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Producer Coop Case Study February 2022

Project Overview

Vegetable and dairy farmers in our three-county region of western Massachusetts have benefitted from two long-standing producer marketing cooperatives. The Pioneer Valley Milk Marketing Cooperative, doing business as Our Family Farms (OFF), was founded in 1997. The Pioneer Valley Growers' Association (PVGA), a cooperative produce distributor, was founded in 1978. Both coops play critical roles in sustaining farms in our region, and both face challenges related to market shifts, aging members, rising costs, and stagnant prices.

In 2018, CISA began providing business planning assistance to PVGA. In 2019, with funding from the Northeast Sustainable Agriculture Research and Education program and the Massachusetts Department of Agricultural Resources, we work with both coops focused on identifying challenges and opportunities and implementing improvements. Our work together is summarized in this case study.

This project unfolded during the height of the COVID-19 pandemic, which had significant impacts on our partner cooperatives, their members, and our work together. Both the cooperatives and the farm businesses that make up their membership were managing rapid change in markets, labor supply, supply chains, and worker and food safety. Rather than proceeding in a linear fashion through research, evaluation, review, goal-setting, and implementation, we worked more iteratively as the partner coops assessed fluctuating markets and new funding opportunities while making real-time decision about how to operate during a pandemic. In the end, this more flexible approach allowed us to respond to real needs as they evolved and to help both partner coops take advantage of new funding opportunities.

Background

Producer marketing cooperatives are an effective way for farmers to share the costs of marketing and distribution while retaining profits from those activities. They allow growers to benefit from economies of scale through bulk supply purchases, shared facilities for aggregation, packing, or distribution, and sharing the costs of certain licensing requirements



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or food safety infrastructure or procedures. Coops may also offer efficiencies in customer management and access to large or complex sales accounts.

Producer cooperatives also face obstacles to success. Margins in most agricultural sectors are very low and, in many cases, cooperatives are made up of competitors. The pressures on cooperatives, combined with a decrease in the total number of farmers, has meant many cooperatives have closed or been consolidated. Since 2000, the US has seen a 40% decline in agricultural cooperatives, with only 1,953 remaining in 2016. Fruit, vegetable, and dairy cooperatives saw the greatest decline, with an average of 23 fruit and vegetable cooperatives closing per year, followed by dairy cooperatives. In 2016, 53% of agricultural cooperatives were marketing cooperatives like OFF and PVGA.¹

Dairy farms and wholesale vegetable growers, while dissimilar in many ways, share key attributes relevant to the work outlined here. Both have little or no control over the price of their products in traditional large wholesale marketplaces, and both are often in a low-price position. In our region, both vegetable and dairy farms tend to be larger, in terms of acreage and jobs, and therefore their profitability disproportionately impacts our agricultural land base and economy. Efforts to achieve marketing or distribution efficiencies or to implement or improve branding that conveys a market advantage are very important to their success.

Agricultural marketing cooperatives allow their members to work together on key activities related to marketing and distribution, rather than fulfilling these activities individually or relinquishing their products to a non-farm distributor or processor. In a report on best practices for niche meat cooperatives prepared by NCGrowth at the University of North Carolina, the authors note that “agricultural cooperatives allow small scale and larger scale farmers, producers, and processors to strategically pool resources and capital in ways that allow them to capitalize on their collaboration to collectively foster opportunity and success.”²

To achieve continued success, cooperatives need to maintain and improve their facilities, update practices and systems, invest in marketing, and retain and grow membership. At 20 and 40 years old, both OFF and PVGA were at critical transition points at the beginning of this project, due to market shifts, aging members, rising costs, and stagnant prices. An unforeseen new challenge, the COVID-19 pandemic, created major disruptions and new opportunities over the course of this project.

