippines. The structure also was useful for obtaining grants and technical assistance from the government and international sources—and a smart way for low-income farmers to realize greater economies of scale. Dulce still refers to NOGROCOMA as a “family cooperative” because family members play such a large role in its strategic planning and occupy several board positions.

A year after the cooperative was formed, it was boosted by the passage of Republic Act 1296, which banned the importation of onions, garlic, and potatoes (except for seedlings). Protectionism, particularly of agricultural industries, was widespread in those days. “Because of RA 1296,” says Dulce, “it was lucrative for our farmers to focus on the local market.”

During its first decade, NOGROCOMA’s domestic sales grew steadily. The cooperative also was able to steadily improve levels of service to its members, whose standard of living improved considerably. By 1964, however, the Philippines—with NOGROCOMA as an industry leader—had saturated domestic demand. Dulce notes that the motto of NOGROCOMA over the next decade became “inward looking in productivity, outward looking in marketing.” It began exporting to Japan and Singapore. A partnership with Japan’s Marubeni Company was especially lucrative, and the cooperative continued selling to Japan until 2000. For a time, the United States was also a modest trading partner.



Jose Yorobe and Rod Rejesus

By the late 1990s and early 2000s, the dominant challenge was environmental decline. The lands of NOGROCOMA farmers became acidic due to overharvesting, and expensive fertilizers and pesticides were increasingly needed. Labor costs were also rising.

The most promising solution to all these problems, NOGROCOMA decided, was IPM, which provided a technique for building up soil nutrients without expensive chemicals. NOGROCOMA started to convert its members to IPM methods in 1995, cutting production costs by half. By applying lime, NOGROCOMA was able to diminish the acidity of members’ soils and eliminate two-thirds of the fertilizer applications. Dulce says that “IPM became the key to competitiveness, which is why IPM is still being used and is still appropriate.” The cooperative continues to develop new IPM techniques on four separate plots through “action-research” led by the University of the Philippines Los Baños.



Gary Garriott

Today the most significant challenge to NOGROCOMA is free trade. In 1994, the Philippines joined the World Trade Organization and lifted its ban on onion importation. Cheap imports flooded the country, particularly from China. Meanwhile, more Filipino farmers outside the cooperative entered the marketplace. NOGROCOMA’s

response has been to start importing outside onions itself. According to Dulce, “Globalization is supposed to help consumers, but because of the cost of credit and production inputs, the price of onions in the Philippines is always higher than in other countries. In order to ensure the future, we have to go with the tide and partake in importations to stabilize prices.” NOGROCOMA is also developing other products for export, such as coconut soap and coconut oil.

## Key Challenges & Lessons

Despite its record of growth over 40 years, the past decade has been especially difficult for NOGROCOMA. Among its toughest challenges are:

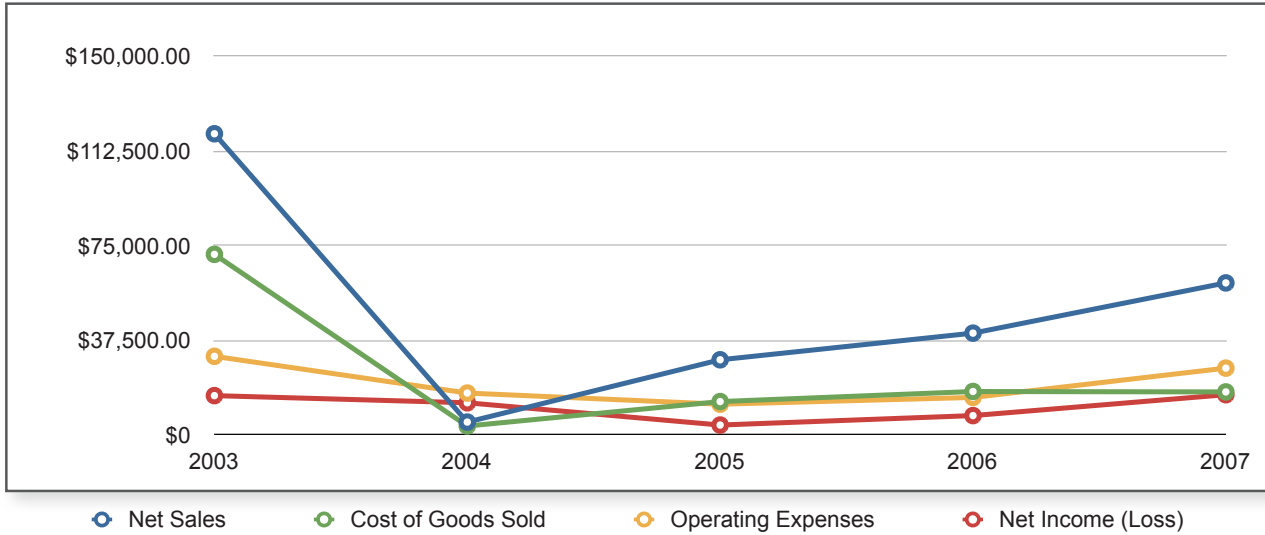
NOGROCOMA members. Lenders who once gave these members credit during hard times have backed away. NOGROCOMA needs to find new sources of insurance for its members.

Despite these challenges, NOGROCOMA has reliably provided benefits for its members, their families, and their communities for 50 years. It has created jobs in farming, storage, and marketing. It has increased farm and non-farm income, which has enabled many members to send their children to school. Its commitments to zero waste, to minimizing chemicals, and to IPM have resulted in better environmental conditions and better public health. With this impressive track record, few doubt that NOGROCOMA will survive.

***NOGROCOMA was founded in 1954 with a simple goal: That the country with some of the best onion farmers in the world should not be importing onions from India, Australia, and Japan. After failing to create a viable investor-owned corporation, Congressman Jesus Ilagan formed a cooperative, with the mission of improving the standard of living for farmers in the region and developing a stronger domestic market.***

- *Technological Improvements*—Dulce estimates that about 10% of members’ onions are lost each year because of inadequate cold storage facilities. Members also need better irrigation infrastructure. NOGROCOMA has to help its members finance and adopt these new technologies. Dulce believes that greater involvement by the University of the Philippines Post-Harvest Technology Center could be beneficial.
- *Attrition*—In recent years, the cooperative has lost 75% of its members to attrition. Most of the remaining 200 farmer-members are larger land owners, with plots of 5-10 hectares. Because every departing member gets back his or her annual contribution of PHP 500 (US \$10.50), the loss of members has put huge financial burdens on the cooperative. It also makes it that much harder to meet demand consistently, and to continue providing services to members such as affordable credit. The ongoing changes in membership also mean IPM methods need to be taught year after year.
- *Global Competition*—NOGROCOMA’s reliance on one crop, onions, has been severely undercut by free trade. It is now important for the cooperative to diversify its line of products.
- *Insurance*—Typhoon Crising hit Luzon in May 2009 and wiped out 60% of the standing onion crop for

## Financial Performance



*NOGROCOMA has been on a strong recovery path since sales crashed in 2004. Fortunately, the Co-op received sufficient non-operating income in 2004 to cover the loss (and even make one of their largest net profits to date) and to rebound strongly; they have generated positive net income every year since. Their growth the past four years has been positive and they have been increasing both gross and net margin over that time. They've maintained remarkable consistency in their balance sheet over the last five years and appear well-positioned for continued growth.*



Gary Garriott



Gary Garriott



## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	No established mechanism. Employees are "sometimes" included in strategic management decisions
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Part-time/flex work schedules (100% using)</li> <li>• Telecommuting (10% using)</li> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• Retirement plan for full-time employees at least partially paid for by company</li> <li>• Health insurance</li> <li>• Long-term disability</li> <li>• Paid sick leave</li> <li>• Paid vacation</li> <li>• Paid maternity leave</li> <li>• Paid paternity leave</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	No
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy usage measured annually</li> <li>• Energy efficiency policies (15% saved last year)</li> <li>• 50% energy from renewable sources</li> </ul>
Membership in association(s) that foster environmental stewardship?	None
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by a local institution</li> <li>• Supplies and services: of expenditures (other than labor)</li> </ul>

## Panchakanya Agriculture Cooperative, Ltd.

“The commitment is impressive,” says Bhimendra Katwal, an agricultural development expert in Nepal, as he tries to explain the success of the Panchakanya Agriculture Cooperative. “They don’t want to go back to using pesticides. They want to continue, so others can see and follow.”

Over the past decade, the residents of Nepal’s capital, Kathmandu, have been consuming more vegetables and grains, so most farmers in the region decided to increase yields by intensifying their use of fertilizers and pesticides. One farmer in his 30’s, Uddav Adhikari, insisted on a different path—organic production. He convinced his neighbors to do likewise. Uddav’s Village Development Committee (VDC) and four surrounding VDCs then created the Panchakanya Agriculture Cooperative Ltd., specializing in organic methods. But thanks to the leadership of Uddav’s wife, Nirmala, the co-op moved in a direction never seen before in Nepal—its members and leaders were predominantly women. Nirmala is now the cooperative’s chair.

Today, hundreds of women farmers are clamoring to join. Word of Panchakanya’s success has spread and copycat cooperatives are sprouting up across the region. Nirmala, a member of the District Chapter of the Nepal Women’s Organization and a participant in the organization’s annual convention, has helped to energize village women to actively participate in development activities. Yet despite its success and local fame, Panchakanya is still a young and evolving enterprise, and struggling with issues of scale and crop consistency.

### Business Model

Panchakanya was formally incorporated in 2004 as a women’s agricultural cooperative. Its mission is “to improve the social and economic well-being of the members by promoting self-help and mutual cooperation.” It focuses on promoting organic production by its members and by non-members and other farmers in surrounding villages.

