

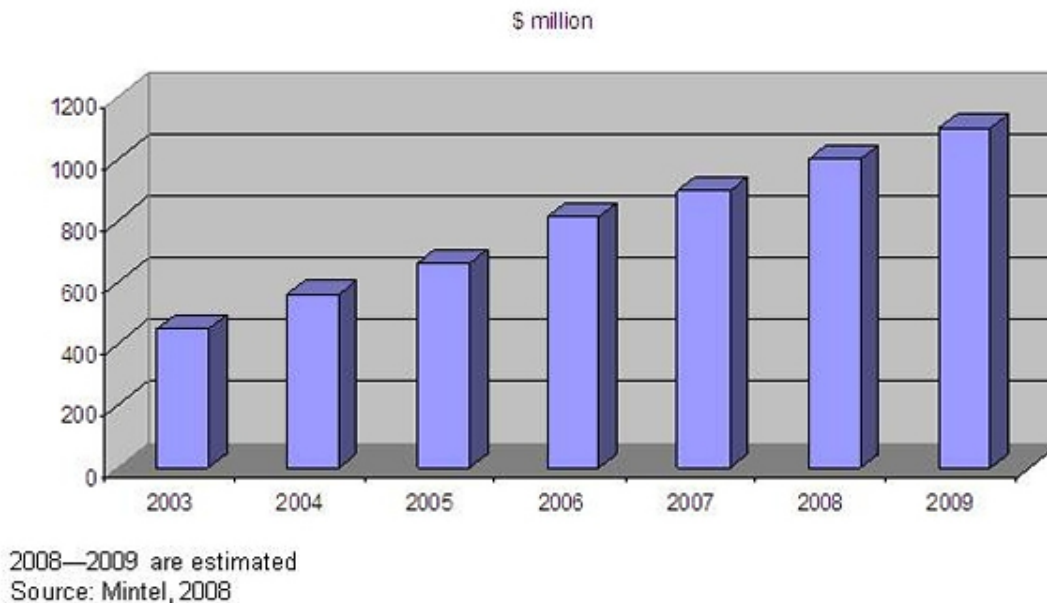
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HANDLERS PERSPECTIVES ON SOURCING ORGANIC PRODUCE FROM THE GREAT LAKES REGION

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Organic food sales continue to grow despite the current economic downturn. The Organic Trade Association predicted sales of organic food and beverages to top \$23 billion in 2008 (OTA, 2007). Of this, fresh produce account for approximately \$1 billion (Mintel, 2008). Despite the significance of organic fresh produce sales, there is little information on the retail and wholesale demand for regionally produced organic fresh fruit and vegetables in the Great Lakes region (GLR). Similarly, organic farmers in the GLR still find it challenging to participate in this rapidly expanding market.

Figure 1 U.S. Sales of Organic Fruit and Vegetables, 2003-2009



Recent reports on organic agriculture in three Great Lakes states (Bingen, Osborne, and Reardon, 2007; Miller, Carusi, Vatovec, and Foltz, 2006; Minnesota Department of Agriculture, 2006), indicate that certified organic produce farmers rely largely on a mix of direct to consumer, retail and restaurant marketing strategies. At the same time, the 2004 ERS survey of organic handlers found that 16% of fruit and vegetable handlers experienced critical shortages of their products for sale (Dimitri and Obelholtzer, 2008). These shortages of organic produce reported nationally by organic handlers present an opportunity for farmers and handlers to explore strategies which could help organic farmers move from a mostly direct marketing strategy to including wholesale and retail sales in their production and marketing portfolio.

Porter's (1991) position on competitive advantage can be applied to organic farmers. In order to gain competitive advantage they need to be either low cost providers or become unique in the marketplace. Producing organic products for the GLR markets could contribute to either strategy: offering differentiated products not currently available or scaling up to increase sales volume. Dobbs, Shane, and Feuz (2000) recommended that more regionalized strategies would be needed in the United States to encourage and preserve organic farming and marketing by small-scale, independent and entrepreneurial family farms. Consistent with this recommendation, we suggest that the development of a successful strategy for expanding organic production and marketing in the GLR needs to be based on a better understanding of the challenges and opportunities identified by produce buyers for sourcing organic produce from small-scale family farmers.

