

Developing Values-Based Distribution Networks for Small and Mid-scale Producers

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Project Goals



- Identify how successful “values-based” distribution networks involving small- and medium-scale producers are affected by:
 - **Access to financial capital**
 - **Governmental regulations and policies**
 - **Business/entrepreneurial savvy**

- Describe how these supply chains enhance the financial viability of small- and medium-size producers

- Educate producers, agbusiness lenders/funders, policy-makers & small business/community development consultants about factors critical to the development of successful values-based distribution networks

Methodology

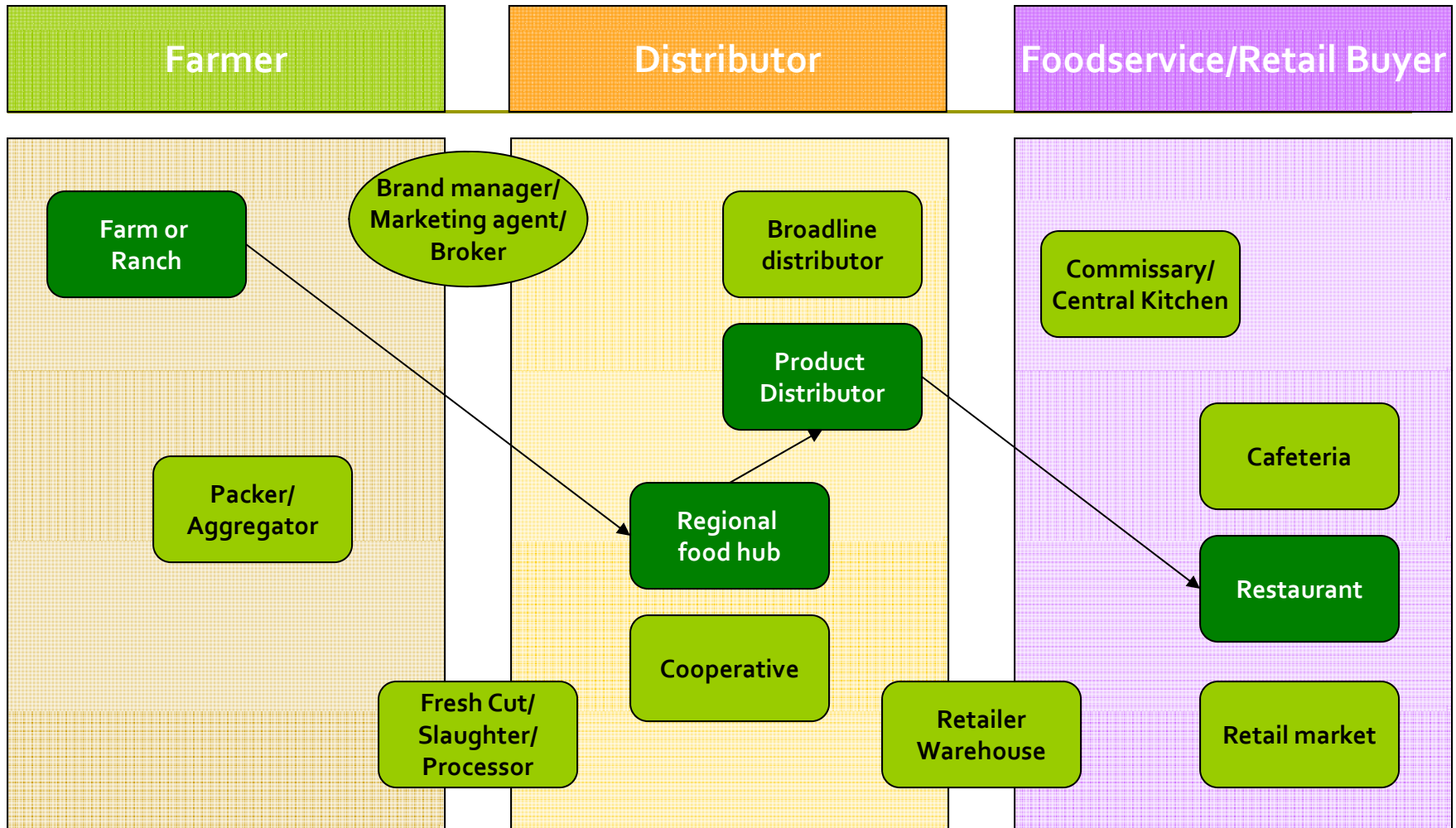
Phase I Research--Perspectives from “inside the chain”:

- 11 case studies of western US food distribution networks (values-based supply chains)

Phase II Research--Perspectives from “outside the chain”:

- 25-30 Interviews in each of 3 sectors :
 - Funders—including commercial banks, community banks, Farm Credit System entities, Community Development Financial Institutions, nonprofit small business lenders, USDA lenders, venture capital funds
 - Industry associations and government agencies
 - Economic and community development professionals

Entities Involved in Supply Chain Decision-making



Key:

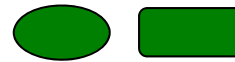
Influencer:
Does not touch
product (Oval)



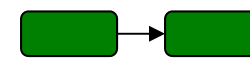
Handles product
(Rectangle)



Typical players in
this chain (Green)



Product flow
(Arrow)



Findings across Case Studies:

- **Distribution expertise and prior investment** in infrastructure is important for distributors.
- **“Right balance”** of small, mid-scale and large producers in distribution networks is important for financial viability of distributors.
- **For non-profits, separating distribution and branding/marketing** reduces their financial capital requirements and allows them to focus on their strengths.
- **Non-profits allied with distributors** will probably need to continue relying on **outside funding** (grants, etc.) to support their marketing and branding.

Findings across Case Studies:

- Until recently, retailers and institutional buyers, rather than government, have been largely responsible for imposing food safety standards (GAP, HAACP, etc.).
- Both producers and food service/retail buyers tend to place burden on the distributor for complying with food safety regs.
- Smaller growers will need to prepare for new GAP standards.
- Transparency and communication among VBSC partners are key
- The farmer's story and communicating it are important throughout the supply chain.
- Producers need to take responsibility for their own "story".

Phase II--Findings From Key Informant Interviews

- Most funders rated the importance of borrower's **suppliers** (on 1 to 7 scale) in their loan evaluation process as either '1' or '7'
- Only 2 of the 30 funders were concerned about the suppliers' environmental practices
- 70% of funders rated the importance of a borrower's **customers** as a '7' in their loan evaluation process
 - Want **diversification in client's customers and/or a strong customer base**
- Funders are primarily concerned about minimizing the risk created by their borrowers' suppliers and customers

Findings From Key Informant Interviews

- Key informants were asked which of the following types of regulations are most difficult to comply with for farmers in VBSCs
 - **Food safety** **43%**
 - **Environmental** **39%**
 - **Labor** **18%**
 - **Pack & Grade** **7%**
 - **Zoning/Land Use** **4%**

- Overall, the 3 sectors were most likely to identify market demand as top challenge to the viability of farmers and entire VBSC:
 - **public understanding/appreciation of the value of these benefits**
 - **market confusion about what terms, standards and labels really mean**
 - **marketing values throughout supply chain**



Findings From Key Informant Interviews

- Four other factors most likely to be identified by all three sectors as challenges to viability of producers and *entire* VBSCs:
 - **Appropriately scaled infrastructure**
 - **Economically efficient supply**
 - **Business acumen**
 - **Regulations**



Conclusions From Key Informant Interviews



- Market development, market access, and consumer education for products that provide environmental and/or community benefits are significant challenges to viability of entire VBSCs, as well as the producers involved
- Development of local/regional food processing, storage and distribution facilities could significantly enhance the viability of entire VBSCs, as well as the producers involved

Outreach to support VBSC development

- Current & Planned Producer Assistance
 - Provide training on regulatory compliance, business planning, recordkeeping and finance to producers involved with VBSCs
 - Assist VBSCs in educating consumers regarding environmental and community benefits generated by VBSCs
 - Conduct assessments of local/regional food processing, storage and distribution facilities
 - Facilitate collaboration among producers needing such facilities
 - Identify potential funding sources for such facilities
- Educate funders, policymakers & business advisors about factors critical to development of successful VBSCs
 - workshops with industry groups, articles in industry publications
- Educate distributors and buyers
 - farm tours, food safety issues

Project Outcomes

- “Aggregation hubs” or “regional food hubs” are emerging for small/mid-scale producers to consolidate products
- Expanded market for values-based foods along with development of appropriate infrastructure will provide scale efficiencies to VBSCs
 - thereby generating fair returns to producers and enabling consumers to purchase values-based products at affordable prices