Today Panchakanya has 35 members. Husbands and other male family members are invited to participate, but the women are the formal members and leaders. The focus on women reflects a broad understanding that in members’ farms, women usually do most of the work and understand best their farms’ needs.

The average land holding of each member-farmer is a tiny 0.3 hectares. During the main growing season, the summer, the principal crops are tomatoes, beans, cucumbers, and pumpkins. In winter, when off-season vegetables command a higher price, members focus on peas, potatoes, leafy vegetables, cauliflower, and cabbage. While the cooperative markets these vegetables collectively in villages and in Kathmandu, many of the members also sell some of their produce individually.



All photos by Bhimendra Katwal

### At a Glance

#### Where

Thaligun, Kavresthali VDC, Ward No. 8, Kathmandu District, Nepal

#### Year Founded

2001: Local agriculture group; 2004: Women’s agriculture cooperative

#### Number of Employees

0 (2008)

#### What

Organic vegetables and crops

#### Total Revenues

US \$8241.28/  
524,922.00 Nepalese rupees (NPR)

#### Founders

Uddav and Nirmala Adhikari

#### Website

n/a



One hundred percent of the cooperative members are farming organically. Accompanying the shift to organics is an increased commitment to producing farm inputs locally. Compost teas, for example, can be inexpensively made from cow urine and locally available plant extracts. Members also try to buy supplies from one another. “We only buy hybrid seeds from outside the village—about ten percent of all the seeds used,” notes Nirmala.

The push for localization has spawned a village inputs center, which supplies seeds and other materials to cooperative members and prevents member-farmers from wasting valuable time—and money—buying from many different sources outside the community. Panchakanya’s vice chairwoman agreed to start such a business herself, operating it out of her house. She contributes a certain percentage of the business to the cooperative, and keeps the rest as her own profit.

Technological innovations are helping boost crop yields for some members. Last year the cooperative initiated off-season tomato cultivation using plastic tunnels, with the technical and financial support of the government’s District Agricultural Development Office, or DADO. Five farmers took part in the pilot, and all are now seeing greater profits. “We are very encouraged. This technology has enabled us to grow tomatoes during the rainy season (June–September) when we get a good price for the produce,” says farmer Bhoj Raj Fuyal.

Nirmala is upbeat about the future of the cooperative: “In cereals, crop productivity is already equal to non-organic farms. For vegetables, it is still twenty-five percent lower compared to those using chemical fertilizers, but rising productivity is the trend.” It’s true that in the first year or two of organic growing, members don’t make much of a profit. But, Uddav explains, “Production will be profitable in about two to three years time, after management practices—especially pest management—are improved. We already have indirect benefits in terms of improved health and environment.”

Panchakanya is currently operating in the black, with profit-sharing practices in place. And the total value of member ownership shares is NPR 141,435 (US \$1,911). The cooperative has received several helpful grants from DADO, the District Development Committee, the Market Development Directorate, and the National Cooperative Development Board.

Member incomes are also up. This is striking, given that farmers are not getting the full premiums they ultimately might from organic agriculture. For certain crops, productivity is still 20-25% lower than that of non-

## Business Model Overview

<p><b>Sector</b> Production and wholesale</p> <p><b>Ownership Type</b> Producer cooperative</p> <p><b>Local Ownership</b> Yes (100%)</p> <p><b>Products</b> <i>Summer:</i> Primarily tomatoes, beans, cucumber, and pumpkin; <i>Winter:</i> Primarily peas, potatoes, leafy vegetables, cauliflower, cabbage</p> <p><b>Market</b> Domestic and regional (mostly in local villages and in nearby Kathmandu)</p>	<p><b>Customers</b> <i>Wholesale:</i> Variety of markets and supermarkets in Kathmandu; <i>Direct sales:</i> Local markets and individual buyers in nearby communities</p> <p><b>Niche(s)</b> Women’s cooperative, organic production, aggregation and collective marketing, local production and sale of inputs, technical assistance with production</p>
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organic farms, but input costs are also lower. “Despite having lower yields in organic vegetable production,” Nirmala observes, “we are satisfied because our produce has better quality compared to what is available in the market.” On average, the 35 farmers are earning nearly US \$1,000 per year from the sale of organic vegetables, plus income from other sources such as cereal crops and the sale of milk and other livestock products.

Although many of Panchakanya’s members are still working to increase yields and secure organic price premiums, its farmers and the surrounding community have already benefitted in other ways. For one, Panchakanya has served as a powerful model for the empowerment of women in rural Nepalese society. According to Bhimendra Katwal, former country director of Winrock International’s Farmer to Farmer program in Nepal, “This is very rare. Some women’s cooperatives or groups are coming up in some parts of the country, but if you look a few years back, very few women would be directly in charge. This group and others are starting to change that.”

The women leading Panchakanya have quickly pushed the cooperative’s business horizons. They have created a microlending enterprise, where each member deposits NPR 100 (US \$1.30) per month. Loans are used to buy agricultural inputs and support animals, as well as to meet



household and community needs. This allows the farmers to rely on themselves instead of on financial intermediaries or external financial institutions.

The community also enjoys lower health care costs as a result of reduced pesticide use. Plus, reports Nirmala, “the incidence of diarrhea and dysentery in our village is much less than the nearby villages because of increased awareness of proper sanitation and the consumption of fresh organic vegetables.” Bhimendra says Panchakanya’s villagers are eating food that is less contaminated and enjoying a higher standard of living, which has resulted in improved sanitation measures such as adding toilets to houses and improving the community’s water supply. Nirmala reports that “the incidence of diseases of crops and livestock has become lower than before.”

Finally, the cooperative has spawned other projects that have solidified local support and attracted new members. A new road, built with contributed labor from cooperative members and other community members, provides new transportation infrastructure for the community. The cooperative also has planted trees that, once they mature, will feed livestock, increase compost supplies, and provide additional income through their fruit and timber.



## History & Drivers

The roots of the Panchakanya Agriculture Cooperative go back to a tourist office in Kathmandu, where Uddav had worked as a travel agent for a decade. He noticed that a growing number of his clients were asking about restaurants and markets where they might find natural and organic foods from local producers. When he needed to take over responsibility for his family’s farm in Thaligun, he decided to try his hand at organic farming.

Uddav’s instincts as a tour agent kicked in again, only this time he was introducing other farmers to his organic methods. He raised awareness about the impacts of pesticide use on long-term soil productivity, the health of farmer families, and the nutrition of their consumers. The initial reaction from other farmers, however, was skeptical. They worried that organic farming methods couldn’t generate sufficient yields or profits.



The Panchakanya Agriculture Group, loosely formed in 2001, was essentially a platform for Uddav going door-to-door to make his case for organics more effectively. Slowly, concern over about public health and soil health grew, as did awareness of a growing market opportunity for the sale of organics in Kathmandu. Among the first 20 founder members of the group, men outnumbered women three to one. But by May 2003, the men handed power over to the women of their communities and made the group exclusively a women’s organization. Several months later, in July 2003, the Panchakanya Agriculture Group was formally launched as a women’s agricultural group.

“We initially lacked the knowledge to manage pests,” recalls Uddav. “In the first year, ninety percent of the pea crop was destroyed as the farmers did not know any alternatives to the application of pesticides.” The key to solving these problems was the involvement of DADO. The July 2003 launch ceremony for the women’s agricultural group declared the village a “Pesticide Free Area” and invited a representative of DADO, Dila Ram Bhandari, to help.

Impressed with the group’s commitment to finding new production methods, Dila dedicated himself to helping the village farmers make the transition. He brought in additional expertise from Winrock International’s Farmer-to-Farmer program. He helped the group secure four sources of government funding to build a village road and a produce collection center. And he introduced the enterprise to OneCert, Inc USA, an organic certification organization. Samuel Welch, president of OneCert, later provided technical assistance as a Winrock Farmer-to-Farmer volunteer.

But, the organization was not quite done evolving. By 2004, the members had decided to reincorporate as an official women’s cooperative under the name “Panchakanya Agriculture Cooperative,” making women the formal member-owners.

Today, Panchakanya is much better equipped to handle pests and productivity concerns. Manure is now transformed into compost on member farms. Pea plant pests are managed with the application of locally made “compost tea.” According to Bhoj Raj Fuyal, “We have also been successful in managing the tomato blight problem—reducing its incidence by forty to fifty percent—by spraying with organic pesticides that are locally produced with plant extracts. We are proud of this achievement.”

## Key Challenges & Lessons

Producer cooperatives have long helped members increase their competitiveness, and there’s no question that Panchakanya’s model could be adopted by growers elsewhere in the world seeking to embrace organic production. Panchakanya’s leaders draw three lessons from their experience:

First, Uddav believes that the “transition [to organic] should be gradual, so that those who want to shift to organic farming can minimize possible losses due to reduced yields in the initial years.” The use of support technologies, like plastic tunnels that allow for off-season tomato production, can ease this transition. It’s also common to see farmers in Nepal using their land to

grow produce and animals together, and a shift to organic production makes this interdependence critical.

Second, technical assistance and outside funding support were instrumental in Panchakanya’s early successes. Notes Bhimendra, “The cooperative has benefitted immeasurably from external assistance, including DADO, OneCert, and Winrock’s Farmer to Farmer program.”

Third, the localization of inputs—whether through capturing manure and plant wastes, selling seeds to other farmers, or making loans locally through their microcredit program—has been a critical strategy for reducing Panchakanya’s costs enough to offset initial decreases in production.