¹ Demko, Dr. Iryna. Trends of US Agricultural Cooperatives (1913-2016). CFAES Center for Cooperatives, 2018, p 1, pp. 7-9. <https://cooperatives.cfaes.ohio-state.edu/sites/coop/files/imce/Research/Trends%20of%20US%20Agricultural%20Cooperatives%20Branded%20Final%20November2018%20PUB.pdf>

² de Groot, Juliana, “Niche Meat Cooperative Structure: Risk Mitigation through Bylaws, Member Equity Investment, and Stakeholder Collaboration,” NCGrowth, Chapel Hill, North Carolina, 2018, p. 1. http://www.ncgrowth.unc.edu/wp-content/uploads/2018/12/NCGrowth_Niche_Meat_Cooperative_Structures_10152018.pdf

Our Family Farms (OFF)

History and Challenges: The Pioneer Valley Milk Marketing Cooperative, doing business as Our Family Farms (OFF), was founded in 1997. During a period of high economic stress and significant loss of dairy farms, OFF has played a critical role, allowing member farms to retain a greater share of the consumer milk dollar. Processing and product expansion have been long-standing challenges for OFF and were a focus of their planning work over the past two years.

Our Family Farms was started by eight Massachusetts dairy farms in 1997. The marketing cooperative has had little money for advertising, and has relied on opportunities for unpaid exposure, such as store tastings, events, and earned media. Their early success demonstrated the significant interest of western Massachusetts residents in supporting local farmers, as their price is higher than that of store-brand milk. However, a number of challenges have been present throughout much of the coop's history. These challenges include extremely limited processing options and fairly slow ongoing growth in sales, following a very successful launch and first couple of years.

Membership in OFF fluctuated, and the cooperative now has two dairy farm members. Members left OFF for a variety of reasons, most often because they retired from dairying without a successor. One original farm member turned to on-farm cheese production and sales of raw milk. Family members at the two remaining farms, however, were strongly aligned in their determination to continue farming and to find or build a processing option that would allow them to control milk production from cow to bottle and to expand their product sizes and options. The two farm members of Our Family Farms farm 2,100 acres of land and care for 500 cows.

The market disruptions of the early pandemic brought large challenges to OFF. Pre-pandemic, institutions and schools were important milk buyers. When these outlets shut down, processors needed to shift to serve more household buyers, requiring changes in packaging, production, and distribution. Processors didn't have sufficient production capacity or packaging to meet the new demand for milk in household-sized containers. This bottleneck led to a major drop in the milk price paid to farmers. Like many Northeast dairies, members of Our Family Farms were forced to dump milk.

Our Family Farms' ability to respond to these rapid market shifts was limited by their processor, which prioritized serving their own accounts. Although the retail stores that OFF serves were seeing an increased demand for milk, in many weeks OFF could not get all the milk they needed to fill their orders back from their processor. The long-standing desire of Our Family Farm's members to do their own processing option was reignited.

The COVID-19 pandemic also brought opportunities which Our Family Farms was able to use to accomplish this long-held goal. Our Family Farms and member farm Bree-Z-Knoll each applied for and received funding from Massachusetts' COVID-19-response Food Security Infrastructure Grant program (FSIG), totaling \$873,518. In addition to the opportunity provided by these COVID-related funds, OFF may have benefitted from the Massachusetts Department of Agriculture's (MDAR) current strong interest in expanding options for dairy processing in the state. Coincident with this project, MDAR was conducting a study, funded

by the Federal-State Marketing Improvement Program, to analyze options for expanded dairy processing. Angie Facey of OFF and Margaret Christie of CISA both participated on that project's Advisory Committee.

Our Family Farms is using the funds awarded by the FSIG program to OFF and member farm Bree-Z-Knoll to build and equip an on-farm processing facility at Bree-Z-Knoll. This project has been delayed and made more expensive due to supply chain disruptions but is scheduled to be completed in spring 2022.

Project Activities: Given the unexpected availability of funds for building a processing plant, OFF's primary need for additional support centered on branding, market research, assessment of options for expansion of their product line, and planning of a marketing campaign to coincide with the opening of the new processing plant and launch of new products. Consultant Sara Talcott and CISA staff member Stevie Schafenacker provided assistance and expertise. With their help, Our Family Farms explored the following topics:

- The value of their existing brand
- Attributes of their loyal "legacy consumers" and strategies for retaining these customers
- Likely new consumers, their concerns and buying habits
- Milk market analysis
- Review of competition
- Market trends in fluid milk and milk products
- Analysis of possible new value-added products.