As a first step in developing such a strategy, we address the following questions: a) are noncertified organic handlers interested in sourcing and selling organic produce from the GLR? If they are interested, b) what do they identify as constraints on, and opportunities for doing so? and c) What is their perception about relying on farmers in the region to supply them with fresh produce? To answer these questions, we contacted 115 produce handlers who were registered in a directory of fresh produce handlers in Michigan. The handlers we contacted ranged from growers, shippers, wholesale distributors to food service buyers (Table 1). This article reports on the answers of Michigan-based fresh produce handlers about what they identify as opportunities for, and barriers to, sourcing more organic produce from the GLR. Their views represent an important starting point to develop a Great Lakes strategy to supply quality organic produce in the region.

Table 1

Handlers by Category of Business

Category of Business	No. of Participants	% of Participants
Wholesale Distributors	69	60
Growers/Shippers	20	17.4
Direct-retail Buyer	7	6.1
Food Service Buyer	7	6.1
Packer and Repackers	3	2.6
Processors	3	2.6
Brokers and Agents	3	2.6
Others	3	2.6
Total	115	100

Experience and Importance of Handling Organic Produce

While very experienced in handling conventional fresh produce, most handlers started handling organic produce only recently and only one had more than 20 years of experience in the organic market. The relatively recent interest by handlers in organic produce is consistent with the growth in organic consumption during the 2000s. Sixteen handlers (14%) indicated they deal with organic produce only "on demand" in response to customer requests; as a result they do not have specifically assigned organic marketing personnel. Organic produce represents less than 5% of their sales, but 13 handlers (11%) consider that organic produce is important for their business, and for three handlers, organic represents a 'critical' product needed to satisfy customer demands.

Handlers would probably not expand their product line if they were to handle more organic produce from GLR growers, but they expressed interest in handling more organic produce from the region. California, Florida, Washington and Chile continue to be their main sources of fresh produce supply throughout the year. Three handlers stated that they have started to purchase 'in-season' organic produce from Ohio and Michigan farmers. But most handlers report that an insufficient supply of organic produce is their main limitation to

sourcing directly from Michigan or Great Lakes growers.

Despite the continuing demand for local organic produce, many handlers are uninterested in handling organic produce. Fifty-four handlers, from wholesale distributors to grower-shippers, brokers, food service suppliers and packers, reported that for various reasons their customers are not asking for organic produce. According to these handlers, their customers do not demand produce due to its relatively high price compared to conventional produce.

Relationships with Farmers

Verbal agreements, based on trust and reputation govern the relationships with GLR growers. These agreements stipulate products, delivery date, payment terms, as well as any cooling and packaging requirements that are important to meet food safety standards. While these agreements allow handlers to plan ahead, specific prices are agreed upon weekly or even at delivery time. Only one handler specifically mentioned category management, the practice of selection, placement, promotion and pricing of products, as a way of conducting business with suppliers. Organic farmers remain responsible for delivery to the handlers. Two handlers expressed a willingness to arrange transportation to their warehouses, but only if the farmers were in the same area and if the volume justified the transportation. Some handlers would consider acting as consolidators or aggregators from several farms in order to meet the standard demand for organic produce from retail grocery chains.

Communication is key in GLR fresh produce chains. In an industry with great potential for fraud, it is too costly to monitor and enforce contracts. Trust requires time to build among handlers and farmers. Cases of farmers who do not meet agreed-upon volumes and delivery times, or who do not respect their verbal agreements make it difficult to build close relationships. Handlers commonly talk with their conventional suppliers at least once a week, if not every day. Two handlers also organize meetings with their suppliers before the beginning of the season to discuss packaging and delivery requirements. In addition, conventional farmers usually send information about product availability and prices to handlers. Handlers expect the same behavior from their Great Lakes organic suppliers. While most handlers have built trust and communication with conventional farmers over years of working together, communication with Michigan organic farmers started only recently. Three handlers who source organic produce have been in business with Michigan organic farmers for less than three years and they indicate that communication remains an issue for them. Handlers see 'organics' as a business and they expect organic farmers to understand their business expectations. But as one handler noted, "Some [farmers] see organic as a hobby; for some growers this is not a business. For [us] it is business, a way of living and making money."

Sixteen handlers cited several challenges for sourcing from small-scale farmers in the GLR (Table 2). First, handlers require that organic produce be USDA-certified. Since many smaller scale organic farmers who rely largely on various types of direct marketing are not certified, they would need to be certified or recertified in order to sell to handlers.