Though Panchakanya Agriculture Cooperative has already bested many challenges, it is still struggling with four:

- *Organic Certification*—With support from the Farmer-to-Farmer program and OneCert, the cooperative is well versed in the global requirements for organic certification. It has started to set up the necessary tracking systems but, lacking even a single dedicated computer, the cooperative is having difficulty communicating with the certification agencies. It’s now seeking partners, such as local agencies or NGOs, who could serve as intermediaries.
- *Membership*—There are currently 200 new farmers clamoring to join, but the leadership of Panchakanya is wary of growing the cooperative without assurances that the new members understand and are completely committed to organic production. Newcomers need to know that the first few years in organic farming may bring decreased yields, decreased profits, or both. The cooperative wants to guarantee that new members will stick with the program to prevent sudden drops in production or the embarrassment of products not meeting their organic standards. Some expansion is likely. Even an increase of 30 farmers will double the cooperative’s size and production capacity, and allow for hiring a motorized vehicle for distribution and collective marketing.
- *Scale*—The market demands quality product and regularity of supply. Panchakanya’s small yields and inconsistent volumes make it difficult to market members’ produce and command premium prices. This puts Panchakanya at a competitive disadvantage against larger, non-organic farms in the region that can fulfill bigger contracts. Most co-op members produce only a basket or two of each food item at a time. Even

## Financial Performance



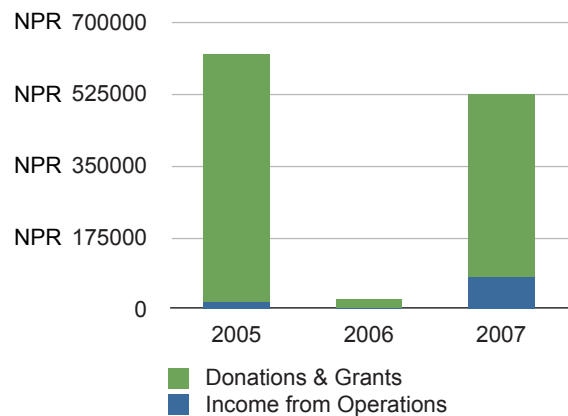
*Panchakanya Agriculture Cooperative is heavily reliant on grants to support their operations. They have done a good job to date of managing to their budget and ending each year with positive net income; careful management of grant monies appears critical given intermittency in donated revenue. One very positive note is that assets and equity have more than doubled in the past three years, which includes land acquisition in year two. Income from operations grew in 2007 which is also a strong signal that the Cooperative may be able to look to operational income as an additional source of funding in years to come. Assuming grant funding can continue to be secured, the Cooperative appears to be in a solid position to grow.*

with a village collection center to aggregate output and market collectively, the total amounts are so small that it has been hard to convince traditional supermarkets or natural food stores to hassle with purchasing from Panchakanya. At one point, the cooperative hired a person to make multiple bicycle deliveries per day to a department store, but the deal fell apart when they couldn't ensure the a steady volume of quality produce each week.

- **Organic Infrastructure**—Panchakanya's situation isn't helped by the lack of an organic sales infrastructure in Kathmandu. Although demand for organic and natural foods is steadily rising, there are only a few dedicated shops selling organic vegetables. "The member-farmers are mostly selling in regular vegetable markets and are unable to obtain a premium price," says Bhimendra. "Currently, only four out of thirty-five farmers are supplying about a hundred kilos per day to the organic shops at premium price."

Despite its ongoing challenges, Panchakanya's innovations are starting to catch on in other regions of the Kathmandu valley. The cooperative has become a center for visiting farmers, hosting five to six groups per year with as many as 20-30 participants per group. "Now the cooperative has some momentum, and has gained a very good name and

## Balance Between Earned Income & Grant Income



fame," says Bhimendra. "In other villages, there are similar groups, encouraged partly by the DADO showcasing Panchakanya as an example. There is a lot of interest among officials and other farmers. People are coming even from outside the area to see how we work, and they are leaving with a very good impression."

## Social & Environmental Performance

### B Corporation Report Card Score: *Pass*\*

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	n/a
Benefits provided to employees and their families?	n/a
Membership in associations that foster labor, community, or societal stewardship?	Not formally, but community responsibility is a basic tenant of the cooperative business model
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Question not in their version of survey
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy efficiency policies</li> <li>• 1-5% energy from renewable sources</li> </ul>
Membership in association(s) that foster environmental stewardship?	Not formally, but using environmentally-sensitive growing techniques
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by a local institution</li> <li>• Supplies/services: 1-20% of expenditures (other than labor)</li> </ul>

# Sunstar Overseas Limited

“We had the right product from the right area with the right people.” That’s how Ajay Katwal sums up Sunstar Overseas Limited’s strategy for successfully marketing basmati rice worldwide. Ajay is the firm’s international marketing president.

In Sanskrit, the word basmati means “the fragrant one.” Once known as the food of emperors, this long-grain rice is famous for its aroma and flavor, along with two distinct preparation characteristics: a pronounced elongation of the grain that occurs during cooking, and a lack of stickiness once cooked. According to the BBC World’s India Business Report, more than 80% of the rice grown in India is exported. And even though there are 10,000 varieties of rice worldwide, basmati accounts for more than half the rice consumed in Europe and the Middle East.

Seizing this niche has been the New Delhi-based Sunstar Overseas Limited. This private, family-owned company produces organic and conventional basmati rice for export, while simultaneously working to expand its domestic market. A central part of its strategy has been to obtain as many certifications—kosher, organic, fair trade—as possible. Since 2001, they have partnered with thousands of small-scale farmers in northern India to create a group certification for basmati.

Although Sunstar’s conventional production still dwarfs their fair trade and organic products by a significant margin, the company has gotten international attention for helping its farmers grow certified rice products. Improving the lives of these farmers was not the original driver of Sunstar’s work, but it has certainly been an important outcome.

## Business Model

Sunstar boasts a number of “firsts”: India’s (and the world’s) first rice milling company to be accredited with the fair trade label for organic basmati rice. The first company in India to multiply basmati seed organically, through a biodynamic program under Demeter biodynamic certification. The world’s largest exporter of organic basmati rice. For a company whose organic production is only 5-7% by volume and 8-9% by turnover of total business, these talking points underscore the priority the company places on its fair trade and organic products.

Originally a producer of milled and polished white basmati varieties, including packed rice for international brands like Uncle Ben’s, Suraj and President’s Choice, Sunstar decided in 2000 to try its hand in selling brown, unpolished rice to European millers. Says Ajay, “Not many Indian basmati exporters were concentrating on the EU at that time, given Europe’s high duties on imported white rice. That provided an opportunity for us to experiment. To avoid the EU duty on polished rice imports, Naresh Aggarwal, the chairman of Sunstar Overseas, decided to tie up with rice millers in



All photos by Sunstar Overseas Limited

## At a Glance

<b>Where</b> New Delhi, India	<b>Year Founded</b> 1995
<b>What</b> Basmati rice production	<b>Number of Employees</b> 240 (2008)
<b>Founders</b> Naresh and Rakesh Aggarwal	<b>Total Revenues</b> US \$90,963,020.87 / 4,024,912,428.00 Indian rupees (INR)
<b>Website</b> <a href="http://www.sunstaroverseas.com">http://www.sunstaroverseas.com</a>	





Europe to sell them brown rice instead, which does not attract a duty.”

This commercial strategy continues today. Five millers in France, Germany, Belgium, and Italy import Sunstar’s brown rice and complete the polishing process themselves. Then, they resell the resulting polished, white rice to European retailers under their own brands, though some millers also sell the traditional brown rice. Sunstar is now India’s largest brown basmati rice exporter to Europe.

The idea of experimenting with organic rice production—another new, untapped market—quickly became wrapped up in Sunstar’s plans to export brown basmati to Europe. With the help of Fairtrade Labelling Organizations International (FLO), the company created the Sunstar Fairtrade Federation in 2001. Fair trade provided an incentive for small farmers working with the company to convert to organic production. Sunstar successfully obtained fair trade certification for its organic basmati production in 2003, and for its conventional basmati a year later.

To overcome farmers’ initial skepticism about converting to organic production, Sunstar contracted with them to buy 100% of the rice they produced in the first few years. Group organic certification was initiated in the 2001 through ECOCERT. Using an increasingly common process called an Internal Control System (ICS), Sunstar takes responsibility for inspecting its own farmers. “The third party certification bodies,” according to Narender Sidhar, vice president for finance and accounts, “then only have to inspect how well the system itself is functioning, along with random spot checks of individual smallholders for verification.” The ECOCERT certification rests with Sunstar. This reduces the cost of certification, but also means farmers cannot market their rice as organic if they sell individually to another buyer.

Aided by the farmers’ federations, Sunstar signs five-year contracts with farmers. These agreements spell out the type of crop to be cultivated, pricing and purchasing policies, terms of payment, additional premiums (which range from 10-25%, and vary by purchasing season), the responsibilities of Sunstar and the farmer, and conditions for non-compliance and termination of the contract. According to Narender, “Regular discussions between the company and the farmers focus on the use of agri-inputs, disease and pest attacks, soil fertility, and crop management.”

These arrangements have enabled Sunstar to realize its goal to “set up a system that would allow them to have complete control over the stages of the basmati value chain in order to ensure product quality,” notes Ajay. Sunstar

## Business Model Overview

<p><b>Sector</b> Wholesale production and processing</p> <p><b>Ownership Type</b> Limited liability corporation (LLC)</p> <p><b>Local Ownership</b> Yes (majority ownership by one extended family)</p> <p><b>Products</b> Basmati rice (organic and conventional; also brown, unpolished and milled, polished)</p> <p><b>Market</b> Primarily export, but expanding domestic</p>	<p>market through Hello (Organic), Gateway to India, and Neel Kamal brands</p> <p><b>Customers</b> <i>Export:</i> Millers in France, Germany, Belgium, Italy; <i>Domestic:</i> Range of supermarkets like Reliance Retail and Food Bazaar</p> <p><b>Niche(s)</b> Export of unpolished brown rice, fair trade, organic production, group certification</p>
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no longer promises to purchase 100% of everything produced. Instead, says Ajay, it strives to be “selective in procurement” and “only purchases those crops that match our quality standard.” Farmers have the right to be choosy, as well: they are free to sell their produce to other buyers “if the price offered is not up to their expectations or is below market price.”

