

Market Channels & Small-Scale Farmers in the Southern Willamette Valley

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“MARKET CHANNELS & SMALL-SCALE FARMERS IN THE SOUTHERN WILLAMETTE VALLEY,” a Terminal Project prepared by Erin Malone in partial fulfillment of the requirements for the Master of Community and Regional Planning degree in the Department of Planning, Public Policy and Management. This project has been approved and accepted by:

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Abstract

Small-scale farmers in the Southern Willamette Valley supply the local food market via different market channels such as food based businesses (restaurants, grocery stores), farmers' markets, farm stands, and Community Supported Agriculture programs (CSAs.) The purpose of this study is to understand the opportunities and problems faced by small-scale farm operators in accessing and serving local markets.

This niche is important to our local economy and the health of our community. My hope is that the information collected and insights gleaned from this project will be translated into actions and useful in strengthening small-scale farmers' ability to compete and succeed in different market channels while serving and strengthening the local community.

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Chapter 1: Introduction

Many small-scale farms in the southern Willamette Valley supply the local food market through food based businesses (restaurants, grocery stores), farmers' markets, farm stands, and Community Supported Agriculture programs (CSAs.) But these farms are only able to supply limited amounts and the demand of each channel is uncertain, as such the well-being of the small-scale farms is precarious. The purpose of this study is to understand the opportunities and problems faced by small farm operators in this region in accessing and serving local markets. Specifically, I looked at the following market channels: farmers' markets, internet sales, CSAs, farm stand/u-pick, grocery/food retailers, restaurants, and distributors. I gathered information by interviewing farmers using a semi-structured interview guide and asked follow-up questions.

The Community

Small-scale farmers were interviewed because of their growing economic and ecological importance. The local food movement is an emerging trend with implications for both the structure of the agricultural economy, local land use, community health, and food security. I chose the Southern Willamette Valley as the site for this study because the local food movement is an important and growing activity there; and it is also conveniently near the University of Oregon.

Small-Scale Farm Defined

The United States Department of Agriculture (USDA) defines a *farm* as, "Any place from which \$1,000 or more of agricultural products were produced and sold, or normally would have been sold, during the year." (USDA, 2011) The USDA categorizes farms based on the farm's individual characteristics. It is important to understand where the small-scale farms that this Terminal Project

investigates fit into the larger USDA typology. The following chart outlines the typology of farm types as classified by the USDA.

Farm Typology

Farm Types	
Small Family Farms (gross sales less than \$250,000)	Large-scale family farms (gross sales of \$250,000 or more)
<p>Rural-residence family farms:</p> <p>Retirement farms. Small farms whose operators report they are retired.</p> <p>Residential/lifestyle farms. Small farms whose operators report a major occupation other than farming.</p>	<p>Commercial family farms</p> <p>Large family farms. Gross sales between \$250,000 and \$499,999.</p> <p>Very large family farms. Gross sales of \$500,000 or more.</p>
<p>Intermediate family farms:</p> <p>Farming-occupation farms. Small family farms whose operators report farming as their major occupation.</p> <p>Low-sales farms. Gross sales less than \$100,000.</p> <p>High-sales farms. Gross sales between \$100,000 and \$249,999.</p>	<p>Nonfamily Farms</p> <p>Any farm not classified as a <i>family farm</i>, that is, any farm for which the majority of the farm is not owned by individuals related by blood, marriage, or adoption.</p>

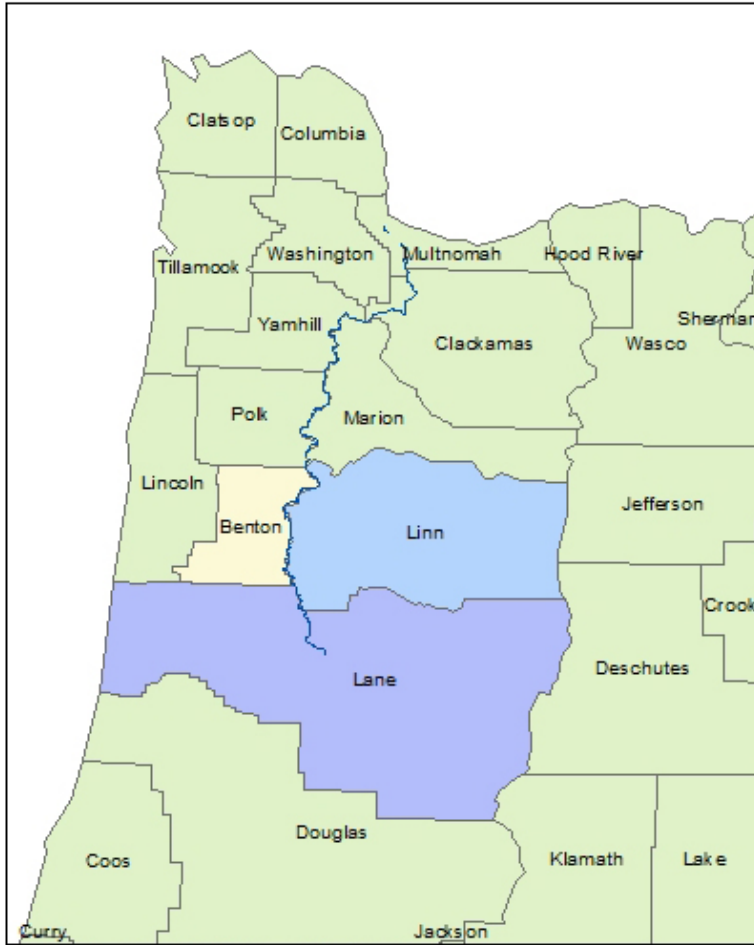
Source: <http://www.ers.usda.gov/Briefing/WellBeing/glossary.htm#types> accessed 22 April 2011.

The above chart outlines the different types of farm in the US. This Terminal Project examines small family farms which have gross sales of less than \$250,000. More specifically, this project investigates intermediate family farms which are defined as small family farms whose operators report farming as their major occupation. And within the intermediate family farms, it looks at low-sales farms that gross less than \$100,000 annually. This project looks at small farming-occupation farms with low-sales because presumably these farms face barriers in getting their crops to market and increasing their income. Small farming-occupation farms with low sales could be served by the findings and conclusions of this project.

Geographic Location Defined

The Willamette Valley is defined as the Willamette River basin and is located in the northwest part of Oregon. The southern end is the Eugene-Springfield area where the McKenzie River meets the Willamette River. Directly north, the valley ends just north of the Portland area where the Willamette River flows into the Columbia River. The area is known for its fertile lands and extended growing season. The majority of Oregon's population lives in this area, and the four population centers are Portland, Salem, Corvallis, and Eugene.

Southern Willamette Valley Map



Source: Mastering ArcGIS 5th ed, Maribeth Price

This project looks specifically at the Southern Willamette Valley which is defined as Lane, Linn, and Benton counties. These counties are highlighted in the above map.

Market Channels

This Terminal Project asks small-scale farmers about market channels they use to get food to market. Kenneth Rolnick, at Northwestern University defines a *channel* as, “The path a product or services takes as it moves from the manufacturer (producer) to its end user or consumer.” (Rolnick, 1998, p1) This Terminal Projects asks farmers about the following channels: farmers’ markets, internet sales, CSA, farm stand/u-pick, grocery/food retailers, restaurants, and distributors. Noticeably, left out

of this list are *institutions* as a group of viable channels. I selected not to include institutions in my interview guide because they typically require a large volume of a single crop which small-scale farmers do not generally plant and harvest. During discussions with the subjects, institutions were seldom referenced. The following is an explanation of each of the market channels examined by this Terminal Project.

- **Farmers' Markets** – Direct sales to customers that take place in a temporary, physical marketplace.
- **Internet Sales** – Direct sales generated via the internet either direct to consumer or to a food based business.
- **Community Supported Agriculture (CSA)** – Direct sales to customers where the customer pays at the beginning of the season and receives a scheduled delivery of goods for a defined amount of time.
- **Farm Stand/U-Pick** – Direct sales to customers who go to the farm to either pick and purchase, or purchase pre-picked goods from the farmer.
- **Grocery/Food Retailers** – Direct sales to food retailers.
- **Restaurants** – Direct sales to restaurants.
- **Distributors** – Sales to companies that then re-sell the product to other businesses including grocery stores, food retailers, or restaurants.

Problem Definition & Project Purpose

The purpose of this Terminal Project is to understand the go to market strategies and perceived barriers and opportunities of market channels used by small-scale farmers in the Southern Willamette Valley. Data were collected and analyzed to develop a list of recommendations that can be used by small scale farmers to help them gain better access to local markets and serve market channels.

What market channels do small-scale farmers located in the Southern Willamette Valley use and why?