Following this marketing and branding analysis, OFF worked with Sara Talcott to prepare for a re-brand and marketing campaign following the completion of their processing plant and the introduction of new products. This process included:

- Decision-making about product expansion
- Goals for expanding market share and attracting new and younger customers
- Rebranding and preparation for new packaging
- Development of new marketing materials
- Creation of a marketing plan, including a digital marketing strategy, a retail store strategy, and a plan for a launch event
- Planning for a newly updated website

Our Family Farms expects to begin on-farm processing in May 2022. They have decided to focus their initial product expansion on additional fluid milk products, including flavored milk products, heavy cream and half-and-half, and additional sizes of unflavored milk.

OFF benefitted from the combination of public investment via COVID-19-related grant funding from the state and support for branding, market and product expansion analysis provided through this project, allowing them to make a substantial investment in infrastructure and processing capacity and to plan a product expansion, rebranding, and marketing campaign to coincide with the start-up of the new processing plant. In addition to this public support, Our Family Farms members are also making a significant investment in

the new facility. General Manager Angie Facey notes the market analysis provided by Sara Talcott helped them to feel confident in their decisions about expanding their product line. Similarly, having a suite of marketing components in place when they begin to do their own processing and launch new products will help them to increase sales, market outlets, and market share as quickly as possible.

Several factors allowed Our Family Farms to move forward with a major decision to build, equip, and manage a processing plant. The availability of funds was an important part of this decision, and another was the alignment of coop members that allowed them to make a large new commitment. For many years, as they considered processing options, Our Family Farms members had recognized that different coop members were at different stages of their business life cycle, and these differences impacted their willingness to make a large investment and take on a major new enterprise. Member farms that were nearing retirement and did not have children who had joined the farm business were, understandably, less interested in taking on a new venture. During the early stages of this work, two of OFF's four member farms made the decision to leave the coop, making it easier for the remaining farms to decide to move forward with a new enterprise. Member decision-making is challenging for any cooperative, and this example indicates that in some cases it may be helpful to review the coop's goals and assess membership based on alignment with those goals.

Pioneer Valley Growers Association (PVGA)

History and Challenges: PVGA is a farmer-owned marketing cooperative based in Whately, Massachusetts, with 20 member farms and 15-20 non-member shippers. Founded in 1978, PVGA aggregates locally grown produce and distributes it to major supermarket chains, independent grocers, food banks, and local distributors across New England.

Over much of its more than four decades of operation, PVGA expanded operations and increased revenue by paying close attention to market demand, grower capacity, and infrastructure needs. PVGA's mission is to provide market access to local farmers in order to increase access to locally grown produce for area residents, while remaining an economically viable business. Growing out of a small-scale shipping business operating on a member farm, PVGA now operates a 12,400 square foot warehouse space, including two refrigerated walk-in coolers, a new processing room, a fifteen-bay loading dock, and three refrigerated box trucks making deliveries throughout New England. Sales grew from just \$58,000 in the first year to a high of \$3.3 million in 2017.

Producer cooperatives like PVGA can help wholesale growers weather the many challenges they face. The cooperative has a track record of identifying and addressing challenges. For example, in 2007, as now, PVGA members recognized a lack of cold storage space as a major barrier to expansion of the business. They worked together to obtain a bank loan to finance an expansion of the warehouse, adding four new bays to the loading dock and an additional 50x80 foot walk-in cooler. As a result of the increased efficiency and space, sales increased.

Recent changes in the marketplace, however, make it increasingly difficult for PVGA members to survive using a low-price, high-volume strategy. In interviews conducted in the winter of 2019, PVGA members consistently reported reduced average prices and decreased buyer

loyalty. These experiences are corroborated by others in the business, such as the distributor Red Tomato, which reported that they lost their largest account in late-summer 2018 after being underbid by \$.01 per pound³.

This trend is driven by several factors. One is consolidation in grocery chains, such as the purchase of Whole Foods by Amazon. A second is increased regional and global competition. One of our region's signature crops, for example, is asparagus. In 1980, only 10.8% of the asparagus eaten in the U.S. was imported; by 2015, imports had risen to 91.2%⁴.