Sunstar also focuses on fair practices with its employees. Several years ago, they created a corporate social responsibility policy emphasizing good employment practices. According to Ajay, they are “one of the few companies in the [rice] business” who have taken this explicit step to serve employees.

While still relatively small compared to the market abroad, demand for basmati is picking up within India, and as a result the company has recently ventured into domestic markets with polished rice. In 2008 Sunstar introduced three domestic brands—Hello (Organic), Gateway to India, and Neel Kamal—which they are selling directly to large Indian retailers like Reliance Retail and Food Bazaar.

Sunstar’s practices have clearly benefited participating farmers. Fair trade farmers receive hands-on training in organic production techniques, soil protection and improvement, proper production and use of organic manure, and sustainable use of local resources. They also get access to improved inputs like certified seeds and biofertilizers, all through interest-free credit. As their product quality has improved, their income has grown.



Farmer Palla Singh reports, “Now I make sixty or seventy thousand rupees (US \$1500-1750) annually; earlier it was twenty or thirty thousand rupees (US \$500-750) annually. With the extra income we have built our house.” His wife adds, “We have been able to send our children to school, added rooms to our house, even married off our children.”

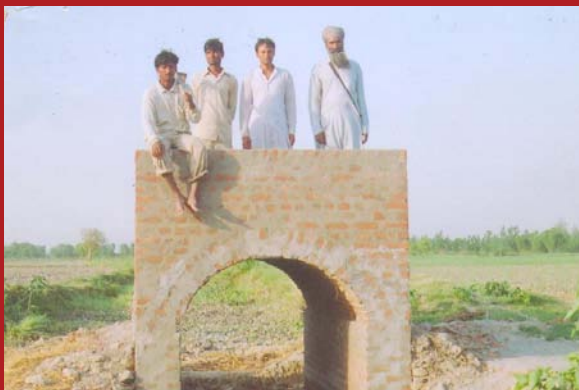
The wife of farmer Jabar Singh says that “with the extra income we can buy cattle, invest in small business, and improve our farming. Earlier, we had to travel long distances, over several days, to sell our paddy—sometimes even to other states—and there was also the danger of getting robbed on the way back.”

The living standards of entire farming villages improved as well, all without the use of child labor (which is prohibited in Sunstar’s purchasing agreements). Members of the Federation jointly and democratically decide how to use the fair trade premiums. Says the wife of farmer Rafal Singh, grinning, “Women are active participants in deciding which projects to undertake. When the improvement happens in the village, obviously everybody gains.”



The priority thus far for expenditure of the fair trade premiums has been infrastructure improvement. The monsoon season used to mean that tractors and bullet carts could not get through to the fields, and at times, even walking to farms was impossible. Now many of the participating villages have roads, bridges, drainage ditches, and bus shelters. Notes Rafal, “Since 2001, we have no problem reaching our fields. We can bring back the paddy to our village by tractors or carts.” Children who once fell sick from their waterlogged journeys can now walk to school. New fences around their schools protect them from stray cattle and garbage that used to be tossed onto the playgrounds.

With the assurance of a better price and organized procurement at their doorstep, farmers are now approaching Sunstar to join the federation, rather than the other way around. Even though the farmers’ contracts do not bind them to selling to Sunstar, “there is enough mutual trust between the parties where nobody abandons the other,” says Narender.



## History & Drivers

Sunstar Overseas Limited was officially founded in 1995 by two relatives, Naresh and Rakesh Aggarwal, but its origins predate this by a number of years. The Aggarwal family, current owners of Sunstar, previously owned a partnership firm called Star Overseas. Mindful that limited liability firms have a significantly easier time getting loans, the family decided to restructure the business. It remains family-owned, with the Aggarwals dominating the upper levels of management and industry professionals overseeing operational divisions.

The company’s first rice mill was built near Delhi in 1995, and the company has since expanded their facilities considerably. In 1999

and 2000, at the insistence of a major European buyer, Sunstar developed in-house product traceability from farm to mill. It also installed information systems, which they call enterprise resource planning (ERP), to coordinate all the firm's resources, information, and activities. Investing in modern machinery and facilities became a priority, spurred by the exacting requirements of foreign buyers.

When Sunstar decided to enter the organic market in 2000, the managers initially approached farmers with large land holdings in the Haryana and Tarai belt of Uttaranchal state. However, these growers, already successful, were uninterested in what they regarded as a risky conversion to organic production. After a year of discussions that went nowhere, Sunstar leadership turned instead to the vast numbers of small-scale, resource-poor, marginalized farmers, such as those in the Khaddar area near Haridwar. "Here we found farmers who were already doing organic production of basmati rice by default," says Ajay. "We just needed to help them organize and provide them with the right agronomic practices."

With the help of FLO, the Sunstar Federation was established in 2001, "to help small farmers get their due returns," according to a promotional video. In that first year 85 farmers joined. By 2003, the project received FLO certification. Over the next several years 1,800 farmer-members in 100 villages joined and collectively produced over 8,500 metric tons for Sunstar. Today, that number has reached 3,000 farmers with over 2,000 hectares under organic basmati cultivation. In September 2008, the president of the Khaddar area farmers' federation and the agricultural head of Sunstar were invited to Switzerland to present their success story to the FLO as part of "Fairtrade Fortnight."

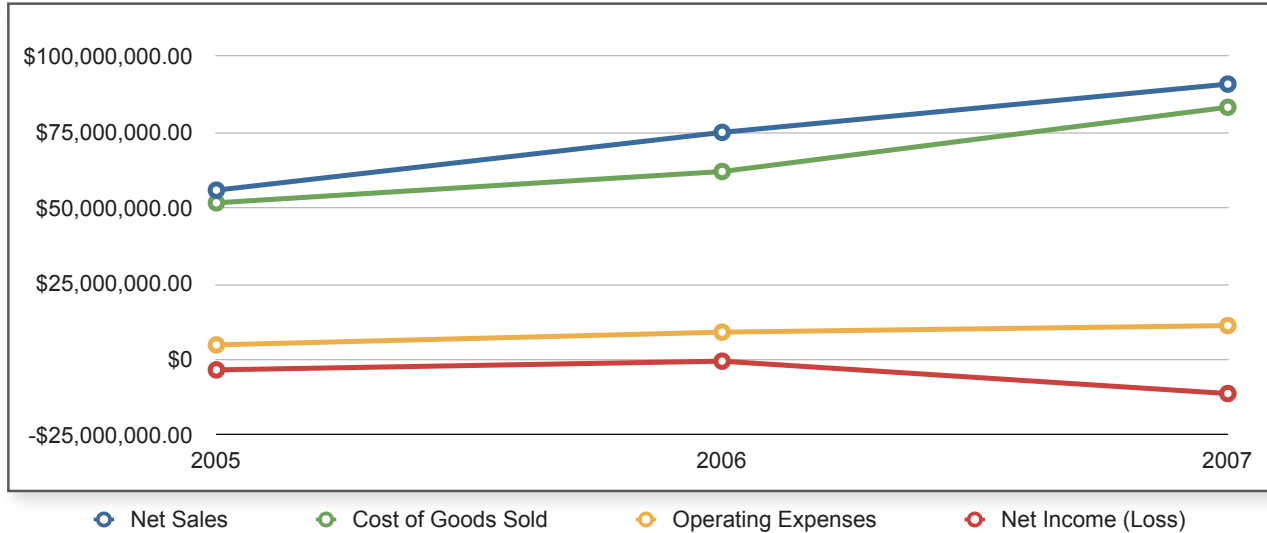
Since then, Sunstar has obtained national and international certificates for food quality, food safety and process management, including Fairtrade (certified by FLO), organic (certified by ECOCERT USA), Kosher (certified by Orthodox Union), ISO (International Organization for Standardization) 9001 (obtained in 2000), ISO 14001 (obtained in 2004), and ISO 22000. They also hold HACCP (Hazard Analysis and Critical Control Points), IPQC (In-Process Quality Control), and APEDA (Indian Agriculture and Processed Food Production Export Development Authority) designations.

## Key Challenges & Lessons

Sunstar's choices about their products, markets, and procurement methods have served them well in some respects, but created challenges in others:

- **Capital Requirements**—The advance purchasing agreements tie up huge sums of money that otherwise might be available for working capital. Income from sales can take more than 60 days. A few years ago, struggling to find enough working capital for facilities improvements and expansion, Sunstar began exploring going public, which would have ended local ownership of the company. Nervous that they wouldn't find enough investors to support their work, the Aggarwals decided to keep the company family owned, but such a change in corporate structure remains a potential solution to the need for more capital.
- **Price Vulnerability**—By focusing on organic basmati, Sunstar grew 25% in its first three years. But then, in 2007, the market price for basmati fell dramatically. The company couldn't sell half the harvest, and the surplus made plans to add more farmers impossible. "We are still upbeat," says Ajay, "as prices should go up this year and we should be able to offload this stock." Even if prices do rebound, organic basmati remains a niche market that Sunstar has effectively captured. As such, Ajay does not seek to expand the company's organic basmati production further.
- **Domestic Fair Trade Market**—The fair trade system works by passing along the additional costs to consumers who are willing to foot the bill for better social and environmental practices. For Ajay, it's an imperfect system. "Apart from the consumer, other actors, including traders in the fair trade value chain, are not required to contribute 'their share' of the profits in the process." India currently lacks a consumer base interested in an organized practice like fair trade, due at least in part to informal trading between farmers and consumers in smaller towns and markets. As a result, Ajay doesn't see a strong domestic market for fair trade rice in the near future.
- **Competition**—Sunstar's special niches now face competition from abroad. Market demand for Indian organic basmati continues to grow in Europe, but so do the number of exporters. In the United States, which Sunstar has targeted for increased sales, it has run into competition from a Texas-based firm, RiceTec, which grows a new type of basmati, called Kasmati, adapted to grow in American environmental conditions.
- **Intellectual Property**—RiceTec got a boost when the United States granted the company a U.S. patent for Kasmati. Livid, the Indian government challenged the patent and threatened to take the issue to the World Trade Organization. The United States responded by revoking portions of the patent and RiceTec agreed to