Data were collected through a series of one-on-one interviews with small scale farmers located in the Southern Willamette Valley, using a snowball process. The initial subjects were suggested by individuals within the local farming community. Following the first interview, further subjects were selected based on referrals.

Terminal Project Organization

Following this Introduction, the Terminal Project is organized into four additional chapters that present the recent literature, research methods, findings and analysis, as well as a conclusion including specific recommendations for farmers and buyers in the Southern Willamette Valley.

Chapter 2: Setting the Stage includes a review of relevant academic articles about the food system in the US and recent studies explaining trends and the emerging importance of small-scale agriculture and localized food systems in Oregon.

Chapter 3: Research includes a brief discussion of methods used to obtain data for this report. Additionally, it presents of a review of the data collected and in-depth analysis of that data.

Chapter 4: Conclusions & Recommendations offers conclusions and makes specific recommendations for actions as well as suggestions for further research.

Chapter 2: Setting the Stage

An important component of local food systems and the local food movement is the channel (or channels) small-scale farmers use to move products to market. Thus, market channel selection by small-scale farmers is a critical piece of the local food system that needs to be further examined. In order to describe the prominent food system and frame the importance of market channel access for small-scale farmers, this chapter reviews recent scholarly literature, the 2007 Census of Agriculture, Oregon state policy, and a number of Oregon programs created to support small-scale farming. Specifically, this chapter discusses the externalities of the predominant national food system and the positive attributes of local food systems. Also, it is argued here that localized food is a growing trend, and that in order for it to come to fruition small-scale farmers need to be supported. This chapter concludes with a discussion about policies and programs that are currently supporting small-scale farmers.

Predominant US Food System

The predominant US food system is characterized by its overarching goals of efficiency and scale in food production, processing, and distribution. Efficiency and economies of scale have been achieved through the consolidation of food based business across the supply chain. At this point, a small number of corporations control many points of the value chain for a high percentage of the food grown and sold in the US. Professor Rick Welsh of Clarkson University writes:

Large multinational food corporations are increasingly taking on the task of organizing and coordinating the production, processing and distribution of food. Today, mass-production food processors and distributors along with mass market retailers are becoming dominant fixtures in the American food economy. The degree of concentration has reached the point where the ten largest U.S. based multinational corporations control almost 60 percent of the food and beverages sold in the United States. (Welsh 2009, p. 22)

Much of the food supply in the US is controlled by a small number of corporations who are responsible for all aspects of the value chain – growing, processing, and distributing to get product to market. Since roughly 60% of food in the US is controlled in this way, it therefore influences how consumers make food choices. In order to maintain a consistent supply of inputs (produce) many of the same corporations have consolidated the farms which they control.

These corporations influence the way individual farms plant, raise, and harvest food in order to achieve efficiencies and economies of scale. As a result, larger farms gain an advantage in accessing markets and actually receive a higher price for product. Gilbert Gillespie, research associate at Cornell University, notes in *Remaking the American Food System*:

The bulk of actual production of many commodities is increasingly coming from a relatively small percentage of the largest farms. And larger farms tend to have labor-efficient technologies and volume buying, as well as better access to and higher prices in output markets. (Hinrichs et al 2007, p. 186)

A small number of the largest farms are producing the majority of the food in the predominant food system and because of the scale these farms achieve efficiencies and access to markets that mid or small-scale farms do not. Currently, large scale farms have considerable advantage in the US food system.

In order to achieve scale, the largest farms grow and harvest crops using a mono-crop method. This method combines the goals of efficiency and scale to create large volumes of undifferentiated product which is what the large corporations demand. This is because, according to Professor Thomas A. Lyson of Cornell University, “a globally orchestrated food system requires large quantities of standardized and uniform products that are available all year round.” (Hinrichs et al 2007, p.21) The predominant food system requires food to be uniform in order to process and deliver a consistent

product to end customers. Unfortunately, much of the food raised in these ways is used as input to be manufactured into food products.

One negative externality of the prevalent US food system is the production and sale of large volumes of unhealthy food products that appear to be very different than the inputs. Further, the food is not sold on nutrient value but instead on different characteristics. Patricia Allen of University of California at Santa Cruz sums this situation up succinctly in *Together at the Table*: “The food industry spends huge amounts of money each year to get Americans to buy foods not based on their nutritional or health value but on their value as contributions to food industry profit margins.” (Allen 2004, p.13) The value of food is reduced to an undifferentiated good with little value beyond the marketing generated value. The predominant US food system today is dominated by large corporations who produce, process, distribute, and market food in ways that decrease customer choice by reducing healthy options and competing on price as the primary point of differentiation. This is in opposition to competing on other qualities of food such as freshness or quality.

The consolidation of the food industry through the vertical integration of the supply chain has significant effects on farmers of all scales. Namely, the consolidation forces farmers to adhere to the demands and values of the corporations with little consideration for smallness or diverse production, processing, distribution, or marketing. Jack Kloppenburg, of the University of Wisconsin, explains:

We are embedded in a global food system structured around a market economy that is geared to the proliferation of commodities and the destruction of the local. We are faced with transnational agribusinesses whose desire to extend and consolidate their global reach implies the homogenization of our food, our communities, and our landscapes. (Kloppenburg et al 1996, p. 67)

The system does not promote sustainable farming methods or raising a diverse mix of vegetables nor does it support farming at any scale aside from very large.

Having overviewed the current, predominant food system and its drawbacks it is important to note the growth in demand for alternatives. Locally produced food is one option for consumers, and has enjoyed an increase in demand recently. The next section explores this trend fully.

Rising Demand for Locally Produced Food

In contrast to the prominent food system, a localized food system feeds community members while maintaining community, ecological diversity, and supporting small-scale farmers. The localized food system is dissimilar from the prominent food system as it is rooted in a specific values set and aims to achieve different goals. The myriad goals of localized food include nurturing all parts of the food system including the farmers, the rural communities, the environment, and the individuals' health who consume the final product. The goals of localized food stem from a specific, defined, shared value set that prioritizes the health of people, community, and the environment above profits. Currently the demand for locally produced food is increasing in many areas across the county. Small-scale farmers must navigate local food systems to supply this demand but do not and cannot access market channels that large corporations use in the predominant food system.

In order to meet the growing demand for localized food, small-scale farmers, retailers, and other stakeholders in the local food system are creating new channels or modifying existing channels to get the food from the farm to the end consumer. In response to this trend, many stakeholders in communities across the US are creating new avenues for small-scale farmers to get to market. Welsh commented on this growing trend:

Many farmers, community leaders, consumers and a number of civil society groups have helped to build an alternative food production, marketing and distribution system. This system is characterized by more direct links between farmers and consumers. Some examples of this type of agriculture include farmers' markets, pick-your-own operations, community supported agriculture operations (CSAs) and other types of direct marketing efforts. (Welsh 2009, p. 24)

Welsh explains the salient characteristic of these new, small, localized channels as direct links between farmers and consumers. This characteristic is unique to small-scale local channels and is not found in the prominent US food system where the crops change hands many times prior to reaching the end consumer.

The localized food system offers more choices to consumers and the product is differentiated and healthy. The localized food system encourages farmer autonomy and fosters local and regional relationships. Additionally, the farming processes generally used by this type of farm impact the environment less. Finally, a localized food system ensures greater food security as each community or region can address food security issues locally and have more influence to prevent a shortage or respond quickly to a disaster. Miguel Altieri, from the University of California at Berkeley, writes:

Not only do small to medium-sized farms exhibit higher yields than conventional larger-scale farms, but they do this with much lower negative impacts on the environment, as research shows that small farmers take better care of natural resources, including soil erosion and conserving biodiversity. However, an important part of the higher per hectare income of small farms in the United States is that they tend to by-pass middlemen and sell directly to the public, restaurants, or markets. They also tend to receive a premium for their local, and frequently organic, products. (Altieri 2009, p. 2)

By understanding the US food system and its impact on many stakeholders as well as the rise of a localized food system in response to the negative system, we can understand why small-scale farmer's market channel selection is a small yet critical part of the localized food system. Market channel selection is an opportunity for small-scale farmers to gain agency outside of the dominant food system and an opportunity to further understand and in turn support the growing localized food system.

Further, the growth and awareness of the local food system has resulted in increased demand for food produced on small-scale farms. This increased demand creates many opportunities for small-

scale farmers to expand production and move more crops to local markets. Matt LeRoux explains the growing trend of localized food, noting:

Current food shopping trends indicate an increasing demand for local foods that is presenting new marketing opportunities for small-scale agricultural producers. Some indicators of this growing demand are reflected not only in the increased availability of local foods at traditional retail channels such as supermarkets or through wholesalers but also in the growth of direct marketing channels such as farmers' markets (FMs) and community supported agriculture (CSA) operations. (LeRoux 2010, p. 17)

As this trend grows, non-traditional market channels will also grow. This market opportunity is attractive to small-scale farmers and other stakeholders, and in turn they are institutionalizing new ways to move food from the farm to market.