Massachusetts wholesale growers are also facing other significant challenges. New food safety standards require that farm businesses upgrade infrastructure, add staff, and implement new record-keeping and management systems. Massachusetts' minimum wage is now \$14.25/hour, rising to \$15/hour in January 2023. These changes disproportionately impact wholesale growers, who must meet food safety requirements in order to sell into larger markets, and who often employ more workers than smaller farms. All farmers are affected by climate change, which has brought a "new normal" of increasingly volatile weather to our region; droughts in 2016 and 2017 were followed by repeated heavy rain events throughout much of the growing season in 2018 and weeks-long periods of heavy rain in 2021.

Just before this project began, PVGA sustained a three-year period in which expenses outpaced revenues. During the winter of 2018-19, the PVGA board and members worked to identify business next steps and needed areas for investment. In partnership with CISA and business planner Rosalie Wilson, PVGA reviewed financial data, gathered member input, and completed a business planning process. CISA staff conducted 19 interviews with PVGA members and shippers and met with the PVGA board, staff, and members to discuss the input from members.

Project Activities: During the winter of 2020, the PVGA board worked with Jonah Fertig-Burd of the Cooperative Development Institute to better understand board functioning and governance and member communication. Board members discussed the coop's vision and values and assessed needs and challenges. They developed an action plan for growth and improvement. The plan included actions focused on products and sales, membership, and operations. Despite the pressures of the COVID-19 pandemic and an extremely poor growing season due to torrential rains in 2021, PVGA staff and board members have been working to implement many of the activities outlined in the action plan. Much of the work that has been accomplished in the past two years has focused on planning and funding infrastructure improvements, exploring new products and markets, and board functioning and governance.

Infrastructure Improvements: PVGA board and staff had been planning for facility improvements for several years. Grant opportunities in 2020 and 2021 made it possible for

³ Edwards-Orr, Laura, "Blood, Guts and Truth from Red Tomato," September 26, 2018, retrieved from <https://redtomato.org/big-thinking/can-good-food-movement-make-it-to-market/>.

⁴ "The Continuing Decline of U.S Asparagus," *The Packer*, February 16, 2017, retrieved from <https://www.thepacker.com/markets/vegetables/continuing-decline-us-asparagus>.

PVGA to make significant progress on this plan. These facility investments support both improved operations, expansion of the product line, and sales growth. During the period of this project, PVGA received grant funding from the Massachusetts Department of Agricultural Resources' Food Ventures Program (\$200,129), the Kendall Foundation's Food Vision Prize, in partnership with Sodexo and the University of Vermont (\$63,750), and the Massachusetts Food Security Infrastructure Grant (\$439,707) program that also supported facility investments at Our Family Farms.

Using these grant funds, PVGA was able to complete the following work on their facility:

- Expansion of and significant improvements to their food processing room, including the addition of new equipment for peeling and dicing butternut squash and sweet potatoes.
- The addition of a new 40x80 foot storage space and purchase of refrigeration equipment for this new cooler (installation pending).
- Reconfiguration and improvements to existing coolers.

The expansion and improvements to the facility have many benefits: increased ease and efficiency in managing inventory, leading to improvements in quality control; more options for different temperature and humidity zones, allowing for better storage of more products; the ability to add higher-value processed products and access new markets, such as colleges and other institutions; and simpler and more efficient management of food safety requirements.

The availability of grant funds was very important to PVGA's ability to address long-delayed facility improvements. Historically, PVGA has not relied on grant funding, and securing bridge loans, managing multiple grant reporting and invoicing systems, dealing with supply chain challenges and managing grant deadlines all added up to significant additional work for the coop's Treasurer and bookkeeper. PVGA also needed to secure bridge and match financing which their current lender would not provide. CISA introduced PVGA to two community lenders, the Massachusetts Food Trust, funded by the Massachusetts Department of Agricultural Resources and administered by the Franklin County CDC, and the Cooperative Fund of New England. These mission-focused lenders provided bridge and match financing that allowed PVGA to accept grant funds. PVGA also hired a new bookkeeper and improved their quarterly reporting systems to meet the standards of these new lending partners.