## Financial Performance



*Quite a bit of uncertainty surrounds the financial statements for Sunstar and further investigation is warranted to better understand the accounting practices used. Based on available information, their financial statements show a profit each year, but it must be noted that their books count the value of inventories as income, though it is not actually revenue. From an operational perspective, the enterprise appears efficient and has posted an operating profit in three of the last four years, but non-operating expenses and high interest expense are weighing down net income, driving a net loss in all four years for which we have data. Rough estimations of cash flow indicate negative cash flow for each year, which is of concern, and debt ratios show that the company's debt is weighing more and more heavily on its financials. There are indications that the underlying business model may be sound, but without lower cost financing and better cash management this business is unlikely to survive.*

give up part of their claims. But many basmati producers feel the issue is far from settled. Indian scientists are now mapping the DNA of basmati rice, and together the Indian and Pakistani governments are seeking to protect basmati with "geographical identification" status. This would recognize the regional genesis and authenticity of the product, and prevent producers in other areas, like RiceTec, from using the same name—a status that French champagne enjoys, for example.

Sunstar's success could be replicated by any firm smart enough to identify a clear market opportunity, to create a strong product with excellent quality control, and to carefully cultivate relationships with farmers. But as the 2007 price drop evidenced, the model has its weaknesses. The long-term success of a company like Sunstar depends on diversifying its products and market, both of which it is now trying to do.

But perhaps the real key to replication is group certification, whether organic or fair trade—or both, as in the case of

Sunstar. It's an alternative to the cumbersome certification of individual farmers that they never will be able to afford themselves. It also builds the capacity of these farmers through training in agricultural methods, inventory tracking, group decision making, and leadership development. Involvement in the fair trade movement, in particular, has helped build trust between the company and the Khaddar farmers. Sunstar therefore stands as a model for how the social bottom line can boost the economic bottom line.

## Social & Environmental Performance

### B Corporation Report Card Score: *Did not qualify\**

\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"

Explanation of Results: The B Survey was created by the non-profit B Lab as a certification process for social and environmental performance. As such, their rating system did not always match with the values of the CFE study, but did serve to reveal where enterprises are strong in performance and where they could focus in the future. Though Sunstar's products may not reach the neediest consumers and ownership of the enterprise is consolidated, we believe its achievements in fair-trade, the boost it provides to the local economy via significant local purchasing, its environmental advancements, progress toward a more balanced portfolio of export and domestic markets, and entrepreneurial creativity are noteworthy, and make Sunstar worthy of the being considered a "community food enterprise."

For our full assessment of the B Survey results for Sunstar Overseas Limited, please see Appendix 1: About B Corporations.

### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	No
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Paid/unpaid medical sabbatical with job security</li> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• Retirement plan for full-time employees at least partially paid for by company</li> <li>• Health insurance</li> <li>• Short-term disability</li> <li>• Paid sick leave</li> <li>• Paid vacation</li> <li>• Paid maternity leave</li> <li>• Health and wellness programs</li> <li>• Counseling services</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	Fair trade certification through Fairtrade Labelling Organizations International (FLO)
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy usage measured annually</li> <li>• 5-25% energy from renewable sources</li> <li>• 5-25% energy from renewable onsite production</li> </ul>
Membership in association(s) that foster environmental stewardship?	ISO 14001, kosher through Orthodox Union, organic certification through ECOCERT, fair trade certification through Fairtrade Labelling Organizations International (FLO), and Demeter certification for biodynamic production
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by a local institution</li> <li>• Supplies and services: 1-20% of expenditures (other than labor)</li> </ul>

## Sylva Professional Catering Services Limited

“In other countries, almost everywhere you go, people promote their local foods,” complains Sylvia Banda, “but not so much in Zambia.” Her business, Sylva Professional Catering Services Limited, aims to fill this niche for visitors and locals alike. Besides catering, she also founded three profitable subsidiaries that specialize in Zambian cuisine: Sylva Professional Catering College; Sylva Foods Guest House, a restaurant and soon a hotel; and Sylva Food Solutions, a food processing business for domestic and export markets that also provides training to farmers and has recently ventured into manufacturing low-tech food processing equipment.

“Sylva Catering,” she says, “is a leader in the traditional food business circles. We always strive to be ahead of our competitors.” But Sylvia is more than an entrepreneur. She is also the country’s most prominent spokesperson and impresario for local food. She rubs elbows with presidents and first ladies from Zambia and the wider region. She and her husband have authored a popular cookbook with recipes from regions across the country. She purchases her raw materials from small-scale farmers throughout the country, and has helped to mobilize assistance and training for them from development organizations like International Development Enterprise (IDE) Zambia. And through her college she prepares the next generation of food service professionals according to her core values: quality, ethical behavior, professionalism, innovation, service orientation, and personal drive.

While Sylvia continues to struggle with many challenges typical of small and mid-scale businesses, she has distinguished herself through excellent niche identification. Plus, she sees farmer and employee training as “economic emancipation.”

### Business Model

Sylva Catering has always been a family-owned business. Her success has come from identifying a strong market niche, diversifying within this niche, targeting local and export markets, and training her suppliers and employees to meet her exacting standards.

“Sylva Catering’s core business is the promotion of indigenous Zambian foods,” Sylvia explains, “but within this, we address a number of food issues from food preservation to food preparation.” Her website goes further: “Our mission is to promote healthy eating habits in Zambia, encourage the consumption of nutritious foods, and to offer the highest quality training in the hospitality industry and thereby ensure the best corporate and national practices. We want to be the leading traditional food marketing and personal development organization in Zambia and beyond.”



All photos by Sylva Professional Catering Services Limited

### At a Glance

#### Where

Lusaka, Zambia (with collaborating partners in other regional locations)

#### Year Founded

founded in 1986, incorporated in 1991

#### What

Catering, restaurant, processed foods, and training

#### Number of Employees

73 (2008)

#### Total Revenues

US \$507,042.61 / ZMK 20,511,432.52 Zambian kwachas (ZMK)

#### Founders

Sylvia C. and Hector Banda

#### Website

<http://sylvafoodsolutions.com/profile.html>



Sylva Catering, the flagship enterprise in the business, offers catering services at “all levels and scales” for “both the Zambian and international clientele.” It is based at the University of Zambia’s (UNZA) Great East Road campus in Lusaka in the Main Dining Hall, and at the country’s National Council for Scientific and Industrial Research. Sylvia argues that the university location enhances the public image of her business, and provides support capacity for her short- and long-term professional training programs.

From her core business, Sylvia has expanded into processing and packaging traditional Zambian foodstuffs with Sylva Food Solutions. Her products include unprocessed (pure) Zambian honey, millet, dried seeds like pumpkin and pounded groundnuts, dried herbs, a variety of vegetables like garlic, cassava, okra, and African eggplant, and proteins like dried fish and game meats. These products are sold locally and exported to other African countries like the Democratic Republic of Congo and Mozambique.

Her latest business has been to design and sell advanced food processing equipment like the Sylva Solar Food Dryer. The food dryers exemplify how Sylvia tries to help small-scale and rural farmers in Zambia become more competitive. The equipment dries food about 5-10 times faster than can be achieved through “bare sun drying.” It minimizes contact between the farmer and the food, which helps meet the stringent hygiene requirements of Sylvia’s export market and the safety needs of local consumers. It increases the freshness and nutrient content of farmers’ products. Its portability means it can be taken from field to field, or family to family. Finally, the dryer prevents waste, since unsold food products can be dried and then sold at a higher market value or kept for personal consumption.

More generally, Sylvia has succeeded by bringing more and more of her business under her own control. She trains suppliers and employees herself to ensure quality products and customer service, without losing sight of her core business.

Committed to expanding the income opportunities of farmers in Zambia, Sylvia has also partnered with a number of development organizations, both local and international. “We have undertaken several assignments under the auspices of many government institutions like the Ministry of Community Development and non-governmental organizations like Agriculture Support Programme (ASIP), CARE International Zambia, IDE, Catholic Relief Services (CRS), and World Vision Zambia, respectively. Through these partnerships we are reaching

## Business Model Overview

### Sector

*Service; Production:*  
Processing, wholesale, retail

### Ownership Type

Single-owner limited liability corporation (LLC)

### Local Ownership

Yes (100%)

### Products

Honey, millet, dried seeds, dried herbs, dried fish, game meats, and a variety of vegetables like cassava, okra, and African eggplant

### Market

Domestic and export (Democratic Republic of Congo and Mozambique)

### Customers

Range of local and international catering clients; domestic and international wholesale buyers for food products and equipment sales; producers throughout Zambia for supplier training

### Niche(s)

Promotion of indigenous Zambian foods, employee training, supplier training, supply chain management, economic development and producer empowerment, development of specialized food drying equipment

out to various vulnerable groups in rural Zambia. Our goal is to bring together a number of common interest groups with the basic aim of developing and inculcating better nutritional values and bringing economic emancipation directly to rural dwellers.”

Sylva uses these partnerships in several different ways. She encourages individual farmers to form or join marketing associations. She trains farmers on harvesting methods, the curative and medicinal values of indigenous plants and foods, and the principles of hygienic food preparation and preservation. She preaches sound environmental management by, for example, teaching methods for reducing the use of pesticide. Her workshops promote the idea that hunger can be reduced by growing local food and reducing reliance on imported foodstuffs.