The new development of market channels and markets results in a complex network of growers, sellers and buyers in an articulated geography which is understood as local food systems. Amy Guptill of Cornell University explains local food systems in this way:

In addition, our findings indicate that viable markets for local food are not based on niches that a business can "occupy" but rather a network of supply and selling relationships that retailers and producers alike must construct and continuously recreate. (Guptill 2002, p. 36)

Guptill's findings reveal the existence of localized food systems which includes all participants across the supply chain from the growers to the buyers to the end customers.

Having overviewed the current growth of localized food system and its benefits it is important to look into agricultural trends, connecting market trends with industry data. The next two sections explore agricultural trends – first national and then state.

US Agriculture Trends

The most recent USDA Census of Agriculture was completed in 2007. And although most states experienced a growth in the number of farms, the State of Oregon lost more than 2% of its farms during the 2002 -2007 period. The data shows that the trends are an overall consolidation of the largest farms

as well as an increase in the total number of small farms. The information gleaned in the 2007 Census of Agriculture provides important insights into industry and recent trends, and a summary of those findings follows.

The 2007 Census of Agriculture results show increasing consolidation of production by farms that have over \$1M in sales. Specifically, in 2002, 144,000 farms produced 75% of the value in agriculture production and in 2007, 125,000 farms produce the same percent of value. (USDA, 2007) A 13% decrease of total farms in this typology yet they maintain the same level of production demonstrates there is a trend towards further consolidation.

The 2007 Census of Agriculture tracks new farm data. Overall, the trend is an increase of overall small farms specifically, the retirement and residential/lifestyle farms where operators reported something other than farming as their primary occupation. (USDA, 2007) The following table, New Farms Trends 2007, compares new farms to all farms. Again, the trend is towards smaller farms.

New Farms Trends 2007

	All Farms	New Farms
Percent of Total	100%	13%
Average Size	418 acres	201 acres
Average Value of Products Sold	\$ 135,000	\$ 71,000
Sales and Government Payments <\$10,000	58%	73%
Average Age of Operator	57	48
Farming as Primary Operation	45%	33%

Source: USDA 2007 Census of Agriculture

The New Farm Trends shows that new farms are smaller in average size and produce on average less agricultural value, as compared to all other farms. Further, the average age of the operator is younger and although not included on the above chart is more likely to have his or her primary occupation off of the farm. It is valuable to see how the Southern Willamette Valley, the study area, fits into the national agriculture trends. The next section will examine Benton, Lane, and Linn counties.

Southern Willamette Valley Agricultural Trends

Data from the 2007 Census of Agriculture is further broken down into county segments that allow us to examine the Southern Willamette Valley through the Benton, Lane, and Linn County data. This data includes all types of agricultural production of which vegetable production is a small percentage. The following chart displays farms by value of sales.

Farms by Value of Sales

	Benton	Lane	Linn	Southern Willamette Valley
\$1,000 - \$2,499	164	605	448	1217
\$2,500 - \$4,999	95	436	285	816
\$5,000 - \$9,999	87	282	205	574
\$10,000 - \$19,999	46	197	144	387
\$20,000 - \$24,999	19	73	44	136
\$25,000 - \$39,999	24	68	90	182
\$40,000 - \$49,999	11	22	29	62
\$50,000 - \$99,999	40	79	77	196
TOTAL	486	1762	1322	3570

Source: USDA 2007 Census of Agriculture

The subject population, defined by USDA typology as small farming operations with low sales, is included here. Also, included are the smallest farmers in the area, those who meet the USDA definition of farm with annual sales above \$1,000. Benton County has 486 farms generating between \$1,000 and \$99,999 while Lane County has 1,762 farms and Linn County is home to 1,322. In the Southern Willamette Valley there are 3,570 small farming operations with low sales. This data is not further broken down into type of crop production. It is important to note that vegetable production is roughly 3% of all production in the study area.

Benton County

Benton County experienced a 1% decrease in total farms between 2002 and 2007 as well as a 12% decrease in total farming acreage from 130,203 acres to 114,558 acres. The average size of farm lost 12% over the same time period and shrunk from 143 acres to 126 acres. And finally, the market value of products sold annually decreased 12% from \$86M to \$75M. See chart below for a summary.

County Profile: Benton

	2007	2002	% change
Number of Farms	906	912	-1
Land in Farms (acres)	114,558	130,203	-12
Average Size of Farm (acres)	126	143	-12
Market Value of Products Sold	\$ 74,565,000	\$ 84,585,000	-12

Source: USDA 2007 Census of Agriculture

Lane County

Lane County experienced a 29% increase in the number of farms, from 2,577 to 3,335 farms. Additionally, the land in farms as measured by acres increased 5% from 234,807 acres to 245,531 acres. The size of farm decreased between 2002 and 2007 from 91 acres to 74 acres. Additionally, the market value of products sold increased by 49% from \$88M to \$131M.

County Profile: Lane

	2007	2002	% change
Number of Farms	3,335	2,577	29
Land in Farms (acres)	245,531	234,807	5
Average Size of Farm (acres)	74	91	-19
Market Value of Products Sold	\$ 131,089,000	\$ 87,824,000	49

Source: USDA 2007 Census of Agriculture

Linn County

Linn County lost 1% of its farms during the period 2002 – 2007, the total farms decreased from 2,346 to 2,325. The land being farmed decreased 2% from 385,589 acres to 376,483 acres. Additionally, the average size farm decreased 1% from 164 acres to 162 acres. The total market value of products increased 40% during the same period from \$152M to \$213M.

County Profile: Linn

	2007	2002	% change
Number of Farms	2,325	2,346	-1
Land in Farms (acres)	376,483	385,589	-2
Average Size of Farm (acres)	162	164	-1
Market Value of Products Sold	\$ 213,178,000	\$ 151,817,000	40

Source: USDA 2007 Census of Agriculture

County Profile Summary

Benton, Lane, and Linn County did not experience parallel trends. Benton and Linn County lost 1% of farms and overall acreage while Lane County added 29% more farms and 5% more farm acreage. The entire Southern Willamette Valley experienced a decrease in the average size of farms. And finally, Benton County reduced market value of sales by 12% while Lane and Linn County grew 49% and 40% respectively in the same period. This information tells the story of a changing farm landscape of the study area.

In order to better understand how different stakeholders of the local food system are navigating the changing landscape, we must consider the policy and programmatic support for small-scale farmers in Oregon.

Policy and Programmatic Support for Small-Scale Farms

There is an expanding amount of policy and programmatic support for small-scale farming in Oregon. Increasingly, this support is coming from the federal government, the state government via the Oregon Department of Agriculture and Extension, as well as non-profit organizations such as EcoTrust.

In addition to the challenges inherent to farming, there remain many barriers to farmers of this scale. Policy and programmatic support will facilitate and empower small-scale farmers to overcome and break-down these barriers. The following is a brief description of the types of state and non-profit policy and programmatic support for small-scale farmers in Oregon.

State of Oregon Policy

The Oregon Department of Agriculture (ODA) supports small-scale food farms in numerous ways, including raising awareness and creating policies that encourage small-scale farming. The ODA website states:

A growing local food movement provides producers with new opportunities to sell directly to urban consumers. At the same time, broader public interest in food, local sourcing, and sustainability is growing. (ODA, 2011)

The ODA website is articulating the existence of new, expanding markets for local food producers and buyers. By increasing awareness and creating policies to support local food producers, the ODA is effectively making change from the top down. Additionally, if the ODA is aware of a growing trend then likely this trend has been occurring for some time.

The ODA also makes specific policy recommendations for “place sustainability” of the agriculture industry. Two of the four policy recommendations speak to market access of local farms. Specifically, the ODA recommends:

1. Support local farm venues, such as farmers' markets, roadside stands, farm-to-school programs, and local sourcing of food products for institutions, hospitals, prisons, colleges, etc.
2. Support certification programs that enable growers to tell their story and gain access to new markets, while ensuring that claims are truthful and subject to third-party confirmation.

These recommendations articulate a need to develop markets and market channels for small farmers to pursue. Additionally, the ODA supports the small farmers' critical need of creating points of differentiation (certification and chain of custody) on which to compete. These recommendations support the creation of new infrastructure to easily allow value-added process that have recently been beyond the reach of small scale farmers.