New products and markets: As noted above, PVGA has improved their processing room and added new processing equipment, allowing them to process butternut squash more efficiently and to add additional products. To date, they have added peeled whole and diced sweet potatoes for sale to Vermont colleges managed by Sodexo. In fall of 2021, they began processing in the new space and focused on learning the new equipment, managing vegetable and water waste, and improving efficiency. They are exploring additional markets for these and other products that could be processed in this space and expect to increase output and sales in the coming year. In addition to opening new markets, doing more processing makes it possible for PVGA to maintain more hours for year-round staff, which they hope will improve employee retention and cover the labor costs of maintenance and clean-up tasks that are best done in the winter.

PVGA is also exploring additional new market options made possible in part by the addition of new cooler and storage space, including serving mid-size buyers through an on-line marketplace and providing produce to a wider variety of food access markets (for example, offering pre-packed boxes for food distribution, in addition to selling in bulk to food banks). Next steps in this area include assessment of online sales platforms, consideration of a brand refresh, and work on a website upgrade. CISA and PVGA continue to work together to plan these next steps.

Board functioning and governance: Since completing their work with Jonah Fertig-Burd, the PVGA board has continued to plan for long-term improvements while also managing multiple grants, construction projects, supply chain issues, and production on their own farms during an extremely challenging period. In addition, they've completed some overdue activities, such as reviewing and updating their by-laws to ensure compliance with current law and best practice and reflection of PVGA's actual practices. Changes made during that process will allow them to invite a few non-farmers with specific expertise to sit on their board.

Early in this process, PVGA Board members identified the aging and retirement of core PVGA members as a looming challenge. Several younger members have joined PVGA's board of directors and are taking on leadership roles, including serving as Treasurer, planning PVGA's expansion into lightly processed products, and managing food safety planning and improvements.

Next steps in this area include improved communication about membership requirements and procedures, as one step in encouraging new membership.

Lessons Learned:

Many agricultural technical assistance providers have shifted towards offering more in-depth farm business assistance, recognizing that the many and varied challenges facing farmers are not easily addressed. In our region, for example, the Agricultural Viability Alliance (AVA), a network of agricultural technical assistance providers, was formed to advocate for more in-depth technical assistance, following research in which "farmers report[ed] a significant need for expanded one-on-one business and technical assistance to ensure they can weather the economic storms created by climate impacts."⁵

This project allowed us to provide long-term, in-depth support to two businesses that provide key services to several dozen farms. Over the course of more than two years, we were available to assist these businesses during a time of great uncertainty and were able to help them address both pre-existing needs and respond to the challenges and opportunities that arose from the pandemic. Our experience validates the importance of flexible and in-depth technical assistance for farm businesses.

⁵ Agricultural Viability Alliance, "Climate Change and Agriculture in the Northeast and Hudson Valley," https://www.thecarrotproject.org/wp-content/uploads/2021/06/Alliance-Climate-Agriculture-in-the-Northeast-and-Hudson-Valley_2021.pdf, p. 1.

The new funding approaches implemented in Massachusetts during the pandemic provide another lesson. The level of public investment in food systems, food security, and food access is unprecedented. The response to the Food Systems Infrastructure Grant, which received more than 1,300 applications in its first round and approximately 600 in the second round, demonstrates the need for this kind of support. Our Family Farms provides a stellar example of this impact, as they have wrestled with challenges created by limited processing options throughout their 25-year history. Although owning and managing their own processing plant will bring its own challenges, they will have control over processing systems, quality control procedures, packaging, and product mix that they have never had, thanks to a relatively small public investment of under a million dollars. Throughout its history, OFF has enjoyed strong support from a loyal consumer base, but the small premium they received was not adequate to support the facility investment they have now been able to make. This example suggests a lesson about the limits of market-based change and the value of public investment in small business, local communities, and sustainable agriculture.

Marketing cooperatives can be a key component of farms' success. During our work on this project, however, we were reminded that while coops can help farmers, farmers are essential to the functioning of their own coops. The farmers who participated in this project were managing the enormous impacts of the pandemic on their farms, families, and employees. In summer 2021, they were growing food during one of the most difficult growing seasons anyone could remember. They were helping their shared cooperative businesses manage significant planning and construction projects—juggling budgets; talking to lenders; figuring out how to get essential equipment across an ocean, off a boat, and on site during a supply chain crisis; showing up on Saturday to pour the concrete; negotiating with contractors; and attending evening board meetings. Once again, we are reminded that the resilience of the food system rests on the hard work of the people who work on farms and food system businesses.