For Sylvia, partnering with rural and small farmers makes business sense and represents the kind of service she believes a business should provide to its community. Her trainees are obliged to sell to her. More importantly, the 5,000 farmers she has trained thus far are “able to improve their economic status and send their children to school from the money that they raise through improved production.”



## History & Drivers

“I learned how to cook from my mother and from experimentation,” says Sylvia, reflecting on the launch of her business in 1986. “I started by getting a place in the industrial area in Lusaka. I could not afford to get a loan from the bank. At that time it was not easy for a woman to be given a loan by any lending institution. On the first day of operations I had no tables and chairs. I jokingly told my clients, ‘Welcome to a standing buffet!’” And all I did was use foodstuffs from home, and prepare and serve in this small restaurant.”

But somehow it worked. “Surprisingly, even with those early circumstances, all my meals sold out. After a few days of operations, I managed to make more than a hundred dollars, which I quickly invested back into my business.” This was the birth of Sylva Professional Catering Services. Within a year, Sylvia was running a full cafeteria and managing big catering jobs.

In 1991 Sylva Catering was incorporated and in 1995 moved its offices from Lusaka’s industrial neighborhood to the University of Zambia campus. Her first subsidiary company, Sylva Professional Catering Training College, followed in 1997, and Sylva Food Solutions was founded in 2003. She now operates a third subsidiary, the Sylva Guest House, which she hopes to turn into a full-service, top-of-the-line hotel and restaurant.

The parent company and all subsidiaries are owned by Sylvia and her husband Hector. “At the moment, we are solely owned by the family and do not have any external investment. However, we are very open to anybody that wishes to invest in us provided they are Christians—this is very key to us.” To date, however, no additional investors have been forthcoming.

All together, Sylva employs 73 workers. She is very strict about professionalism among her employees, but also believes that she and her business managers have a responsibility to lead by example and help each worker develop professionally..

## Key Challenges & Lessons

Sylvia believes that development is first and foremost about local food. “Food defines people’s history, who they are and where they ought to be going in their endeavor to arrive at their own identity.” Despite her significant entrepreneurial success and the relative fame that has come with it, Sylvia’s businesses still face tough challenges, including some they have been trying to tackle for two decades:

- *Access to capital*—Capitalization is difficult for small and family-run businesses the world over, but Sylvia must also contend with cultural norms that make it almost impossible for a woman—even a proven entrepreneur—to receive loans. One solution for Sylvia was to name her husband as executive chairman. Additionally, “finding collateral and the red tape involved in this process has proven to be a hindrance to the development of the enterprise.”





- *High standards*—Sylvia has struggled to ensure that her small-scale farmers produce a steady supply of foods that meet her exacting standards. “Low levels of farmer education and low agricultural productivity are two challenges for us in producing vegetables that meet acceptable international standards.” To address this, Sylvia starts with farmer training in production and handling methods, and continues her technical assistance and oversight through food preparation and packaging. Still, foreign business is not as good as she has hoped. “Sylva Food Solutions is not exporting as much as I thought it would due to many limitations both locally and internationally. International sanitary and phyto-sanitary measures are a barrier to trade.”

***“Our goal is to bring together a number of common interest groups with the basic aim of developing and inculcating better nutritional values and bringing economic emancipation directly to rural dwellers.”***

***~Sylvia Banda, owner***

- *Location and limited space*—Although she successfully moved from a cramped, industrial zone to the University of Zambia campus, which affords significantly greater visibility and access, Sylvia still struggles with location. Lacking capital, Sylvia has been unable to purchase buildings or land in the best places. And without owning her own property, she is limited in how much, how quickly, and how securely she can expand her businesses. “Sylva Catering is faced with limited space for the wide range of our activities. To this effect, we have bought a piece of land and soon construction of a training college and a five-star hotel will begin. All the traditional Zambian foods will take the pride of place on the hotel menu.”

When asked what she would do differently if she had the chance, Sylvia is unequivocal: “Well, I would follow the same steps I did in the past.” And those steps can be followed by others.

Key to Sylvia’s success was her ability to identify a market niche for traditional foods, and carry it into local catering and cafeterias. She also focused on improving the quality of her inputs, and helped create a local food supply chain that didn’t previously exist.

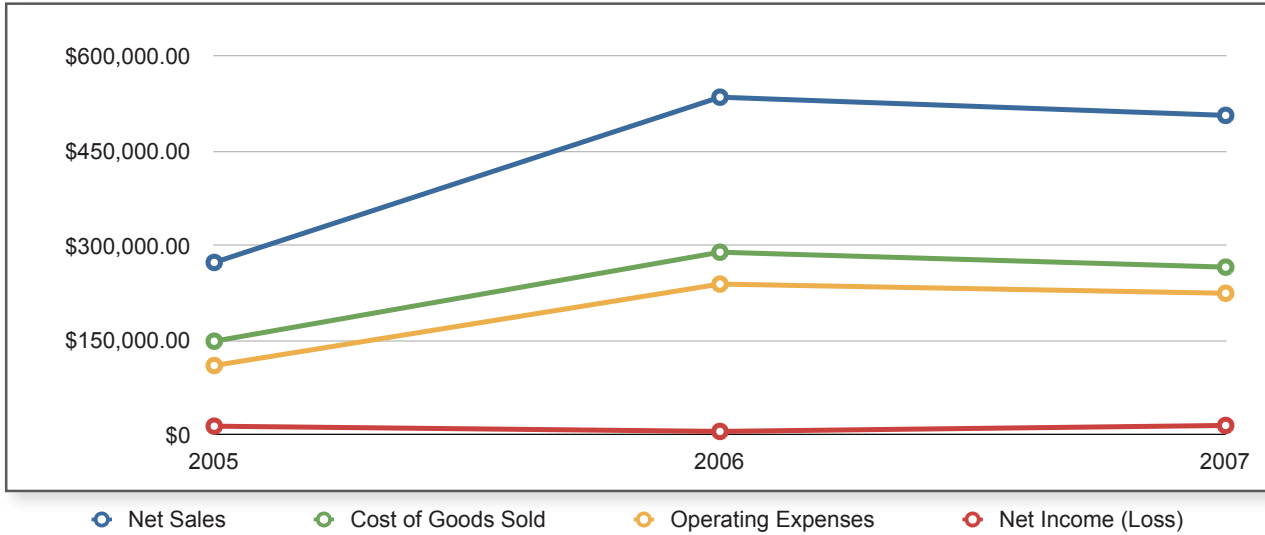
Sylvia also took risks others might not. She invested

personally in a diversified portfolio of businesses in a niche that was not well established. As with many owner-operated enterprises, Sylvia’s leadership and vision—along with her infamous drive and outspoken nature—helped too. Sylvia smiles as she notes, “Determination, creativity, and focus are among the personality traits which one must have. And perseverance.”

Development organizations also deserve credit. Sylvia’s training program for farmers grew her business. Partnerships with groups like IDE Zambia also have improved Sylvia’s skill set and allowed her business to exert positive impacts far beyond its relatively small size.

Sylvia believes that entrepreneurs like her can succeed in other countries. “They should have a passion for developing indigenous products that result in real development for the country. Additionally, they should promote consumption of traditional foods which grow naturally and are healthy. And finally, they should have a passion for working with vulnerable communities who should have a share in the development of the economy.”

## Financial Performance



*From the information available, it appears Sylva Professional Catering Services, Ltd is on a positive trajectory. Their net sales have been strong, though with a decline in 2007, and they appear to be doing a good job of managing cost of goods sold to maintain a consistent margin. They have been net positive for the three years reviewed, with some fluctuation. Note that this operation did not provide balance sheet information, so it was difficult to get a full picture of their operation.*



## Social & Environmental Performance

### B Corporation Report Card Score: *Pass\**

*\* According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

#### Additional Indicators

Indicator	Findings
<b>Social &amp; Labor Stewardship</b>	
Established mechanism for worker representation in decision making/management?	Yes
Benefits provided to employees and their families?	<ul style="list-style-type: none"> <li>• Part-time/flex work schedules (5% using)</li> <li>• Job sharing (65% using)</li> <li>• telecommuting (100% using)</li> <li>• Paid/unpaid medical sabbatical with job security</li> <li>• Living wage to all part-time &amp; full-time employees</li> <li>• Retirement plan for full-time employees at least partially paid for by company</li> <li>• Health insurance</li> <li>• Dental insurance</li> <li>• Life insurance</li> <li>• Short-term disability</li> <li>• Long-term disability</li> <li>• Paid sick leave</li> <li>• Paid vacation</li> <li>• Paid maternity leave</li> <li>• Paid paternity leave</li> <li>• Health and wellness programs</li> </ul>
Membership in associations that foster labor, community, or societal stewardship?	Investor Circle
<b>Environmental Stewardship</b>	
Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues?	Yes
Energy conservation or renewable energy practices?	<ul style="list-style-type: none"> <li>• Energy usage measured annually</li> <li>• Energy efficiency policies</li> </ul>
Membership in association(s) that foster environmental stewardship?	No
<b>Local Economy Stewardship</b>	
Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce?	Yes
Expenditures (other than labor) directed towards independent local suppliers?	<ul style="list-style-type: none"> <li>• Banking: Majority of services provided by a local institution</li> <li>• Supplies and services: 60+% of expenditures (other than labor)</li> </ul>

## Appendix 1: About B Corporations

While there are many rating systems for social performance available, the B Survey seemed particularly well-suited for the CFEs studied here. Ideally, a third party evaluates a company's practices, top to bottom, but in practice this kind of evaluation is very slow and exceedingly expensive (one well-known socially responsible company has spent over \$1 million per year for this). For most CFEs, this level of expenditure is wildly unrealistic. Moreover, so few companies undertake such a comprehensive inventory, or do so with similar metrics, that it's almost impossible to glean meaningful information about their relative performance. This is a classic instance of the perfect being the enemy of the good.