Programmatic Support for Small-Scale Farmers

There is a growing level of programmatic support for small-scale farmers in Oregon. These programs offer small-scale farmers technical assistance on topics as varied as production, operations, access to capital and markets, marketing, as well as succession planning. Other organizations are creating new markets (virtual and actual) and market channels for small-scale farmers to reach more customers. All of these tools and resources are supporting small-scale farming. Likely, this support will lead to an increase in the total number of small-scale farms in Oregon.

One example of a robust technical assistance program is Oregon State University's Small Farm Program. The OSU program offers online resources as well as workshops and classes to commercial small-scale farmers. The program is run through Extension and is priced to make it available to limited income small-scale farmers.

An example of a new, local, electronic marketplace is EcoTrust's Food Hub. EcoTrust is an Oregon based non-profit that focuses on solutions for the pressing needs of the environment and people of the Pacific Northwest. Established in 2010, FoodHub aims to connect growers and producers directly to buyers. The website explains,

FoodHub gathers producers, professional food buyers, and the associates that serve them both, in one dynamic marketplace and interactive directory. Large or small, organic or conventional, direct or distributed, FoodHub connects food professionals of all kinds in Oregon, Washington, Idaho, Montana, Alaska and California. (FoodHub, 2011)

The basic idea of FoodHub is to create an electronic market that connects buyers, sellers, and growers of food. At this point, many of the connections are single transactions but there are many anecdotal stories of on-going relationships that stem from a FoodHub connection. This electronic marketplace is well-suited for Oregon with its long distances between city centers and its limited infrastructure for local food markets.

Chapter 3: Methodology & Findings & Analysis

This chapter discusses the limitations of the project, the findings from the ten interviews, and provides analysis of the findings. Specifically, this section:

- Describes the methodology used to collect data;
- Summarizes the subject group;
- Consolidates data regarding the following channels: farmers' market, internet, CSA, farm stand/u-pick, grocery/food retailers, restaurant, and distributor;
- Reviews data on changing channels;
- Provides analysis;
- Discusses project limitations.

Methodology

The following section reviews the methodology used to collect data and ultimately answer the research question. This section is broken down into the following sections: data, sample, procedures, and analysis. This section will provide the information needed to understand how data was collected and the methods used to analyze it.

Data

Data was collected through a series of one-on-one interviews with farmers located in the Southern Willamette Valley between February 12 and March 10, 2011. This study used theoretical sampling to identify potential subjects with knowledge and experience of small scale farming in the research area. The sample grew based on chain referral, which in practice meant that at the end of each interview the subject was asked to recommend two or three additional farmers who run operations in

the Southern Willamette Valley and earn between \$1,000 and \$100,000 annually from operations. The sample grew until no new information was heard and patterns became clear.

Sample

The sample population was chosen is small scale farmers as defined by the USDA that live in Lane, Linn, or Benton County. The sample is comprised of ten farms and fourteen farmers.

Procedures

The initial subjects were chosen based on interviews with individuals working inside of the local agriculture industry specifically the local organic community. The interviews followed a semi-structured interview guide and asked a series of open-ended and follow-up questions. Each interview ended with a request for the subject to recommend other qualified individuals that with the same occupation who live in the same area.

Following each interview, I reviewed my notes to indicate interesting comments and to see if I should modify the interview guide in order to glean more information during the following interviews. After the first interview I noted important follow-up questions. Additionally, I looked for patterns and themes within each interview to see if there were trends or patterns that gave insight into the research question. After I determined saturation by identifying major themes and patterns, I stopped the primary data collection phase of the project.

Analysis

As I collected data, I looked for patterns, themes, and contradictions in data. Additionally, I searched for subthemes and tried to find anecdotes that were most representative of prominent

patterns. Specifically, I identified and confirmed barriers to market channel access and linked perceptions and assumptions to reality. Also, I began to examine whether innovations were possible and if they merited further exploration. Additionally, I frequently met with my advisors, Professors Michael Hibbard and Tom Osdoba, to discuss the data.

Characteristics of Subject Group

All of the respondents operate in the Southern Willamette Valley in Lane, Linn, and Benton counties. The farmers interviewed reported having experience in farming from between seven and fifty-four years. The farmers serve the Eugene, Corvallis, and Portland markets as well as smaller markets in between. Only one interviewee mentioned serving outside of the I-5 Corridor; her farm sells to Astoria, Oregon, and places in the East Bay (California). The farmers reported having operations from as small as 1.5 acres (large garden) to as large as 320 acres (family rents land to other farmers). On average the size of farm was a little over 10 acres. Four of the farmers are certified organic by Oregon Tilth while another five farmers reported practicing organic but either could not afford or do not agree with the benefits of organic certification. Only one farmer interviewed did not follow organic principles.

Eight of the farmers reported growing and selling a vegetable mix that includes greens, onions, cucumbers, melons, beets, kale, squash, tomatoes, etc. Each farmer's vegetable mix was slightly different. In addition to selling a mix of vegetables, some farmers reported specialization. Three farmers said they also sold eggs while two said they sold dairy products. Two farmers claimed their specialty as tree fruit and two more claimed berries. Single farmers reported their individual farm specialty as dried beans, salad greens, duck, or meat.

All of the subjects answered questions about ownership and the financial well-being of their farm. Only one of the farmers interviewed reported his farm as family owned, meaning that he

inherited the land and operations from his parents. Four of the ten farmers said they owned their land and of these all had purchased land prior to 1990 with the exception of one who bought during the early 2000s. Two farmers reported renting the land used for farming operations. Of these two, one farmer wanted to own land to farm and the other planned on long-term renting without desire to own. Another four farmers reported being in significant personal debt; the borrowed capital was used to purchase and operate the farm. And finally, two farmers described unique financial relationships with wealthy community members who are personally financing their farm through no or low interest loans.

Channels

All interviewees were asked about the same market channels – farmers’ market, internet, CSA, farm stand/u-pick, grocery/food retailers, restaurant, and distributor. On average each farmer used four market channels to move their goods to market. Three farmers reported that they are currently searching for and developing new channels. The following section includes a summary table of percentages of sales per channel for each as well as a summary of the number of farms involved in each channel. Additionally, farmers spoke about channels outside of the standard ones asked about. I call these channels “creative” as they often have components of the above channels but a new twist in response to operational constraints, loyal customer demands, or market limitations.

Market Channel Summary Table

Farm	Farmers' Market	Internet	CSA	Farm Stand/U-Pick	Creative	Grocery/Food Retailers	Restaurants	Distributer
1	50%	15%	20%			15%		
2	50%		20%			20%	10%	
3		10%	20%	20%	10%		40%	
4	3%	97%						
5	60%		10%		5%		25%	
6	5%	8%	8%	70%	9%		1%	
7	70%	2%	8%		2%	16%	2%	
8	50%					50%		
9	95%				3%	2%		
10		5%		75%				20%
Total Farms	8	6	6	3	5	5	5	1

Direct – Farmers’ Market (8 of 10)

Eight of the ten farmers interviewed reported going to at least one farmers market per week during the growing season. Six of these eight farmers reported selling over 50% of their annual sales volume through this channel. Farmers also said they could accurately estimate demand each week and sell between 70-90% of produce harvested. The exception to this was college football game days and holidays, during which it was difficult to estimate sales – one farmer said during these times he would sell about 40% of expected sales. The two farmers who reported selling less than 50% through farmers’ markets both participate in consignment booths which account for 3% or 5% of their total sales.

Interviewees reported many positive aspects of this channel. The majority of farmers indicated that they receive a premium price (higher than any other channel) that reflects the value (quality, freshness) of their products. All farmers mentioned the personal connections made with customers at the farmers market. Again and again, the interviewees talked about the value of the connection both economically and personally. These connections result in a customer base with loyalty and an increased ability to estimate weekly sales. Some farmers reported using the farmers market as a marketing tool to

increase sales through other channels such as grocery. In addition, some farmers said they use the farmers market as a tool to enter other channels. Many farmers described the personal connection with long-term customers and talked about establishing trust and ongoing loyalty and a few indicated that the customer appreciated the connection. One farmer liked that his customers could use EBT at the farmers market.

Interviewees also reported negative aspects of farmers' markets. A number of farmers expressed feeling impacts of the recent economic downturn on their farmers' market sales. Some farmers claimed it was extremely competitive at the farmers' market and difficult to break-even especially with high labor costs for harvesting, transport, set-up, and break down. Additionally, a few said they were unable to estimate demand accurately and therefore either sold out too early (bad signal to customers) or had too much produce left over which was returned to the farm for composting. A few farmers said the farmers' market was best for larger small-scale farms with considerable volumes of produce and it was harder for the smaller small-scale farms to attract and maintain customers. Finally, a number of farmers indicated the politics of the farmers market were a significant barrier to success. Two farmers who live closer to the Corvallis farmers' market said it was best suited for larger small farms and that the littlest farms had trouble competing for prime locations in the market area. A farmer in Eugene, speaking about the Lane County Farmers' Market said that there were a lot of politics surrounding booth location and that board members and the market director did not clearly outline the process to get a prime spot at the weekly market. Four farmers perceived health regulations as the most challenging barrier to selling at a farmers' market.