Table 2**Challenges and Opportunities for GLR
Small-scale Organic Farmers**

Challenges	Opportunities
Obtaining USDA Organic certification	GLR handlers experience with fresh organic produce
Year round availability and volume	Regional demand for organic produce
Consistency and uniformity of products	Relationships with GLR organic farmers
Competition from Calif. and other large-scale producers	Marketing efforts within the GLR to promote organic produce
Limited understanding of wholesale business	

Second, handlers need products year round and in quantities that surpass the capacity of smaller scale growers. Consistent or uniformly sized produce, often difficult to achieve by small-scale growers in the uncertain growing conditions around the Great Lakes, is also important. Fifteen handlers said that in order for them to handle organic fresh produce they needed sufficient volume, which in some cases represents a truckload each week. In fact, handlers state that the inability to meet this requirement in the GLR provides one of the main reasons why they continue to work with large grower-shippers in California or elsewhere. Nine growers reportedly bought just from California shippers because it continues to be more cost effective than buying organics from the GLR. According to a handler, his company did not buy from Michigan because they needed volume to justify the cost of shipping a truck-load of fresh produce. Another handler observed that they save around \$200 per trip when they brought products directly from shippers in California.

Third, handlers feel that smaller scale farmers who are accustomed to direct consumer sales find it difficult to accept that sales prices to handlers will (or must be) lower. At the same time, most handlers do not negotiate preseason prices—thereby requiring farmers to manage this risk. In contrast to large organic produce growers, this approach is difficult for smaller organic growers to accept since they commonly lack a reference price to use in their negotiations with handlers. These smaller organic growers, at least initially, also may under appreciate the services and access to different markets that handlers can offer, even though their prices may be lower than those through direct marketing. For example, nine handlers reportedly provided some form of assistance to farmers to meet packaging, labeling, and general cosmetic standards. Some also organize seminars for farmers, visit farmers to check their harvest and provide free consultation.

Handling Organic Produce: Opportunities

At the time of our interviews, 37 handlers were already dealing with some organic fresh produce, and 30 handlers expressed interest in receiving more information about the availability of fresh organic produce from the GLR. Sixteen respondents specifically acknowledged the growth in the market for organic products in the region (Table 2). In addition, four handlers emphasized that the demand for locally produced organic produce was the main driver to expand their markets to add organics. Some recognized this as an opportunity for farmers who are transitioning into organic production. As the demand continues to increase, many handlers expressed an interest in working more closely with farmers. Three handlers indicated that their relationship with Michigan farmers was “good” and that Michigan farmers are doing better than others in the GLR with respect to organic certification and the production of quality produce. While some handlers were unaware of organic production in the region, some handlers mentioned specific examples of efforts that would help expand the organic market in the GLR. In the case of Michigan, such efforts include food cooperatives which organize specific programs to educate consumers, or the “Select Michigan Organic” program which labels Michigan grown organic products and is designed to help farmers reach highly competitive produce markets.

The Way Ahead for GLR Organic Farmers

This project was designed to understand the perception of fresh produce handlers about structural constraints facing small-scale GLR farmers as well as their opinion about GLR organic production and their willingness to source from the region. We found that while many of them already sourced organic produce, most did not buy organic produce from the Great Lakes region. Overcoming barriers to accessing retail, wholesale and food service market outlets requires organic farmers to constantly establish relationships with produce handlers. Small to medium scale organic farmer's limited production capacity and inability to supply year round requires them to explore some collective marketing strategy to decrease transaction costs in the GLR industry and possibly forming relationships with out-of-region suppliers.

On the policy side, the needs include developing effective communication networks that can help both farmers and traders know more about volume availability and prices. This may also contribute to educating farmers about the benefits and risks of organic agriculture and help them better assess their marketing options.

We suggest the following steps to foster more supply from GLR organic farmers to wholesale, retail and food service in the region: a) use a regional organic label as a differentiation strategy to increase competitive participation in local and regional markets, and b) design and test efforts such as cooperatives, limited liability partnerships or contracts to aggregate supply from farmers. Cooperation may allow farmers to take advantage of current opportunities and deal with challenges related to their limited scale of production. Once in place and coordinated, these steps will allow development of a Great Lakes region strategy of benefit to farmers, handlers and consumers.

For More Information

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