The B Survey, designed by a non-profit called B Lab, emphasizes the value of creating metrics that are quick, low-cost, and informative. The Survey is a web-based tool that is designed to be comprehensive yet user-friendly. Most businesses can complete it within 90-120 minutes. It is free and open to the public. With these features, all kinds of companies, large and small, can participate. In the first year of its existence over 3,500 businesses and consumers have registered to use the B Ratings System. Many companies use it to benchmark their performance and set internal goals, while other organizations are repurposing it to screen investments, customers, or suppliers. Several sustainable business networks also make the assessment a requirement for membership.

Participation in the B Survey process makes it possible to measure performance year after year and see progress, both relative to one's self and relative to other companies generally, in your community, and in your market niche. A weakness, of course, is that the survey depends on self-reporting. But the survey works on an honor system, and any company found in breach will get enough bad publicity to discourage willful misrepresentation.

Performers that achieve B Corp certification are able to use it in their advertising. Already there are over 150 Certified B Corporations from over 30 industries, representing \$1 billion in collective revenues and \$6 billion in capital under management. To earn the certification, B Corporations not only have to meet the 80-point bar on the B Ratings System, but they also must undergo a variety of credibility and assurance tests. Each company must go through the Survey Review process with a B Lab staff member to make sure that all answers accurately reflect the intention of the question. It must submit documentation for approximately 20% of their survey answers. And one out of five companies must submit to auditing during a two-year period.

Version 1.0 of the B Survey was developed over the last three years and has been reviewed by 600+ entrepreneurs,

investors, thought leaders, and academics, all of whom have had the opportunity to offer line-item critical feedback. It uses the best available open-source performance standards and impact metrics from numerous sources, including the Global Reporting Initiative, Wisier Business (a project of the Natural Capital Institute), and the Social Venture Network. The B Survey is governed by the Standards Advisory Council (SAC), an independent body of nine members, each with a deep industry or stakeholder expertise. Version 2.0 is now undergoing a year of public beta testing.

We found the 1.0 B Ratings System better suited to private corporations than to cooperatives and nonprofits (the 2.0 B Ratings System will fix this). B Lab also is overhauling its surveys to be much more specific to different industries, with food cutting across many of them.

For more information on the B Survey, check out the website of the organization behind the survey, B Lab, at [www.bcorporation.net/](http://www.bcorporation.net/).

### Detailed Discussion of Enterprises that Did Not Pass B Survey

#### Anna Marie Seafood

According to the B Ratings System established by B Lab, Anna Marie Seafood had strong scores for "leadership" (high marks in governance/accountability), "practices" (very strong scores in conducting business as if people matter, and strong scores in moving toward a positive environmental footprint and providing opportunities to those traditionally without), "employees" (work environment) and "community" (local economy benefits). Anna Marie Seafood ultimately did not qualify due to a general lack of formalized social and environmental policies and procedures, along with low scores in "practices" (low marks for not engaging in direct service, which offset higher scores mentioned above), "profits" (low marks for not distributing wealth through broad ownership and not supporting the community through charitable giving, which offset higher marks in compensating employees fairly), and "products" (low marks for not delivering a product that is inherently beneficial to society, which offset higher marks for using a beneficial method of production). Further, it is worth noting that the B Survey is not well-suited to measuring positive environmental impacts from a small fishing operation.

*What's the bottom line?* Though its products may not reach the neediest consumers and ownership of the enterprise is consolidated, we believe Anna Marie Seafood's strong innovations in environmentally-sensitive fishing methods

and gear (especially in an industry most often criticized for its environmental impacts), its pioneering and entrepreneurial use of onboard freezing, and achievements in direct marketing in an American market dominated by foreign farmed shrimp, make Anna Marie Seafood worthy of being considered a “community food enterprise.”

### **Indian Springs Farmers Association**

According to the B Ratings System established by B Lab, Indian Springs Farmers Association had excellent scores in “practices” (high marks for providing opportunity to those traditionally without, conducting business as if people matter, and engaging in direct service) and “leadership” (high marks for governance/accountability and transparency/reporting), and “employees” (high marks for work environment). They also earned strong scores in “community” (diversity/broad ownership and local economy benefits). Ultimately, Indian Springs did not qualify due to a general lack of formalized social and environmental policies/procedures, and due to low scores in “products” (delivering a beneficial product or service, using beneficial methods of production), “profits” (okay marks in compensating employees fairly offset by low scores in supporting your community through charitable giving), and “consumers” (serving those in need). Further, it appears Indian Springs was harder on itself when judging the inherent societal benefits of its products than were some of our other enterprises when self-reporting

*What’s the bottom line?* Although Indian Springs Farmers Association is quite informal when it comes to book keeping and does not stipulate particular production or business practices to its members, its achievements in providing equitable and profitable economic opportunities for small farmers and farmers of color, and its long history of supporting other cooperatives and incubating innovations locally and in sister countries in the developing world, make it worthy of being considered a “community food enterprise.”

### **Cabbages & Condoms**

According to the B Ratings System established by B Lab, Cabbages & Condoms had strong scores in “profits” (perfect scores for supporting community through charitable giving, and high marks for compensating employees fairly), and “leadership” (high marks for transparency/reporting and governance/accountability). But Cabbages & Condoms did not ultimately qualify due to low scores in “products” (delivering beneficial products or

services), “practices” (okay scores in conducting business as if people matter and engaging in direct service offset by lower scores in serving those traditionally without), and “employees” (strong scores in compensating employees fairly and compensation and benefits offset by low marks for not distributing employee ownership). It’s worth noting the B Survey was not able to fully or effectively measure this business model, given that ownership was necessarily consolidated in order to direct all profits to the linked NGO.

*What’s the bottom line?* Although the average Thai person may not frequent Cabbages & Condoms restaurants and resorts, they are certainly well-served as employees and as recipients of a wide range of public health, community, and environmental programs made possible through profits from these enterprises. Given the entrepreneurial innovations of this business model—finding a sustainable and replicable solution for the typical grant-reliant nonprofit—and the enterprise’s fundamental commitment to serving its communities, we believe Cabbages & Condoms is worthy of being considered a “community food enterprise.”

### **Sunstar Overseas Limited**

According to the B Ratings System established by B Lab, Sunstar had excellent scores for “leadership” (high marks in governance, accountability, transparency, fair trade, and supplier code of conduct), and strong scores on “environment” (corporate office and manufacturing facilities) and “practices” (conducting business as if people matter, and moving toward positive environmental footprint). But Sunstar did not ultimately qualify due to low scores in “community” (lower scores in broad ownership and charity/direct service, which offset high scores in support to the local economy), “consumers” (low scores regarding providing a beneficial product and serving those most in need), and “profits” (higher marks for compensating employees fairly, but lower marks in charitable giving and for not distributing ownerships).

*What’s the bottom line?* In the case of Sunstar, though its products may not reach the neediest consumers and ownership of the enterprise is consolidated, we believe its achievements in fair-trade, the boost it provides to the local economy via significant local purchasing, its environmental advancements, progress toward a more balanced portfolio of export and domestic markets, and entrepreneurial creativity are noteworthy, and make Sunstar worthy of being considered a “community food enterprise.”

## Appendix 2: A Note on Interpreting Our Financial Analyses and Currency References

### Interpreting Our References to Global Currencies:

All our **financial analyses** were performed in the local currency. Final conversions to U.S. dollars were performed after the analysis was completed, and were based on conversion rates on March 31 of each year under study (i.e., 2007 financial data were converted using historical rates from March 31, 2007; 2006 data were converted using rates from March 31, 2006, and so forth).

For **currency amounts referenced in the narrative text** of each case study (for example, the cost of a product sold or the amount of a loan obtained by an enterprise), these conversions were calculated using the real-time conversion rates for September 20, 2009.

### Interpreting our Financial Analyses:

**Total revenue:** The entire amount of money taken in by a business in a particular time period.

**Net sales:** Gross sales minus returns, discounts, and allowances.

**Cost of Goods Sold:** The cost of purchasing raw materials and turning them into finished products. These are the direct costs of production.

**Operating expense:** Expenses incurred in the course of normal business operations but not direct inputs into production of goods. Distinguished from non-operating expenses, which are expenses incurred in performance of activities not directly related to the main business of the firm.

**Operating income:** Considered a measure of a company's earning power from ongoing operations, it is equal to earnings before deduction of interest payments and income taxes. Operating income is also called operating profit or EBIT (earnings before interest and taxes).

**Net income:** What remains after subtracting all the costs (operating and non-operating expenses, depreciation, interest, and taxes) from the company's revenues. Net income is sometimes called the 'bottom line,' earnings or net profit.

**SG&A:** Refers to Selling, General and Administrative expenses, which includes salaries, commissions, and travel expenses for executives and salespeople, advertising costs, and payroll expenses.

**EBIT:** see Operating income.

### Appendix 3: CFE Website Overview

The Community Food Enterprise website ([www.communityfoodenterprise.org](http://www.communityfoodenterprise.org)) is the online home of the full report, including analyses, case studies, and ongoing project updates. In addition to the research presented here, the online portal also provides additional content on our featured enterprises.

In developing each of the case studies, the project team amassed a wide array of invaluable multimedia content including interviews, photographs, news articles, videos, podcasts, presentations, and past research. While we edited down the essential information for our print version, our online portal makes a greater breadth, and depth, of these resources available, providing a richer portrait of the successes, challenges, experiences, faces, and voices of the remarkable enterprises we've studied. The site also includes links to other resources, including those of our featured enterprises, that provide additional insight into the growing movement to develop local economies through food—and other—enterprises.