Direct – Internet (6 of 10)

Five of the ten farmers interviewed said they sell to customers via the internet. Of the five, two used the internet to sell to customers outside of the Willamette Valley. These farmers appreciated the

connection to far off customers and were able to demand a higher price because of the uniqueness of their product. These three farmers reported selling between up to 10% of annual volume via this channel. One farmer stated that he thought it was “crazy” to ship apples to New York but every year the same customer returned.

The other two farmers used the internet to sell to local community members. Both of these farmers reported sending out a produce/product list once a week or once a month to a list of past customers generated at the farmers market. From there the farmer would collect, harvest, pack, and either deliver to a drop site or have the customer come to the farm to pick up the produce. Both of these farms preferred this method because they could harvest as needed and know that it would be sold. One farmer stated he sold 97% via the internet to customers within the Willamette Valley. Both indicated they appreciated the personal connection to the loyal customers. Another farmer reported his farm sold through the Corvallis Local Food website and that it was problematic because they had to deliver the food to the warehouse location even if it wasn't a high enough volume to cover the transportation costs.

Direct – Community Supported Agriculture (CSA) (6 of 10)

Six of the ten farmers interviewed sold product by establishing a CSA program. All farmers said they liked that they were paid at least partially up front by customers. Almost all farmers that offered a CSA also said they offer personalized payment plans especially for loyal customers or long-term customers. Interestingly, this is the only channel that most farmers indicated roughly the same proportion of volume through – between 10-20% of annual volume. One farmer claimed this was the most secure channel while another claimed it was the best option for small farmers and that he had waited too long to start using it. Numerous interviewees said they appreciated the connection with

customers and some felt customers had a real interest in the farm. One farmer liked the ease of using a couple drop-off locations and another reported trying to develop more drop-off locations at larger institutions as a way of growing his CSA membership.

Farmers reported some negative aspects of the channel. A number of interviewees mentioned high transaction costs including attracting customers, ongoing communications, and tracking payments. Only one farmer reported that his customers were too particular and therefore he ended his CSA program. One farmer said he thought this channel was competitive because of the recent proliferation of CSAs. One farmer stated that in order for a CSA to be successful it must include a standard veggie mix. Interestingly, one farmer who grew tree fruit and berries had tried a CSA but his customers did not like the focus on fruit – it was “decadent.” Finally, a couple of farmers claimed that if they sold too much at a farmers market or through another channel they could not supply what was promised in the weekly CSA.

Direct – Farm Stand/U-Pick (3 of 10)

Three of the ten farmers interviewed reported selling to customers who travelled to the farm. One farm is located on a major thoroughfare; therefore there is a steady stream of customers sold 75% of annual volume through this channel. A second farm farmer that has been in operation for almost seven decades reported selling 70%. Another farmer reported a relationship ending with a grocery store because he could not supply enough to meet the demand and therefore shifted to a U-Pick berries model, he only reported selling 20% of sales and was hoping to increase this volume. Farmers reported having repeat customers with whom there was trust and solid relationships. Two of the farmers talked about local families coming to their farms and providing educational opportunities and offering a space for annual family traditions. One developed farm stand asked other farmers to sell products on

consignment in order to create a full offering for loyal customers. There was only one example of this sort of collaboration.

Some of the drawbacks of this channel are the inability to accurately judge demand and ask for high enough prices. All farmers indicated this channel suffered because of the recent downturn of the economy.

Direct & Wholesale Creative (5 of 10)

All of the farmers interviewed said they are open to alternative channels, one time sales, and pursuing opportunities to sell produce for single transactions when presented. Only a few farmers revealed single transactions such as a local caterer asking for a specific amount of a crop for a one-time event. Numerous farmers mentioned bartering as a way to bring value to farm. I did not follow up on bartering to understand how much volume or value leaves the farm.

Half of the farmers interviewed reported the development of “creative” channels which I define as outside of the channels described in Chapter 1. Farmers reported selling on a contractual basis to Portland public schools (one large volume, preplanned sale), selling to cooperatives in Portland, running a day camp for school age children to learn about organic farming, selling online and dropping off at designated areas (in Portland, Eugene, Corvallis, and the East Bay), hosting bike tours in exchange for labor (one farmer claimed his entire garlic crop was picked and woven together into end-product ‘garlic braids’ in less than four hours by a bike tour group), and finally offering a “winter box” which was a one-time sale of left over, winter storage crops.

The creative channels are resourceful solutions to the problems associated with the common market channels. By creatively recombining different channels or offering a custom CSA type box, these farmers are better serving their customers’ needs and able to better manage inventory.

Wholesale – Food Retailer/Grocery Stores (5 of 10)

Five of the ten farmers interviewed reported selling wholesale to local retailers and each discussed the unique benefits and challenges associated with this channel. A few farmers were able to leverage the quality and freshness of their products in order to negotiate prices with produce buyers. More specifically, the farmers compared the freshness, quality, and story to produce bought from a distributor and were able to receive a higher, more favorable wholesale price. One farmer sold 50% of volume to grocery stores, another three farmers sold between 15% - 20%, and the fifth farmer sold only about 2%. A number of subjects reported loyal farmers' market customers liked the option to purchase products on non-farmers' market days. Many of the interviewees mentioned that interactions with buyers at grocery stores were relationship-based and that some grocery stores were easier to work with than others. For example, three farmers claimed *Sundance Natural Foods* was the easiest, fairest, and most consistent grocery store with which to work in the Eugene-Springfield area.

A few farmers reported having problems selling for what they considered a fair price because although they practiced organic farming they were not certified therefore not able to get a high enough price for their "conventionally" grown products from grocery stores. This was not a problem with other channels where personal connection was part of selling to the end customer. Moreover, at the grocery stores, the small farm produced products had to compete with cheaper, mass produced products. A number of farmers were turned off by this channel because there was less money to be made. Further, farmers reported that demand for products through this channel was varied and inconsistent. One farmer indicated that orders were based on store's weekly needs and the volume requirements shifted from week to week. Additionally, farmers claimed there were no formal contracts to be made with food retailers. Two farmers stated that they would grow more for this specific channel if there was a contract

in place. Finally, all farmers reported they individually took care of the labor and transport costs to get the produce to market, which was a problem because overall the wholesale price was considerably lower than the price of different direct channels.

Wholesale – Restaurant (5 of 10)

Half of the farmers interviewed reported selling to restaurants in Eugene and Portland. A number of farmers indicated that they sell to the same restaurants in the Eugene area such as *Marche*, *Adam's Sustainable Table*, *Belly*, and *Nib*. Each farmer sold between 1% and 40% of volume through this channel. One farmer stated that he really liked working and spending time with chefs and managers since they were really excited about food. Again, the connection was very important, as well as the shared values.

Most of the interviewees reported that it took a lot of time and resources to develop the relationships but it did not amount to high volumes or a lot of money. Specifically, restaurants tend to prefer smaller amounts over a longer period of time. Additionally, it is difficult to maintain a relationship if the chef or manager that is the contact moves on to a different restaurant. One farmer said she did not like working with restaurants because they used her story (of the farm) even after the restaurant had sold through her products. Additionally, the restaurant did not consistently purchase her products which made it difficult to supply with such a very uncertain demand. A couple of farmers in Eugene believed that it would be easier to sell to restaurants in Portland but the major barriers were knowledge of Portland restaurants, proximity needed to develop meaningful relationships, and transportation costs.

Wholesale – Distributor (1 of 10)

Only one of the ten farmers interviewed reported selling to a distributor. The one farmer sold only specific tree fruit to processors and said the volume of distributor sales had decreased over time because of the low price and increased transportation costs. Currently, this farmer sells 20% of volume to distributors. Another farmer commented that distributors were a good option for farmers with a specific personality that did not appreciate the personal connection that the other channels facilitated.

Many of the farmers spoke at length and negatively about distribution as a viable channel. A few farmers claimed it would be their last choice and would only pursue it if there were no other options. A few farmers said it was difficult to produce enough volume for this channel and doing so would also limit their volume of and ability to grow a variety of other types of crops. Further, in order to meet demand they would have to commit a considerable amount of land to one crop which contradicts many of the farmers' philosophies. Some farmers pointed out that the value of their products was freshness and quality which are minimized when they become undifferentiated in the distributors warehouse. Finally, though, the biggest complaint and barrier to this channel is the low price that the distributors demand.