As the enterprises have continued to innovate and expand, the body of news, articles, research, and resources chronicling their work has as well; the Community Food Enterprise website will be a dynamic source of information about their continued work and growth. We hope you'll continue to visit the site over time, as we add new features and news, and continue our commitment to sharing their lessons and successes.

Finally, we hope the online portal will be the first building block of a dynamic online learning community, where entrepreneurs, scholars, media, funders, policymakers and others committed to local enterprise as a tool for strengthening local economies can come together to learn and share, from the case studies, and from each other. Our hope is to transform the site with an interactive database where users can upload and study a broad range of community food enterprises from around the world, and connect with those who have resources, tools, and lessons to share.

As we look to the future, we will be expanding the site to include features and tools that serve this community. To stay up to date on our latest work and become a part of this critical resource, please visit us at [\*\*www.communityfoodenterprise.org\*\*](http://www.communityfoodenterprise.org), and be sure to sign up for project updates or contact the project team at [\*\*info@communityfoodenterprise.org\*\*](mailto:info@communityfoodenterprise.org).

## Photo Credits

### *Front Cover Montage (Listed By Row, Starting Top Left)*

Beekeeper: Students Of The World  
Squash: Greenmarket  
Fisherman: Charmian Christie  
People In Field: The Intervale Center  
Boy And Goat: Organic Valley Family Of Farms  
Woman In Field: M C Nandeesh  
Man Woman In Field: Appalachian Sustainable Development  
Veggies On Table: Greenmarket  
Field: Organic Valley Family Of Farms  
Tables: Weaver Street Market  
Apples: Greenmarket

### *Page 2 Montage (Listed By Row, Starting Top Left)*

Potatoes: Dushiyanthini Kanagasabapathipillai  
Fish Grill: Charmian Christie  
Lots In Field: Fundación Paraguaya  
Boys In Field: Fundación Paraguaya  
Plastic Trays: Aree Chaisatien  
Outside Tables: Aree Chaisatien  
Nuts In Bowl (Center): Fouzi Slisli

### *Page 4: Students Of The World*

### *Page 6: Greenmarket*

### *Page 10: Greenmarket*

### *Page 12 Montage (Listed By Row, Starting Top Left)*

Boy With Donut: Greenmarket  
Hand With Seeds: Fouzi Slisli  
Greenhouse: The Intervale Center  
Man Kneeling In Field: Mississippi Association Of Cooperatives  
Field: Mississippi Association Of Cooperatives  
Woman Sitting: Fouzi Slisli  
Kids And Pumpkins: Greenmarket

### *Page 14: Bhimendra Katwal*

### *Page 18: White Dog Café*

### *Page 22: Divine Chocolate Ltd*

### *Page 26: Charmian Christie*

### *CFE Case Studies*

Photos are credited within each case study chapter



## Notes

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<sup>1</sup> When the government holds a majority stake in a company, it is, in our view, no longer a private enterprise. Since our focal point is community food *enterprises*, we consider government-run companies to be beyond the bounds of the study.

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<sup>2</sup> U.S. Census Bureau, Bureau of Labor Statistics, *Consumer Expenditure Survey 2007*, available at [www.bls.gov/cex](http://www.bls.gov/cex).

<sup>3</sup> U.S. Census Bureau, North American Industrial Classification System, *County Business Patterns 2007*, available at [www.census.gov/econ/cbp/index.html](http://www.census.gov/econ/cbp/index.html).

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<sup>4</sup> U.S. Census Bureau, *Statistical Abstract 2009*, Table 722, p. 483. The data cited are the most recent available, from 2005.

<sup>5</sup> David Osborne and Ted Gaebler, Osgood, *Reinventing Government: How the Entrepreneurial Spirit Is Transforming the Public Sector* (Reading, MA: Addison Wesley, 1992).

<sup>6</sup> Corporations, of course, are free to create multiple classes of shareholders with different kinds of voting rights, which may alter the one-dollar-one-vote principle. And cutting edge cooperative laws, such as those in Wisconsin, are allowing cooperatives to create a nonvoting class of members for private investors.

<sup>7</sup> For a deeper discussion of this point generally, see Michael H. Shuman, *Going Local* (New York: Free Press, 1998), pp. 83-105.

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<sup>8</sup> Michael Pollan, *In Defense of Food: An Eater's Manifesto* (New York: Penguin, 2008).

<sup>9</sup> See, e.g.: C. Wright Mills and Melville Ulmer, "Small Business and Civic Welfare," in *Report of the Smaller War Plants Corporation to the Special Committee to Study Problems of American Small Business*, Document 135. U.S. Senate, 79th Congress, 2nd session, February 13. (Washington, DC: U.S. Government Printing Office, 1946); and Thomas A. Lyson, "Big Business and Community Welfare: Revisiting A Classic Study," monograph (Cornell University Department of Rural Sociology, Ithaca, NY, 2001), p. 3.

<sup>10</sup> The best studies in this area have been done by two economists at Civic Economics based in Austin. See, for example: "Economic Impact Analysis: A Case Study," monograph (Civic Economics, Austin, Texas, December 2002); and "The Andersonville Study of Retail Economics," monograph (Civic Economics, Austin, Texas, October 2004). Both can be downloaded for free at [www.civiceconomics.com](http://www.civiceconomics.com). Discussion of other studies can be found in: "The Economic Impact of Locally Owned Businesses vs. Chains: A Case Study in Midcoast Maine," monograph (Institute for Local Self-Reliance and Friends of Midcoast Maine, September 2003); David Morris, *The New City-States* (Washington, DC: Institute for Local Self-Reliance, 1982), p. 6; Christopher Gunn and Hazel Dayton Gunn, *Reclaiming Capital: Democratic Initiatives and Community Control* (Ithaca, NY: Cornell University Press, 1991); Gbenga Ajilore, "Toledo-Lucas County Merchant Study," monograph (Toledo, OH: Urban Affairs Center, 21 June 2004); Justin Sachs, *The Money Trail* (London: New Economics Foundation, 2002).

<sup>11</sup> Michael H. Shuman, *The Small Mart Revolution: How Local Businesses Are Beating the Global Competition* (San Francisco: Berrett-Koehler, 2006), pp. 39-62.

## Notes

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<sup>12</sup>World Resources Institute, *World Resource 2000-2001 People and Ecosystems: The Fraying Web of Life* (Washington: Elsevier Science, 2000), p. 56.

<sup>13</sup>The growing, harvesting, raising, or capturing of specific foodstuffs are all dependent on many natural endowments – water, climate, ecology, genetics – that are not universally available. But technology is steadily leveling the playing field to the point where there are compelling examples of communities feeding themselves in every extreme—cold or hot, wet or dry, high or low, urban or rural. The development and spread of better and cheaper greenhouses, hydroponics, rooftop and suburban lawn gardening, and urban farms will hasten this equalization. A further point is that even if a community is capable of produce no raw foodstuff, it still in theory can find, from other communities, excellent models for small-scale food processing, distribution, retail, and restaurants. From a value-added standpoint, these may be by far more important than raw food production.

<sup>14</sup>See, e.g., Paul Samuelson & William Nordhaus, *Microeconomics*, 17th ed. (New York: McGraw Hill, 2001), p. 110.

<sup>15</sup>See Shuman, *The Small-Mart Revolution*, pp 225-29.

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<sup>16</sup>Stewart Smith, e-mail to Michael Shuman, 2 December 2005, updating Stewart Smith, “Sustainable Agriculture and Public Policy,” *Maine Policy Review*, April 1993, pp. 68–78.

<sup>17</sup>See, e.g., Christopher Steiner, *\$20 Per Gallon: How the Inevitable Rise in the Price of Gasoline Will Change Our Lives for the Better* (New York: Grand Central Publishing, 2009).

<sup>18</sup>Brian Halweil, “Home Grown: The Case for Local Food in a Global Market” (Washington, DC: Worldwatch Institute, 2003) (Worldwatch Paper #163).

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<sup>19</sup>National Federation of Independent Business, “Charitable Contributions Comparison,” January 2003.

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<sup>20</sup>According to the Agriculture of the Middle Task Force—a collaboration of academics and industry experts—the term “agriculture-of-the-middle” refers to “a disappearing sector of mid-scale farms/ranches and related agrifood enterprises that are unable to successfully market bulk commodities or sell food directly to consumers.” Available at <http://www.agofthemiddle.org/>.



#### **Winrock International**



Winrock International is a nonprofit organization that works with people in the United States and around the world to empower the disadvantaged, increase economic opportunity, and sustain natural resources.

[www.winrock.org](http://www.winrock.org)

#### **Wallace Center at Winrock International**



The Wallace Center supports entrepreneurs and communities as they build a new, 21st century food system that is healthier for people, the environment, and the economy. The Center builds and strengthens links in the emerging chain of businesses and civic efforts focused on making good food—healthy, green, fair, affordable food—an everyday reality in every community.

[www.wallacecenter.org](http://www.wallacecenter.org)

#### **Business Alliance for Local Living Economies**



BALLE's mission is to catalyze, strengthen and connect networks of locally owned independent businesses dedicated to building strong Local Living Economies.

[www.livingeconomies.org](http://www.livingeconomies.org)

#### **W.K. Kellogg Foundation**



The W.K. Kellogg Foundation supports children, families, and communities as they strengthen and create conditions that propel vulnerable children to achieve success as individuals and as contributors to the larger community and society.

[www.wkkf.org](http://www.wkkf.org)

#### **Bill & Melinda Gates Foundation**



Guided by the belief that every life has equal value, the Bill & Melinda Gates Foundation works to help all people lead healthy, productive lives.

[www.gatesfoundation.org](http://www.gatesfoundation.org)

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