Changing Channels

All of the interviewees responded to questions about changing channels. Farmers spoke about how acquiring land and producing more crops led to developing new channels. One farmer mentioned shifting from a CSA to selling more at the farmers' market because of the ability to demand a higher price. Another farmer reported shifting from selling at the farmers' market to a farm stand in order to decrease the uncertainty of sales at the market and decrease the labor and time needed to go to market. Another mentioned moving into wholesale because it required less labor and fewer

transaction costs. Finally, a couple interviewees mentioned that they could produce more but did not want to because it would sacrifice much needed farm fertility.

Analysis

Relationship-Based Business

One theme that was consistent through my many conversations was the importance of the connections that the farmers made with their customers and their point of contact in the wholesale channels. Most farmers believed that this connection leads to customer loyalty, ongoing relationships with grocery stores and restaurants. The story of the farmer and the food is an important part of the value chain of local food. Additionally, grocery stores and restaurants used this story to sell local product and as a point of differentiation in the local market.

Competitive and/or Saturated Markets

Again and again, farmers reported selling at the same farmers markets, to the same grocery stores and retailers. Multiple farmers described the CSA model as challenging because of competition (many substitutes, low switching costs). Beyond the channels asked about, there are just not that many options for small scale farmers to sell to. Based on these interviews existing market channels, as currently structured in the Southern Willamette Valley, are saturated. This, however, can be seen as a potential opportunity to develop new channels or re-work existing channels, as is demonstrated by interviewees' innovative creative channel" development.

Serve Markets throughout Willamette Valley

Farmers reported selling to Eugene, Corvallis, and Portland markets. Each farmer said that they drove to the market on market day and returned home on market night. Only one farmer reported

selling somewhere outside of the Willamette Valley (East bay). This farmer sold frozen meat that can travel well and last longer than fresh fruit or vegetables. It is unclear if the farmers sold to Willamette Valley markets because their proximity or if they were limited by the perishable nature of their products, though this is a reasonable assumption.

Value Equitable Access for Customers

The majority of farmers mentioned the strength of individual channels as lying in the ability of low income customers to access the food, especially in the case of farmers' markets and CSAs. Specifically, numerous farmers mentioned EBT programs at farmers' markets as one of the many reasons they sold their product there. One farmer described the value of a flexible payment schedule for his CSA. This speaks to the ongoing themes of how small-scale farmers provide for their community and make values-based decisions. At the surface this seems contradictory to farmers' desire to receive the highest possible price for their products, but this is not so. The farmers want both to sell to low income community members and receive a high (fair) price, which is possible through EBT programs at farmers' markets and flexible payment schedules for CSA memberships.

Balancing Volume

Many farmers spoke of balancing the volume of produce committed to each channel. A few farmers talked about limiting sales in one channel in order to supply another. It is unclear whether this indicates there is more demand or if particular farmers can adjust to small changes in market demand of their individual product offering. This seems to indicate that there is un-met demand or it requires the flexibility to shift channels quickly, though often with negative results. One example of this was a farmer who would sell too much produce at the farmers' market and not be able to sufficiently supply his CSA.

Limited Value-added

Only a couple of the farmers spoke about value-add techniques used to increase the value and shelf-life of their products. There is significant potential to increase sales and decrease seasonality if farmers choose to employ value-add techniques prior to selling. Many farmers mentioned the regulatory environment as a barrier to increased value-add to products as well as personal and business inability to access capital in order to develop the infrastructure such as a USDA certified commercial kitchen or Oregon Tilth certification.

Flexibility to Switch Channels

Numerous farmers reported the ability to strategically shift channels in response to market changes and or the growth or decline of business relationships. For example, one farmer said he decreased the amount of greens he sold to grocery stores and increased the amount of greens he brought to the farmers market because the other vendors did not seem to offer greens of his quality or in volume. The flexibility to switch channels is critical to being able to compete with other farms, as well as demand and receive a high price.

Simple Supply Chain: Stay as Direct as Possible to the Customer

Again and again, all of the farmers interviewed spoke about relationships, connection to loyal customers, providing a meaningful experience for families, and community education. In order to sell at the right volume and receive a fair price, farmers asserted that they wanted to stay as direct as possible to their customer. Additionally, the most important points of differentiation between local produce and non-local produce lie in its freshness, high quality, and story of the farmer. Farmers were only able to tell the story and guarantee the quality of their product if they are direct as possible or by dealing with grocery stores or restaurants that share values and understand and share their stories. Many of the

farmers considered selling to local grocery stores and restaurants where they had relationships as a type of direct sales. Likely, this preference is a barrier to entering non-locally owned grocery stores or different restaurants that do not compete in the local food space.

Learning as Strategy

All of the farmers, young and old, seasoned and green spoke of learning as part of their individual strategy. Some farmers spoke about it explicitly when asked about creating new offerings, searching for new channels, and getting to know their land. Four of the farmers tied it to learning about their community needs and how to increase local food security. Further, learning as a strategy is seen during the search for new channels and which work best for each individual farm as well as establishing creative channels that serve the needs of the operation and the customers.

Navigating the Economic Downturn

The majority of farmers reported a change in sales in most channels as a result of the downturn in the economy. Most of the farmers were able to both adjust overall sales and reduce production to help offset losses. Further, they reported being able to switch channels and modify the volume per channel. This demonstrates that these farmers possess considerable grit, the ability to be flexible with production and respond to exogenous factors.

Lifestyle

Reviewing the small amount of information on finances that farmers supplied, many of the farmers interviewed are not out to increase revenue or grow exponentially like most businesses. Instead, these farmers seem to prioritize lifestyle and their place within the community. Although many of the farmers wanted to earn more and establish better connections, there was never a sense that

these interviewees would sacrifice these connections or the ecological well-being of their land to make more money or achieve fantastic growth.

Subsidized Operations

At least four of the farmers mentioned a family member working off of the farm to help make farm operation or household payments. Farming at this scale is difficult and in numerous cases it appears that the farming operation does not generate levels of revenue required to maintain operations. Also, two farmers said they receive no-interest loans from individuals interested in supporting local, small-scale agriculture. This is another way operations are subsidized.

Lack of Business Skills – Pricing, Inventory, Costs

Across the board the farmers expressed discomfort with the following business skills: pricing, inventory, and direct and indirect costs. One obvious result is that many farmers did not know exactly what went into growing each crop or product and therefore could not estimate an actual cost. A few farmers reported that they just charged what everyone else did. Another said their price was what organic produce cost at the local grocery store. The farmers did not express this as a problem instead they just spoke about focusing on other parts of their operations like farm fertility, loyal customers, or growing the right vegetable mix.

Strong Business Skills – Managing Tradeoffs, Diversification, Core Competencies, Flexibility

All of the farmers, across the board, articulated strategy and told stories that indicate they have considerable soft business skills. Specifically, the interviewees spoke extensively about managing tradeoffs. For example, multiple farmers expressed the positives and negatives about renting or buying land. Further, almost all spoke about diversification of channel development and growing a variety of crops.

The reasons behind diversification varied from farm fertility to balancing channels to ensure most crops were sold. Additionally, without using the business jargon, the farmers spoke about core competencies, specifically, the characteristics of the farm or farmer that led to success and needed to be nurtured and cared for in order to succeed. And finally, across the board, farmers articulated a flexibility to adjust strategy, harvests, and channels.

Limitations

One Segment of Local Grower Population

The group of farmers interviewed for this study share many values and with one exception all of them pursue the same market channels with similar levels of success. This project is limited to small-scale; values based farming in the Southern Willamette Valley. There are farmers in the area that do not share these values, who compete on other characteristics of their products, and perhaps sell to channels not used by the subjects studied in this research.

The research presented in this paper is therefore not representative of Willamette Valley farmers in general, or maybe even this niche. The farmers were not randomly selected; instead they were selected initially through an informal social network and then via the referral method.

Summary

In conclusion, the ten farmers interviewed told the story of strategic, responsive, and values-driven operations. The ten farmers also told the story of deficiencies in operations. Many of the interviewees spoke about decision-making and strategy development. Overall, the ten farmers interviewed revealed that they operate in the competitive landscape and make operational decisions in strategic ways. Again and again, the farmers reported being adaptive to seasonal changes, fickle markets, picky customers,

uncertain market channels, and macro-economic factors. In every interview, farmers expressed decision-making being dependent on individual and/or family values. Most of the farms operate on a shared-value system. Many of the farmers reported being unable to produce value-added products and many claimed the markets were competitive. Most farmers spoke explicitly and implicitly about deficiencies in financial management, pricing, and estimating direct and indirect costs. The final chapter, *Conclusions, Recommendations, & Further Research*, reviews opportunities to improve the situation for small scale farmers in the Willamette Valley, offers insight into ways to support these farmers, and finally it will make suggestions for further research.

Chapter 4: Conclusions, Recommendations, & Further Research

Based on the findings reported in the previous chapter, this chapter makes conclusions, outlines specific, actionable recommendations for small-scale farmers, and recommends a number of areas for further research to make the information collected and analyzed in this report more useful. This chapter is divided up into the following sections: Markets and Market Access, Business Models, and Financial and Risk Management.

Markets and Market Access

The market for small-scale locally produced food in the Willamette Valley is emergent and growing. It is a dynamic space with many unanswered questions. Based on my research, the small-scale farmers in Southern Willamette Valley will be able to better understand and serve the market if they make some changes and conduct further research to better understand the local market.

The farmers interviewed are operating in a crowded niche. They all compete on the essentially the same points of differentiation, specifically: freshness, quality, and story of the farmer or production of food. It is these characteristics that enable the farmers to compete in the niche. These points of differentiation are only valued in certain market channels. Specifically, these farmers are all competing with similar sized farmers for a relatively small consumer market of sophisticated/educated consumers who understand their points of differentiation, are willing to pay a higher price, and share the same value system that prioritizes community and the environment. Interviewees reported fiercely competitive farmers' markets and difficulties in gaining access to buyers at grocery stores and chefs at restaurants. All of the farmers interviewed are competing with each other to access the same channels and in turn the same customers. Even with what seems like high and growing demand, there are

limitations which directly impact farmers hoping to enter markets and grow individual operations. It's unclear whether or not the local market could absorb the increased supply.

The farmers interviewed also indicated that they were able to accurately estimate the demand generated by their individual customers in the majority of market channels. This ability to estimate individual demand stems from the direct sales relationships the farmers create and foster with individual customers. And although the small-scale farmers can understand individual demand, they do not have a command of the entire market. The farmers are serving an unmeasured market.

There is no one channel or even mix of channels that is best suited for small-scale farmers to access the market in the Willamette Valley. This is important because each farmer must learn what channel or channels works best for his or her individual operation and product offering. Each farmer's operations, location, product offering, expertise, and ability to cultivate long term relationships vary dramatically. Each farmer's channel mix and go to market strategies are unique as such it is difficult to generalize best practices. All of the farmers interviewed reported selling to at least three channels. By spreading produce between multiple channels, the farmers either intentionally or unintentionally reduced channel risk. This is one of the few ways farmers have influence to significantly reduce risk. In order to successfully penetrate multiple channels, the farmers reported adjusting harvesting timelines and balancing the crop mix. It is unclear if the farmers are able to estimate or know the market tolerance per channel, and it seems like channel changes are responsive as opposed to proactive. Although there is not one best channel mix, my research shows that it is important to pursue a multi-channel strategy.

There are a number of ways small-scale farmers can increase channel access to the local market. The farmers should figure out ways to access institutional buyers and distributors where unique value is maintained and products are priced to value the points of differentiation. Additionally, the farmers should look to enter markets in outside of the Willamette Valley.

Access Institutional Buyers and Distributors Currently, many institutional buyers such as schools, hospitals, and schools and distributors do not buy from small-scale farmers. Even with a growing number of successful programs in Oregon, there is still tremendous opportunity in this channel. There is a tremendous opportunity with local institutions to increase demand for local produce. In many ways, if farmers could access these channels then they would impact their local community in an increasingly profound way. Further, this channel is an opportunity to educate a large number of people within the community through single transactions about the value of small scale, locally produced produce. If the farmers methodically kept track of costs, then they could identify the margins on each individual crop. This would give farmers the information needed to increase production of certain crops in order to increase revenues. Additionally, a farmer could raise crops for specific channels that offer a lower price such as distributors or institutions. Essentially, the farmer would reduce the margin in order to access a wider range of channels. An example of this would be selling a crop with the highest margin to the distributor who traditionally offers a lower price than the other channels and reduce overall risk with further channel diversification.

Don't Limit Market Geographically The definition of local is varied. As the market in the Willamette Valley becomes increasingly competitive, small-scale farmers will need to enter new markets. There are sizable markets within many people's definition of local and regional. Specifically, farmers need to look at market opportunities in communities along the coast, south to Roseburg, and on the eastern edge of the Cascades in and around the Bend-Prineville area. These markets have different climates and sizable populations which could generate new revenue streams for the Willamette Valley farmers.

In addition to the previous actionable recommendations, I suggest that either small-scale farmers or an organization supporting localized agriculture perform research to understand the market and the supply. In order to compete, farmers must understand how big the market for locally produced food in the Willamette Valley is and whether it is emerging, growing, mature, or saturated. By defining the market and understanding the supply, small-scale farmers will more clearly be able to meet demand, receive a fair market price, and adjust production accordingly. These research questions coupled with the recommendations above to access new market channels such as institutions or distributors and move into new geographic markets.

Business Models

All interviewees appeared to be motivated by their value system and non-financial returns. Specifically, they prioritized a dual commitment to fostering and feeding the community as well as caring for and improving the environment over the financial and economic success of their individual operation. One way that all of the farmers articulated their shared commitment to fostering and feeding their community was a desire to be “as direct as possible” to the customer. By valuing the relationship between themselves and the end customer the farmers effectively limit the market channels used to access customers. In terms of a commitment to the environment, many of the farmers’ commitment to organic farming practices without certification. By farming organically without certification, these farmers are keeping their costs high while not accessing the higher return of organic goods in the marketplace. Their crops must compete with cheaper conventional produce. All farmers spoke about money and lack of revenue but few ever told stories of sacrificing or flexing values for increased revenue or profits. They would rather change market channels than sacrifice their values. It is difficult to break apart the farming operation from their lifestyle. Choices and trade-offs resulting from these values can be interpreted as the farmers managing the tension between short-term financial gains and long-term value of their individual farm, community, and environment. No farmer explicitly spoke about these sort of trade-offs of values and profits. These strong articulated values impact the operations of small-scale farmers. In order to develop recommendations for this group of farmers, I only considered options where their values can be maintained.

The farmers’ articulated a flexibility and creativity when telling stories about developing new or modifying existing channels. These channels were mostly new twist on a traditional channel. Farmers

should look to develop new business models to leverage existing demand for their unique products.

Below are a few opportunities that must be explored further:

Groupon Model A farm or group of farmers establishes a threshold volume and if this threshold volume of a crop is pre-bought, then the farm or farmers deliver the produce to a shared location. This is a new channel that could increase the potential customer base and reduce transportation costs. Further, it would confirm demand prior to harvest thus reducing the volume of unsold goods on a given day. It would minimize a number of the problems associated with the different market channels.

Mini Localized Futures Market Develop a localized future market to decrease the production risks held by the farmer. Each winter community members could invest in a local fund which would be used as rolling capital by small-scale farmers in the Willamette Valley. Small-scale farms would access this capital through an application process. Investors would have priority access to the CSAs of the farms using the fund and receive a small discount at the farmers' market. By the end of the year, the farmer would return the capital and investors would be able to cash out or maintain their investment with the same benefits the following year. This would decrease the burden of the farmer's annual operation risk because they receive money at the beginning of the growing season. Additionally, with this financial support farmers might be able to focus more on developing strategies to access different channels or modify their channel mix.

In addition to developing new business models, small-scale farmers should develop new ways to compete. Nine of the ten farmers interviewed compete on the same points of differentiation – freshness, high quality, and story of the food. Relative to commodity products this is a significant point of differentiation but compared to the niche market space that these small-scale farmers compete in they are essentially undifferentiated products. Several farmers reported channels as competitive. In order to combat this, farmers should consider the following ways to compete and access customers via different channels:

Creative Channel Development Half of the farmers interviewed described new, creative channels to access markets and customers. Farmers need to continue to look outside of traditional channels or re-work existing channels to better serve customers and access markets. This will lead to new ways to compete and further points of differentiation within the niche.

Farm Visits A number of the farmers interviewed reported customers coming to their farm to pick up CSA shares or harvest vegetables through u-pick. Another farmer reported having a bike tour come to the farm to spend the night in exchange for a small amount of work. There is an opportunity for farmers to create events or activities on the farm to differentiate the farm from local competitors and to increase revenue.

Service Many farmers said that customers were loyal in different channels such as at a farmers' market, or buying an annual CSA, or a buyer at a grocery store. Likely, this is based on relationships. As the market grows, there is an opportunity to compete on service, capitalizing on their strength in building relationships with customers. A farmer could do this by setting up convenient locations for pre-ordered food drops or hosting an annual farm dinner as a component of a CSA.

The small-scale farmers should look for opportunities to create efficiencies with other similar-sized, value-sharing operations. Nine of the ten farmers interviewed articulated similar values. The farmers have an opportunity to come together based on shared values and leverage resources to create efficiencies. Many farmers spoke of friendships with other farmers competing in the same space and of having gatherings to share information about growing techniques and changing regulations. These farmers that are already connected personally should share costs in the following three areas:

Professional Services Most farmers tend to contract out professional services such as legal and accounting. The farmers should get together to share the costs of these services. Additionally, as the farmers enter new markets or expand operations, they should share the costs of channel development and marketing either by co-marketing or retaining one individual or firm who can gain expertise within the niche.

Transport Costs All farmers reported being responsible for the transport of goods in every channel. Transportation accounted for a lot of the cost and time of farmers. It was not reported as a barrier to market channels but did impact the margins of sales. At first this strategy might be difficult due to the proximity of the farms, but it could be worked out with shared storage locations or common drop areas in or near markets to which the farmers already travel.

Education Paramount to the success of these farmers is an understanding of their unique value proposition. In all channels, individual and business buyers must understand and value what these farmers offer – freshness, high quality, and the story of the farmer. These farmers should create and seize opportunities to collaborate to teach current and future customers about the unique value of small-scale, locally produced food.

In addition to the specific recommendations regarding business models, I suggest two research topics to further investigate the missions and values of these small-scale operations. Insights gleaned from this research would inform the organizations that support farming at this scale. Specifically, I recommend the following:

Is this really just about values? Is farming at this scale really just about values? Are these farmers lifestyle farmers? I wonder if these farming operations are only about linking occupation to values in a way that makes sense on a personal level, but not economically. A study could investigate how individual farmers use their personal values to choose to farm, to make operational and strategic decisions, and decide what market channels to access. Explicit questions about values and business decisions would give insight into the personal values and making operational decisions that often don't seem to make financial sense. This information will shine light on small scale farmers' decision-making processes and hopefully better support this niche.

Success Defined I think it would be very interesting to talk to small-scale of farmers about definitions of success and “what success looks like” for their individual operations. By understanding how these farmers define success, I think we can better understand operation and strategic decisions. In order to better understand and support these types of farmers questions need to be asked about individual definitions of success.

The combination of the previous recommendations to develop new business models take advantage of opportunities coupled with further research on why individuals are choosing to farm on this scale, will allow farmers to be more productive and allow organizations to better support these farmers and their unique needs.

Financial and Risk Management

Paramount to a healthy business is effective financial and risk management both of which are achieved with well-developed business skills. The subjects all possess business skills and most of the business skills they possess are developed and sophisticated, such as the ability to manage trade-offs, diversify channels and crops to mitigate risk, articulate and leverage core competencies, as well as maintain flexibility in navigating dynamic markets and unexpected external events. These high level business skills are extremely useful in traversing the uncertainty of local markets, weather, and harvests. These are the skills that facilitate individual strategic decision making which allows farms to successfully serve and engage numerous market channels. Conversely, the majority of the farmers did not report the ability to account for indirect and direct costs which results in pricing based on factors such as competitors price and the price at a grocery store. Almost across the board, the farmers reported arbitrary pricing decisions. By pricing without considering direct and indirect costs, it is unclear whether or not the farmer is receiving a price that has to do with production based on factors other than cost. Likely, this results in reduced revenue and smaller margins as well as limiting the farmer's ability to access different channels.

One specific skill, the farmers spoke about was managing the tension between specialization and diversification. The farmers clearly articulated the advantages of specialization as gaining relative efficiencies of scale and positioning the farm and offering as a niche within a niche. Four of the ten farmers interviewed did specialize and reported having meaningful relationships with customers in different channels based on their specialty crop. A couple of the other six interviewees articulated a desire to specialize but did not know which crop or market channel. Based on the interviews, specialization would also reduce barriers to certain channels such as larger grocery stores, institutions, or distributors. On the other hand, most farmers were committed to growing a diversified crop

selection in order to mitigate risk such as bad weather, fungus, or other unforeseen events.

Conveniently, this is what certain channels (farmers' market and CSAs) demand and therefore deliver value in two ways, i.e., accessing markets and mitigating risk associated with agricultural production. All farmers reported experiencing crop failure. The farmers interviewed must continually balance the choice between specialization and diversification.

Based on the interviews it seems that small-scale farming and pursuing the channels based on direct relationships and specific points of differentiation (fresh, quality, story of the farmer) is destined to remain difficult. It will continue to remain difficult because of the time and resources needed to develop and maintain relationships as well as communicate the precise value of the produce. These farmers did not report any significant economies of scale or efficiencies within operations. Also, it will be difficult for most farmers interviewed to make well informed operational changes as they do not know their indirect and direct costs. Moreover, most farmers did not express taking cost considerations into account when making strategic decisions. At this time, farmers with these espoused values will continue to find it difficult in larger markets where it is difficult to facilitate relationships and articulate points of differentiation. In most consumers' eyes, the small-scale offering is undistinguishable from mass produced commodity produce.

At this point, small-scale farmers can do two specific things to lead to better financial and risk management. Specifically, the farmers should determine which crops are economically viable and develop an intentional risk reduction strategy.

Determine Which Crops are Economically Viable A few farmers mentioned selecting crop mixes based on the market demands. This should be taken a bit further to include an analysis of cost to produce each crop. By doing this analysis, each farmer can understand which crops have higher margins. Additionally, the farmers will be able to balance high margin crops to lower margin crops while successfully supplying customer demand. Additionally, if farmers had a grasp on production costs per crop then the farmer could potentially raise high margin crops for channels with traditionally less margins such as distribution. Furthermore, farmers could

specialize or develop niche within the niche and even position themselves around a single crop or small mix of crops.

Risk Reduction Strategy At this point, the vast majority of the risk of production and market access is on the farmers. Individually, the farmers expressed managing risk by balancing diversification with specialization. These farmers are shouldering all of the risk without a correspondingly high return. This is an example of a supply chain where one part of the value chain shoulders the bulk of the risk associated with the product. Unfortunately, buyers (individuals and business) can easily find substitutes; therefore sales risk is increased. Ideally, the risk would be spread to others in the supply chain or value chain. There is huge potential in this space to spread out the risk because of the shared values of buyers and growers that value these products. The CSA model is an example of risk being shared across the value chain. Another is the Root Capital model in which investors share the risk of the coffee farmers through investing in large purchase orders. In this example, the company purchasing takes on much of the risk and the risk for the investor is mitigated by the company.

It is critical that small-scale farmers get a hold of their costs. This is one activity that will aid lead to higher margins and a better understanding of which crops make the most sense for each channel.

Additionally, at this point all of the risk within the local food market is on the farmer therefore each individual must take measures to reduce risk. Additionally, I recommend the following research to be conducted:

Available Financing to Support New Channel Development This project could be better understood if there was a report detailing and evaluating financing options for small scale farmers. Ideally, this report would include private, traditional, governmental, and non-profit options. Furthermore, two of the farmers interviewed reported developing relationships with local community members that evolved into financial relationships with zero percent interest on personal loans. An in-depth study of working capital opportunities and barriers would be useful for this grower population.

Increased Capacity Needs One part of the conversation about operations and strategy left out of the interviews was farm capacity, specifically the ability to produce more with the addition of fertile land, season extension technology, or capital improvements. Interviewees rarely spoke about capacity as constraint or barrier to producing more or accessing new markets. A project researching capacity and how it figures into strategy, operations, and which markets to pursue would be useful in better understanding small scale farmers in the Willamette Valley. Specifically, this could look at farmers that have different levels of capacity in order to

understand and define the thresholds. Insights from a study of this type might help us better understand, from a capacity framework, why farmers operating at a small scale do not access certain markets. A final question regarding capacity could look into if this is preventing a larger market from developing.

Pricing One of the most interesting topics that arose during my conversations with the farmers I interviewed was pricing. Almost all of the farmers spoke of pricing products based on competitor's price, both at the farmers' market and grocery stores. The pricing therefore seemed somewhat arbitrary and not based on operations or actual cost considerations. A project that looked deeper into how small scale farmers priced products would give insight to one of the most important, yet not obvious, deficiencies in operations. Pricing products correctly will lead to a better understanding of what to produce and how much to charge. Additionally, it could lead to increase margins and/or revenue.

By getting a hold of individual costs and developing risk mitigation strategies today, small-scale farmers can better position themselves to compete. This in addition to further research on available financing, capacity needs, and pricing models will allow farmers to understand their individual operations and allow them to be more competitive within the market.

Final Comment

This niche is important to our local economy and the health of our community. My hope is that the information collected and insights gleaned from this project will be useful in strengthening small-scale farmers' ability to compete and succeed in in different market channels while serving and strengthening the local community.

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